



Dave Yost • Auditor of State



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Covington Exempted Village School District  
Miami County  
807 Chestnut Street, Suite A  
Covington, Ohio 45318

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington Exempted Village School District, Miami County, Ohio (the School District), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

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 Covington Exempted Village School District, Miami County, Ohio, as of June 30, 2017 and 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis and schedules of net pension liabilities and pension contributions* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2018, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 11, 2018

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

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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The discussion and analysis of the Covington Exempted Village School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2017 are as follows:

- Total net position reported at June 30, 2017 decreased by 8.5 percent from beginning balance as the increase in the net pension liability reported for the year was more than the increase in capital assets and deferred outflow or resources.
- Total assets of governmental activities decreased by approximately \$1.3 million (4.3 percent) from one year prior as the increase in net capital assets reported for the year resulted from spending cash resources. The depreciation expense reported for the year decreased the amount the capital asset accounts increased during the year. The increase reported for the deferred outflows of resources was related to the School District's proportionate share of the State-wide pension systems' net pension liability components.
- Total liabilities increased \$1.4 million, or 6.1 percent, during the fiscal year as the increase in the net pension liability reported at June 30, 2017 was more than scheduled debt service payments made on the School District's long-term obligations and the reduction in construction related payables for fiscal year 2017 compared with the prior year.
- General revenues accounted for \$9.5 million or 84.0 percent of total revenue. Program specific revenues in the form of charges for services, as well as operating grants and contributions account for \$1.8 million or 16.0 percent of total revenues of \$11.3 million. Total revenue reported for fiscal year 2017 was approximately \$554,000 (5.2 percent) more than the amount reported for the prior year. Additional charges for services related to tuition and fees received from other school districts as well as higher property tax revenues related to increased property values, account for the increase in revenues.
- Of the School District's \$11.7 million in expenses, only \$1.8 million were offset by program specific charges for services, grants or contributions. General revenues were used to cover the net expense of \$9.9 million. Total expenses of the School District increased by approximately \$1.8 million compared to the prior year due primarily to increased pension costs for the year, increased depreciation expense related to the new buildings, as well as increased repair and maintenance projects throughout the District which did not meet the capitalization criteria.
- The General Fund, the School District's primary operating fund, reported a 13.2 percent increase in fund balance for fiscal year 2017 primarily due to the increase in property tax revenues. The \$2.2 million, unassigned fund balance reported at June 30, 2017 represents 25.7 percent of the total expenditures reported for the General Fund for the fiscal year.

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

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

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**Using the 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 School 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 Position and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregated view of the School District's finances and a longer-term view of those statements. 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 School District's most significant funds with all other non-major funds presented in total in one column. While the General Fund is the general operating fund of the School District, individual fund statements are also presented for the Permanent Improvement and Classroom Facilities Funds since they are also considered major governmental funds.

**Reporting the School District as a Whole**

*Statement of Net Position and the Statement of Activities*

While this document contains a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2017?" The Statement of Net Position and the Statement of Activities answers this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and the change in that net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School 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 Position and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

**Reporting the School District's Most Significant Funds**

*Fund Financial Statements*

The analysis of the School District's funds begins after the statement of activities. The School District uses many funds to account for a multitude of financial transactions. All the funds of the School District can be divided into two categories: governmental and fiduciary funds. The School District does not have any funds which are classified as proprietary. The fund financial statements focus on the School District's most significant funds, and therefore only the major funds are presented separate from the other funds. For fiscal



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Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
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year 2017, the School District has three major governmental funds: the General, Permanent Improvement and Classroom Facilities Funds.

Governmental Funds

The School 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, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School 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 Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support programs of the School District. The accounting used for fiduciary funds is much like that in the government-wide financial statements.

**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2017 compared to 2016:

**TABLE 1**  
**NET POSITION**

	2017	2016
<i>Assets:</i>		
Current and other Assets	\$ 7,426,475	\$ 10,341,253
Capital Assets	21,038,787	19,393,522
	28,465,262	29,734,775
<i>Deferred Outflows of Resources</i>		
Pension	2,818,687	1,184,119
	2,818,687	1,184,119
<i>Liabilities:</i>		
Current and Other Liabilities	1,154,597	2,580,263
Long-Term Liabilities:		
Due within One Year	53,543	63,502
Due in More Than One Year:		
Net Pension Liability	14,099,416	11,284,299
Other Long-term Liabilities	9,752,428	9,702,221
	25,059,984	23,630,285

(Continued)

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

**TABLE 1  
NET POSITION  
(Continued)**

	2017	2016
<i>Deferred Inflows of Resources</i>		
Pension	73,819	776,793
Other Deferred Inflows	1,894,367	1,860,565
	1,968,186	2,637,358
<i>Net Position</i>		
Net Investment in Capital Assets	11,839,608	10,156,737
Restricted	1,378,887	3,117,794
Unrestricted	(8,962,716)	(8,623,280)
	\$ 4,255,779	\$ 4,651,251

In fiscal year 2015, the School District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute.

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Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
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The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

As required by GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

The amount by which the School District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources is called net position. As of June 30, 2017, the School District's total net position was \$4.3 million. Of that amount, approximately \$11.8 million was the net investment in capital assets. Another \$1.4 million was subject to external restrictions upon its use. The remaining deficit of \$9.0 million resulted from the School District's recognition of its proportionate share of the retirement systems' net pension liability. If the components of recording the net pension liability are removed from the Statement of Net Position, the School District's ending unrestricted net position would be approximately \$2.4 million. We feel this is important to mention as the management of the School District has no control over the management of the State-wide pension funds and or the pension benefits offered; both of which control the net pension liability which has a significant effect on the School District's financial statements.

Total assets decreased by approximately \$1.3 million at June 30, 2017 compared to one year prior as the increase in net capital assets reported for the year resulted from spending cash resources. The depreciation expense reported for the year decreased the amount the capital asset accounts increased during the year. The increase reported for the deferred outflows of resources was related to the School District's proportionate share of the State-wide pension systems' net pension liability components.

Total liabilities increased \$1.4 million, or 6.1 percent, during the fiscal year as the increase in the net pension liability reported at June 30, 2017 was more than scheduled debt service payments made on the School District's long-term obligations and the reduction in construction related payables for fiscal year 2017 compared with the prior year.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
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Table 2 shows the changes in net position for fiscal year 2017 as compared to those for fiscal year 2016.

**TABLE 2  
CHANGES IN NET POSITION**

	2017	2016
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 1,160,778	\$ 949,847
Operating Grants and Contributions	628,499	605,036
Capital Grants and Contributions	18,378	45,155
General Revenues:		
Property Taxes	2,332,125	2,088,422
Income Taxes	2,287,825	2,389,996
Grants and Entitlements	4,741,415	4,591,492
Other	107,859	53,332
Total Revenues	<u>11,276,879</u>	<u>10,723,280</u>
<b>Program Expenses</b>		
Instruction	6,718,454	5,470,773
Support Services:		
Pupil and Instructional Staff	683,700	646,113
Board of Education, Administration, Fiscal, and Business	1,296,607	1,218,389
Plant Operation and Maintenance	845,491	596,580
Pupil Transportation	456,957	486,866
Central	92,387	68,471
Operation of Non-Instructional Services	452,218	409,924
Extracurricular Activities	659,435	574,141
Interest and Fiscal Charges	467,102	431,315
Total Expenses	<u>11,672,351</u>	<u>9,902,572</u>
Change in Net Position	(395,472)	820,708
Beginning Net Position	<u>4,651,251</u>	<u>3,830,543</u>
Ending Net Position	<u>\$ 4,255,779</u>	<u>\$ 4,651,251</u>

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for local operating funds. The overall revenue generated by a voted property tax levy does not increase solely as a result of inflation. Local taxes (property and income) made up 41.0 percent of the total revenue for governmental activities for the School District for fiscal year 2017, compared to 41.8 percent in the prior fiscal year. Local tax revenue increased by \$141,532 as the property tax values increased during the year. Grants and entitlements increased by \$149,923 as state foundation funding received for the fiscal year was more than that received in the prior year. Program revenue increased by \$207,617 due to higher amounts of tuition and fees received by the School District for the current year associated with services provided to out of district students.

Total expenses of the School District increased by 17.9 percent in fiscal year 2017 compared with the previous year. The \$1.8 million increase was due primarily to increased pension costs for the year, increased depreciation expense related to the new buildings, as well as increased repair and maintenance projects throughout the District which did not meet the capitalization criteria.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows total and net cost of services for each function for last two fiscal years.

**TABLE 3  
TOTAL AND COST OF PROGRAM SERVICES  
GOVERNMENTAL ACTIVITIES**

	2017		2016	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 6,718,454	\$ 5,627,532	\$ 5,470,773	\$ 4,572,439
Support Services:				
Pupil and Instructional Staff	683,700	674,096	646,113	584,099
Board of Education, Administration, Fiscal and Business	1,296,607	1,296,607	1,218,389	1,218,389
Plant Operation and Maintenance	845,491	814,508	596,580	539,745
Pupil Transportation	456,957	456,957	486,866	486,866
Central	92,387	86,987	68,471	63,071
Operation of Non-Instructional Services	452,218	98,143	409,924	48,808
Extracurricular Activities	659,435	342,764	574,141	357,802
Interest and Fiscal Charges	467,102	467,102	431,315	431,315
Total Expenses	<u>\$ 11,672,351</u>	<u>\$ 9,864,696</u>	<u>\$ 9,902,572</u>	<u>\$ 8,302,534</u>

As shown in Table 3 above, the net cost of service increased by \$1.6 million due to the increases reported in the functional expenses for the current year exceeding the increase in program revenues reported for the year.

**The School District's Funds**

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11.4 million and expenditures of \$12.8 million which resulted in a net change of \$(1.4) million in total governmental fund balance for the year. Revenues of the general fund increased by \$424,762 due to increases in property tax revenues received for the year. Total expenditures of the general fund increased by \$315,860 over those reported for fiscal year 2016 due the increased cost of personnel previously discussed. For fiscal year 2017, the fund balance for the general fund increased \$304,751 compared with the increase of \$244,663 reported for the prior year. The ending fund balance of the general fund was \$2.6 million at June 30, 2017, of which approximately \$2.2 million was reported as unassigned. The ending unassigned fund balance of the general fund at June 30, 2017 represents 25.7 percent of the total general fund expenditures reported for the fiscal year.

The other major funds, the permanent improvement and classroom facilities funds, each reported a decrease in fund balance ending the fiscal year at \$623,651 and \$433,281, respectively. The change in the classroom facilities fund was to be expected as the vast majority of the construction project has been completed and the fund is in the process of being closed out. The decrease in the permanent improvement fund resulted for the additional repair and maintenance projects undertaking to complete the overall facilities plan as originally anticipated now that major construction of the buildings has been completed.

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

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
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**General Fund Budgeting Highlights**

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

For the general fund, budget basis revenue was \$9.6 million as compared to the original budget estimates of \$9.6 million. Despite the School District conservatively estimated the revenues at the beginning of the school year, actual budget basis revenue was only off by 0.9 percent from the original estimates. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$8.59 million; 4.3 percent less than the total anticipated in the original budgeted appropriations. The final budgeted expenditures only changed slightly throughout the course of the fiscal year.

The actual budgetary fund balance for the general fund reported at the end of the fiscal year was \$2.2 million compared with the \$1.7 million anticipated when the original budget was developed. The final, adjusted budget adopted for the fiscal year anticipated an ending general fund balance of \$1.7 million on a budget basis which was \$460,351 less than the actual ending budgetary fund balance.

**Capital Assets**

At the end of fiscal year 2017, the School District had \$21.0 million invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, and construction in progress in governmental activities. Table 4 shows fiscal year 2017 balances compared to 2016 balances; however, for greater detail readers should review Note 10 to the basic financial statements.

**TABLE 4**  
**CAPITAL ASSETS AT JUNE 30**  
**(Net of Accumulated Depreciation)**

	<u>2017</u>	<u>2016</u>
Land	\$ 529,545	\$ 529,545
Land Improvements	160,958	133,952
Buildings and Improvements	19,595,149	16,927,583
Furniture and Equipment	494,287	527,974
Vehicles	228,288	186,847
Construction in Progress	<u>30,560</u>	<u>1,087,621</u>
Total Net Capital Assets	<u>\$ 21,038,787</u>	<u>\$ 19,393,522</u>

Overall, net capital assets increased \$1.6 million from fiscal year 2016 amounts. This increase in net capital assets resulted from completing the majority of construction and bringing all construction and renovation projects into operation during the current year. Depreciation expense for the fiscal year was \$546,839 with total additions to capital assets amounting to \$2.2 million.

Cost associated with repair and maintenance of the School District's facilities and other assets that do not extend the useful life of the capitalized item, is included within the plant operation and maintenance function.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Management's Discussion and Analysis  
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**Debt Administration**

At June 30, 2017, the School District had \$9.0 million in general obligation bonds outstanding, of which only \$20,000 is due for payment during the next fiscal year. Principal payments for fiscal year 2017 were \$15,000 and \$15,850 on the general obligation bonds and capital lease obligation, respectively. The capital lease obligation was paid in full as of the end of fiscal year 2017.

For more detailed disclosures regarding the School District's debt obligations the reader should refer to Notes 14 and 15 to the basic financial statements.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Carol Forsythe, Treasurer at Covington Exempted Village School District, 807 Chestnut, Covington, OH 45318 or email at [forsythec@covingtonk12.org](mailto:forsythec@covingtonk12.org).

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

Statement of Net Position  
June 30, 2017

	Governmental Activities
<b>ASSETS:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 3,994,081
Inventory Held for Resale	2,848
Materials and Supplies Inventory	1,033
Accounts Receivable	59,666
Intergovernmental Receivable	122,763
Income Taxes Receivable	936,078
Property Taxes Receivable	2,310,006
Capital Assets:	
Non Depreciable Assets	560,105
Depreciable Assets	20,478,682
Total Assets	28,465,262
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Pension	2,818,687
Total Deferred Outflows of Resources	2,818,687
<b>LIABILITIES:</b>	
Accounts Payable	43,336
Contracts Payable	175,886
Retainage Payable	100,714
Accrued Wages and Benefits	635,291
Intergovernmental Payable	161,140
Accrued Interest Payable	38,230
Long-Term Liabilities:	
Due Within One Year	53,543
Due In More Than One Year:	
Net Pension Liability	14,099,416
Other Amounts Due in More than One Year	9,752,428
Total Liabilities	25,059,984
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Property Taxes not Levied to Finance Current Year Operations	1,894,367
Pension	73,819
Total Deferred Inflows of Resources	1,968,186
<b>NET POSITION:</b>	
Net Investment in Capital Assets	11,839,608
Restricted for:	
Debt Service	4,570
Capital Outlay	1,097,655
Maintenance of Facilities	177,794
Student Activities	98,868
Unrestricted	(8,962,716)
Total Net Position	\$ 4,255,779

See accompanying notes to the basic financial statements.

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

Statement of Activities  
For the Fiscal Year Ended June 30, 2017

<b>Functions/Programs:</b>	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 5,224,340	\$ 661,699	\$ 56,858	\$ -	\$ (4,505,783)
Special	1,491,563	65,561	306,804	-	(1,119,198)
Student Intervention Services	456	-	-	-	(456)
Other	2,095	-	-	-	(2,095)
Support Services:					
Pupils	475,902	-	9,604	-	(466,298)
Instructional Staff	207,798	-	-	-	(207,798)
Board of Education	9,440	-	-	-	(9,440)
Administration	983,906	-	-	-	(983,906)
Fiscal	300,877	-	-	-	(300,877)
Business	2,384	-	-	-	(2,384)
Operation and Maintenance					
of Plant	845,491	4,955	7,650	18,378	(814,508)
Pupil Transportation	456,957	-	-	-	(456,957)
Central	92,387	-	5,400	-	(86,987)
Non-instructional Services	452,218	155,650	198,425	-	(98,143)
Extracurricular Activities	659,435	272,913	43,758	-	(342,764)
Interest and Fiscal Charges	467,102	-	-	-	(467,102)
Total	<u>\$ 11,672,351</u>	<u>\$ 1,160,778</u>	<u>\$ 628,499</u>	<u>\$ 18,378</u>	(9,864,696)
General Revenues:					
Property Taxes Levied for:					
General Purposes					1,966,716
Debt Service					365,409
Income Taxes Levied for:					
General Purposes					1,996,387
Debt Service					80,000
Capital Outlay					163,546
Facility Maintenance					47,892
Grants, Entitlements and Contributions not					
Restricted to Specific Programs					4,741,415
Investment Earnings					25,499
Miscellaneous					82,360
					<u>9,469,224</u>
Total General Revenues					
Change in Net Position					(395,472)
Net Position, Beginning of Year					<u>4,651,251</u>
Net Position, End of Year					<u>\$ 4,255,779</u>

See accompanying notes to the basic financial statements.

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

Balance Sheet  
Governmental Funds  
June 30, 2017

	General Fund	Permanent Improvement	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 2,219,334	\$ 742,637	\$ 537,492	\$ 494,618	\$ 3,994,081
Receivables:					
Property Taxes	1,948,390	-	-	361,616	2,310,006
Income Taxes	936,078	-	-	-	936,078
Accounts	5,895	53,322	-	449	59,666
Intergovernmental	85,459	-	-	37,304	122,763
Due from Other Funds	800	-	-	-	800
Materials and Supplies Inventory	-	-	-	1,033	1,033
Inventory Held for Resale	-	-	-	2,848	2,848
Total Assets	<u>\$ 5,195,956</u>	<u>\$ 795,959</u>	<u>\$ 537,492</u>	<u>\$ 897,868</u>	<u>\$ 7,427,275</u>
<b>LIABILITIES:</b>					
Accounts Payable	\$ 19,180	\$ -	\$ -	\$ 24,156	\$ 43,336
Contracts Payable	-	172,308	3,497	81	175,886
Retainage Payable	-	-	100,714	-	100,714
Accrued Wages and Benefits	604,084	-	-	31,207	635,291
Intergovernmental Payable	152,520	-	-	8,620	161,140
Due to Other Funds	-	-	-	800	800
Total Liabilities	<u>775,784</u>	<u>172,308</u>	<u>104,211</u>	<u>64,864</u>	<u>1,117,167</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Property Taxes not Levied to Finance					
Current Year Operations	1,598,985	-	-	295,382	1,894,367
Unavailable Revenue	215,359	-	-	20,792	236,151
Total Deferred Inflows of Resources	<u>1,814,344</u>	<u>-</u>	<u>-</u>	<u>316,174</u>	<u>2,130,518</u>
<b>FUND BALANCES:</b>					
Nonspendable:					
Inventory	-	-	-	1,033	1,033
Restricted for:					
Debt	-	-	-	85,055	85,055
Capital Improvements	-	623,651	433,281	-	1,056,932
Facilities Maintenance	-	-	-	177,794	177,794
Educational Foundation	-	-	-	40,723	40,723
District Managed Activities	-	-	-	98,868	98,868
Committed for:					
Capital Improvements	-	-	-	150,043	150,043
Assigned for:					
Extracurricular Activities	13,336	-	-	-	13,336
Subsequent Expenditures	10,887	-	-	-	10,887
Subsequent Appropriations	361,284	-	-	-	361,284
Unassigned	2,220,321	-	-	(36,686)	2,183,635
Total Fund Balances	<u>2,605,828</u>	<u>623,651</u>	<u>433,281</u>	<u>516,830</u>	<u>4,179,590</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 5,195,956</u>	<u>\$ 795,959</u>	<u>\$ 537,492</u>	<u>\$ 897,868</u>	<u>\$ 7,427,275</u>

See accompanying notes to the basic financial statements.

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

Reconciliation of Total Governmental Fund Balances  
to Net Position of Governmental Activities  
June 30, 2017

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Total Governmental Fund Balances	\$ 4,179,590
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	21,038,787
Certain receivables are not available to provide current financial resources and are reported as deferred inflows of resources in governmental funds:	
Property Taxes Receivable	39,323
Income Taxes Receivable	179,192
Intergovernmental Receivable	14,925
Accounts Receivable	2,711
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	2,818,687
Deferred Inflows - Pension	(73,819)
Net Pension Liability	(14,099,416)
Some liabilities and deferred outflows of resources are not due and payable in the current period and therefore are not reported in the funds. Those items consist of:	
General Obligation Bonds Payable	(9,013,122)
Accrued Interest Payable	(38,230)
Unamortized Bond Premium	(234,179)
Compensated Absences Payable	<u>(558,670)</u>
Net Position of Governmental Activities	\$ <u>4,255,779</u>

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

Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2017

	General Fund	Permanent Improvement	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Property Taxes	\$ 1,959,010	\$ -	\$ -	\$ 364,090	\$ 2,323,100
Income Taxes	2,156,596	-	-	127,892	2,284,488
Intergovernmental	4,690,163	-	191,325	563,487	5,444,975
Tuition and Fees	715,863	-	-	-	715,863
Interest	18,860	2,834	1,706	2,099	25,499
Extracurricular Activities	12,952	-	-	274,588	287,540
Customer Services and Sales	-	-	-	153,975	153,975
Gifts and Donations	32,641	18,378	-	69,334	120,353
Miscellaneous	27,066	53,322	-	4,760	85,148
Total Revenues	<u>9,613,151</u>	<u>74,534</u>	<u>193,031</u>	<u>1,560,225</u>	<u>11,440,941</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	4,093,540	129,734	-	24,217	4,247,491
Special	1,111,192	-	-	306,762	1,417,954
Student Intervention Services	456	-	-	-	456
Other	1,945	-	-	-	1,945
Support Services:					
Pupils	436,599	4,767	-	10,097	451,463
Instructional Staff	196,986	-	-	2,157	199,143
Board of Education	9,440	-	-	-	9,440
Administration	886,546	-	-	-	886,546
Fiscal	281,601	-	-	6,235	287,836
Operation and Maintenance of Plant	638,486	405,033	-	45,726	1,089,245
Pupil Transportation	462,356	-	-	-	462,356
Central	67,751	-	-	5,400	73,151
Operation of Non-Instructional Services	59,827	5,848	-	379,639	445,314
Extracurricular Activities	350,546	10,749	-	265,774	627,069
Capital Outlay	11,200	406,216	1,406,501	286,429	2,110,346
Debt Service:					
Principal	15,850	-	-	15,000	30,850
Interest	533	-	-	458,761	459,294
Total Expenditures	<u>8,624,854</u>	<u>962,347</u>	<u>1,406,501</u>	<u>1,806,197</u>	<u>12,799,899</u>
Revenues Over/(Under) Expenditures	988,297	(887,813)	(1,213,470)	(245,972)	(1,358,958)
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from Sale of Capital Assets	-	2,167	-	-	2,167
Transfers In	-	663,546	-	20,000	683,546
Transfers Out	(683,546)	-	-	-	(683,546)
Total Other Financing Sources (Uses)	<u>(683,546)</u>	<u>665,713</u>	<u>-</u>	<u>20,000</u>	<u>2,167</u>
Net Change in Fund Balances	304,751	(222,100)	(1,213,470)	(225,972)	(1,356,791)
Fund Balance, Beginning of Year	<u>2,301,077</u>	<u>845,751</u>	<u>1,646,751</u>	<u>742,802</u>	<u>5,536,381</u>
Fund Balance, End of Year	<u>\$ 2,605,828</u>	<u>\$ 623,651</u>	<u>\$ 433,281</u>	<u>\$ 516,830</u>	<u>\$ 4,179,590</u>

See accompanying notes to the basic financial statements.

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

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, 2017

Total Net Change in Fund Balances - Total Governmental Funds	\$ (1,356,791)
<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 are allocated over their estimated useful lives as depreciation expense and report a gain or loss on the disposal of capital assets:	
Depreciation Expense	(546,839)
Capital Asset Additions	2,192,104
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:	
Property Taxes	9,025
Income Taxes	3,337
Intergovernmental	(177,036)
Tuition and Fees	(1,555)
Repayment of long-term obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the statement of net position:	
General Obligation Bonds	15,000
Capital Lease Obligations	15,850
Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Accrued Interest Payable	106
Accreted Interest on Capital Appreciation Bonds	(14,670)
Amortization of Bond Premium	6,756
Compensated Absences Payable	(63,184)
Contractually required contributions are reported as expenditures in governmental funds however, the statement of activities reports these amounts as deferred outflows.	
	687,831
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	
	<u>(1,165,406)</u>
Change in Net Position of Governmental Activities	<u>\$ (395,472)</u>

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

Statement of Revenues, Expenditures and Changes in  
Fund Balance - Budget (Non-GAAP) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b><u>Revenues:</u></b>				
Property Taxes	\$ 1,795,903	\$ 1,795,903	\$ 1,877,026	\$ 81,123
Income Taxes	2,434,000	2,434,000	2,367,007	(66,993)
Intergovernmental	4,758,627	4,758,627	4,690,151	(68,476)
Tuition and Fees	553,800	553,800	676,905	123,105
Interest	6,000	6,000	16,566	10,566
Rent	3,000	3,000	4,955	1,955
Gifts and Donations	6,350	6,350	14,699	8,349
Miscellaneous	7,100	7,100	60	(7,040)
<b>Total Revenues</b>	<b>9,564,780</b>	<b>9,564,780</b>	<b>9,647,369</b>	<b>82,589</b>
<b><u>Expenditures:</u></b>				
Current:				
Instruction:				
Regular	4,246,585	4,227,585	4,091,123	136,462
Special	1,104,889	1,104,889	1,098,654	6,235
Student Intervention Services	3,600	3,600	456	3,144
Other	592	592	1,945	(1,353)
Support Services:				
Pupils	383,863	383,863	423,860	(39,997)
Instructional Staff	234,343	234,343	197,665	36,678
Board of Education	13,233	13,233	9,440	3,793
Administration:				
Fiscal	302,084	302,084	281,798	20,286
Operation and Maintenance of Plant	698,959	698,959	642,371	56,588
Pupil Transportation	513,276	513,276	473,624	39,652
Central	53,746	64,297	68,455	(4,158)
Operation of Non-Instructional Services	80,000	80,000	59,827	20,173
Extracurricular Activities	361,751	361,751	347,697	14,054
Capital Outlay	17,900	17,900	11,200	6,700
<b>Total Expenditures</b>	<b>8,974,762</b>	<b>8,967,919</b>	<b>8,590,226</b>	<b>377,693</b>
Excess of Revenues Over (Under) Expenditures	590,018	596,861	1,057,143	460,282
<b><u>Other Financing Sources (Uses):</u></b>				
Refund of Prior Year Expenditures	3,000	3,000	2,307	(693)
Refund of Prior Year Receipts	(200)	(200)	-	200
Transfers Out	(800,000)	(812,000)	(811,438)	562
<b>Total Other Financing Sources (Uses)</b>	<b>(797,200)</b>	<b>(809,200)</b>	<b>(809,131)</b>	<b>69</b>
Net Change in Fund Balance	(207,182)	(212,339)	248,012	460,351
Fund Balance, Beginning of Year	1,901,402	1,901,402	1,901,402	-
Prior Year Encumbrances Appropriated	40,891	40,891	40,891	-
<b>Fund Balance, End of Year</b>	<b>\$ 1,735,111</b>	<b>\$ 1,729,954</b>	<b>\$ 2,190,305</b>	<b>\$ 460,351</b>

See accompanying notes to the basic financial statements.

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

Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2017

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	Private Purpose Trust	Agency Fund
<b>ASSETS:</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 79,187	\$ 41,194
Receivables:		
Accounts	9,874	170
Total Assets	89,061	41,364
<b>LIABILITIES:</b>		
Current Liabilities:		
Accounts Payable	-	1,108
Due to Students	-	40,256
Total Liabilities	-	\$ 41,364
<b>NET POSITION:</b>		
Held in Trust for Scholarships	\$ 89,061	

See accompanying notes to the basic financial statements.



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

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2017

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	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Gifts and Donations	\$ 38,669
Investment Earnings	<u>305</u>
Total Additions	<u>38,974</u>
<b>Deductions:</b>	
Payments in accordance with Trust Agreements	<u>34,950</u>
Total Deductions	<u>34,950</u>
<b>Change in Net Position</b>	4,024
<b>Net Position, Beginning of Year</b>	<u>85,037</u>
<b>Net Position, End of Year</b>	<u><u>\$ 89,061</u></u>

See accompanying notes to the basic financial statements.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Covington Exempted Village School District (the "School District") is a body politic and corporate for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by State statute and federal guidelines.

The School District serves an area of approximately 35 square miles. It is staffed by 33 noncertified employees and 69 certified full-time teaching personnel who provide services to 840 students and other community members. The School District currently operates one instructional/support facility.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities of the School District. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District is associated with five jointly governed organizations, three insurance purchasing pools, and one related organization. These organizations are discussed in Notes 16, 17 and 18 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Metropolitan Educational Technology Association (META)
- Southwestern Ohio Educational Purchasing Council (SOEPC)
- Southwestern Ohio Instructional Technology Association (SOITA)
- Upper Valley Career Center
- The Covington Education Fund

Insurance Purchasing Pools:

- Ohio School Boards Association Workers' Compensation Group Rating Plan
- SOEPC Medical Benefits Plan
- Schools of Ohio Risk Sharing Authority (SORSA)

Related Organization:

- The J.R. Clarke Public Library

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Covington Exempted Village School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

***A. Basis Of Presentation***

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide statements usually distinguish between those activities that are governmental and those that are business-type. The School District, however, has no activities which are reported as business-type.

The statement of net position presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the 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 School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

***B. Fund Accounting***

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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

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 deferred outflows of resources compared to liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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

Permanent Improvement Fund – A capital projects fund that is used to account for and report income tax monies received that are restricted for expenditures in connection with purchase and construction, as well as repair and maintenance, of capital assets by the School District.

Classroom Facilities Fund – A capital projects fund that is used to account for and report monies received that are restricted for expenditures in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The private purpose trust fund accounts for monies held in trust for individual student scholarships. The student managed activities agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

***C. Measurement Focus***

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the School District are included on the Statement of Net Position. The Statement of Activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources along with current liabilities and deferred inflows of resources 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

***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. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

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. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty (60) days of fiscal year end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property 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 7). 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of financial position may report a separate category for deferred outflows of resources. A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained further in Note 12.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenues. Property taxes represent amounts for which there is a legally enforceable claim as of June 30, 2017, but which were levied to finance subsequent year operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, income taxes, grants, and delinquent tuition and fees. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. For the School District, deferred inflows of resources are reported on the government-wide statement of net position for the following two items related to the School District's net pension liability: 1) the difference between expected and actual experience of the pension systems, and 2) the School District's contributions to the pension systems subsequent to the measurement date. Deferred inflows of resources related to pension are further explained in Note 12.

Expenditures/Expenses

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 costs, such as depreciation and amortization are not recognized in governmental funds.

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

***E. Budget Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. 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 tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue, are identified by the School District. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2017.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

***F. Cash and Cash Equivalents***

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

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

The School District has invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal year 2017. 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants". The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$18,860; which includes \$651 assigned from other funds.

***G. Inventory***

On government-wide financial statements, inventories are presented at the lower cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed rather than when purchased.



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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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

***H. Capital Assets and Depreciation***

The School District's only capital assets are general capital assets. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position 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 acquisition values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	10-50 years
Furniture and Equipment	5-20 years
Vehicles	8 years

***I. Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures or 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 and uses in governmental funds. Repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them are not presented on the financial statements.

***J. Accrued Liabilities and Long-Term Obligations***

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

In general, 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 governmental funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.

The capital lease, general obligation bonds, and accrued interest that will be paid from governmental funds are recognized as a liability in the fund financial statements when payment is due.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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

***K. Compensated Absences***

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

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

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

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts, if any, are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

***L. Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

***M. Fund Balance***

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

Non-spendable - The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the policies of the Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

***N. Net Position***

Net position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

***O. Estimates***

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

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2017, the School District implemented the Governmental Accounting Standards Board (GASB) Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, No. 77, *Tax Abatement Disclosures*, No. 78, *Pension Plans provided through Certain Multi-Employer Defined Benefit Plans*, No. 80, *Blending Requirements for Certain Component Units* and No. 82, *Pension Issues – an amendment of GASB Statements No.67, No. 68 and No. 73*.

GASB Statement No. 74 enhances the note disclosures and required supplementary information schedules required by OPEB plans that are administered through trusts that meet the specified criteria. The implementation of this Standard had no effect on the School District’s financial statements.

GASB Statement No. 77 requires disclosures that provide users with information concerning the government’s tax abatement programs, including nature and magnitude, which will provide information on ability to raise resources and the impact abatement programs have on the financial position of the government. The School District is not a party to any agreement in which property taxes are abated at this time.

GASB Statement No. 78 amends the scope and applicability of GASB Statement No. 68 to exclude certain pensions provided to employees of governmental employers through cost-sharing multiple-employer defined benefit plans that meet certain specified criteria. The implementation of this Standard had no effect on the School District’s financial statements.

GASB Statement No. 80 amends the blending requirements of GASB Statement No. 14 to include blending of a component unit, incorporated as a not-for-profit corporation, in which the reporting government is the sole corporate member. The implementation of this Standard had no effect on the School District’s financial statements.

GASB Statement No. 82 improves financial reporting by enhancing consistency in the application of financial reporting requirements related to certain pension issues, including presentation of payroll-related measures in RSI, selection of assumptions, and classification of employer-paid member contributions. The implementation of this Standard had no effect on the School District’s beginning net position.

It should also be noted that in June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will require the reporting entity to recognize on the face of the financial statements, its proportionate share of the net OPEB liability related to its participation in the School Employees Retirement System (SERS) and the State Teachers Retirement System (STRS). This Standard also enhances accountability and transparency through revised note disclosures and required supplementary information. The provisions of this Standard are required to be implemented for reporting periods beginning after June 15, 2017. The School District has not early implemented GASB Statement No. 75 and is currently in the process of evaluating the impact this Standard will have on its financial statements.

**NOTE 4 – ACCOUNTABILITY**

At June 30, 2017, the following non-major, special revenue funds had deficit fund balance; food service fund \$19,397, Title VIB grant fund \$11,301, Title I grant fund \$3,995 and miscellaneous federal grants fund \$960. The general fund is liable for any deficit in other funds and provides operating transfers when cash is required, not when accruals occur.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP) and Actual – 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 GAAP basis for the general fund are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the fund liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as restricted, committed or assigned fund balance for governmental fund types (GAAP basis).
4. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

<u>Net Change in Fund Balance</u>	
<u>General Fund</u>	
GAAP Basis	\$ 304,751
Net Revenue Accruals	72,483
Net Expenditure Accruals	2,687
Encumbrances	(16,503)
Net Other Financing Sources (Uses)	(125,585)
Change in Fund Balance of Funds Combined with General Fund for Reporting Purposes	<u>10,179</u>
Budget Basis	<u>\$ 248,012</u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

State statutes require the classification of monies held by the School District into three categories.

Active Monies – Those monies required to be kept in a “cash” or “near-cash” status for the immediate use of the district. Such monies must be maintained either as cash in the treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 6 - DEPOSITS AND INVESTMENTS** (Continued)

Inactive Monies – Those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested as certificate of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Interim Monies – 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 five years from the date of deposit, or by savings or deposit accounts, including passbook accounts. Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$1,642,614 of the School District's bank deposits was exposed to custodial credit risk because it was uninsured and collateralized, while \$750,000 was covered by the FDIC. The uninsured deposits of the School District are covered by pooled collateral arrangements as explained below, however non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)**

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

The School District's investment policy permits the purchase of any security specifically authorized by the Ohio Revised Code (the ORC) and includes the following:

*Interest Rate Risk:* The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity.

*Credit Risk:* The School District's investment policy limits investments to those authorized by State statute.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment policy does not address investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk:* The School District places no limit on the amount that may be invested in any one issuer. At June 30, 2017, the only investment of the School District was STAR Ohio.

At June 30, 2017, the School District's investment in STAR Ohio totaled \$1,872,800. STAR Ohio is rated AAAM by Standard and Poor's.

**NOTE 7 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility personal property located in the school district. Real property tax revenue received in calendar 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, 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.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**NOTE 7 - PROPERTY TAXES (Continued)**

Public utility property tax revenue received in calendar 2017 represents collections of calendar year 2016 taxes. Public utility real property taxes received in calendar year 2017 became a lien December 31, 2015, were levied after April 1, 2016 and are collected in 2017 with real property taxes. Public utility real property is assessed at thirty-five percent of true value.

The School District receives property taxes from Miami County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2017 First Half Collections		2016 Second Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate property	\$ 100,595,050	95.95%	\$ 94,233,870	95.91%
Public utility personal property	4,247,280	4.05%	4,014,460	4.09%
Total	\$ 104,842,330	100.00%	\$ 98,248,330	100.00%
Tax rate per \$1,000 of assessed valuation	\$34.29		\$34.29	

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2017 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 inflows of resources.

The amount available as an advance at June 30, 2017 was \$313,360 in the general fund and \$59,934 in the bond retirement fund. The amount available for advance at June 30, 2016 was \$223,928 in the general fund and \$43,027 in the bond retirement 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.

**NOTE 8 – INCOME TAX**

The School District levies a voted tax of one-half percent for general operations on the income of residents and of estates. The tax was effective on April 1, 1994, and is a continuing tax. The School District's residents also approved an additional one and a quarter percent, for five years, effective January 2006 and has been subsequent renewed through 2020. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund, the permanent improvement fund, and the classroom facilities fund.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**NOTE 8 – INCOME TAX (Continued)**

An additional one-quarter percent continuing income tax was passed in May 2013, effective January 1, 2014, along with a 3.89 mill bond levy, to fund the construction of a new pre-kindergarten through eight grade school facility and renovations to the existing high school building.

**NOTE 9 - RECEIVABLES**

Receivables at June 30, 2017, consisted of current and delinquent property taxes, income taxes, accounts, and intergovernmental grants. 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 fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

*General Fund:*

Miscellaneous amounts due from other governments	\$ 85,459
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*Non-major Governmental Funds:*

Title VI-B Grant	28,444
Title I Grant	8,860
Non-major Governmental Funds	37,304
Total Intergovernmental Receivables	\$ 122,763

**NOTE 10 - CAPITAL ASSETS**

A summary of the School District's general capital assets for fiscal year 2017 is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
<i><u>Capital Assets, not being depreciated</u></i>				
Land	\$ 529,545	\$ -	\$ -	\$ 529,545
Construction in Progress	1,087,621	1,723,490	(2,780,551)	30,560
	1,617,166	1,723,490	(2,780,551)	560,105
<i><u>Capital Assets, being depreciated</u></i>				
Land Improvements	761,179	27,168	-	788,347
Buildings and Improvements	19,052,111	3,101,342	-	22,153,453
Furniture and Equipment	930,863	32,503	-	963,366
Vehicles	584,836	88,152	(26,952)	646,036
Total Depreciable Capital Assets	21,328,989	3,249,165	(26,952)	24,551,202

(continued)

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**NOTE 10 - CAPITAL ASSETS (Continued)**

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
<i><u>Less: Accumulated Depreciation</u></i>				
Land Improvements	(627,227)	(162)	-	(627,389)
Buildings and Improvements	(2,124,528)	(433,776)	-	(2,558,304)
Furniture and Equipment	(402,889)	(66,190)	-	(469,079)
Vehicles	(397,989)	(46,711)	26,952	(417,748)
Total Accumulated Depreciation	(3,552,633)	(546,839) *	26,952	(4,072,520)
<b>Depreciable Capital Assets, Net</b>	<b>17,776,356</b>	<b>2,702,326</b>	<b>-</b>	<b>20,478,682</b>
<b>Total Capital Assets, Net</b>	<b>\$ 19,393,522</b>	<b>\$ 4,425,816</b>	<b>\$ (2,780,551)</b>	<b>\$ 21,038,787</b>

\* - Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 413,403
Other	150
Support Services:	
Pupil Support	3,690
Administration	899
Business	2,384
Operation and maintenance of plant	13,237
Pupil transportation	46,881
Central	21,036
Operation of non-instructional services	13,892
Extracurricular activities	31,267
<b>Total Depreciation Expense</b>	<b>\$ 546,839</b>

**NOTE 11 - RISK MANAGEMENT**

Property and Liability

The School District is exposed to various risks of loss related to torts, thefts-of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. For fiscal year 2017, the School District joined together with other school districts in Ohio to participate in the Schools of Ohio Risk Sharing Authority (the "Plan"), an insurance purchasing pool established under Section 2744.081 of the ORC.

The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a nine member board consisting of superintendents, treasurers and business managers.

The York Risk Services Group is responsible for processing claims. Willis Pooling Practice serves as the Plan's administrator, sales representative, and marketing representative who establish agreements between the Plan and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT**  
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**NOTE 11 - RISK MANAGEMENT (Continued)**

Coverage limits as of June 30, 2017 are as follows:

Buildings and Contents - replacement cost (all members)	\$ 300,000,000
Equipment Breakdown (all members)	300,000,000
Automobile Liability	15,000,000
General Liability:	
Per Occurrence	15,000,000
Annual Aggregate	17,000,000
Crime Coverage	100,000

There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage for any part of the last three years.

**Workers' Compensation**

For fiscal year 2017, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. Participation in the GRP is limited to Districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

**Medical Benefits**

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

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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For the Fiscal Year Ended June 30, 2017

**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 **	Eligible to retire on or after August 1, 2017
Full benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit; or age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or age 60 with 25 years of service credit

\*\* - Members with 25 years of service credit as of August 1, 2017 will be included in this plan.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14.0 percent; no allocation was made during the year to the Health Care Fund.

The School District's contractually required pension contribution to SERS was \$160,089 for fiscal year 2017; \$27,812 of contributions is reported within intergovernmental payable at June 30, 2017.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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Notes to the Basic Financial Statements  
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**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2016 to reach 14 percent. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required pension contribution to STRS was \$527,742 for fiscal year 2017; \$92,172 of contributions is reported within intergovernmental payable at June 30, 2017.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 2,727,508	\$ 11,371,908	\$ 14,099,416
Proportion of the net pension liability	0.0372658%	0.03397336%	
Change in proportionate share	-0.0014228%	0.00113096%	
Pension expense	\$ 270,409	\$ 894,997	\$ 1,165,406



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**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<u>Deferred Outflows of Resources:</u>			
Differences between expected and actual experience	\$ 36,788	\$ 459,480	\$ 496,268
Net difference between projected and actual earnings on pension plan investments	224,979	944,174	1,169,153
Change in assumptions	182,077	-	182,077
Change in School District's proportionate share and difference in employer contributions	39,891	243,467	283,358
School District contributions subsequent to the measurement date	<u>160,089</u>	<u>527,742</u>	<u>687,831</u>
Total	<u>\$ 643,824</u>	<u>\$ 2,174,863</u>	<u>\$ 2,818,687</u>
<u>Deferred Inflows of Resources:</u>			
Change in School District's proportionate share and difference in employer contributions	<u>\$ 58,354</u>	<u>\$ 15,465</u>	<u>\$ 73,819</u>
Total	<u>\$ 58,354</u>	<u>\$ 15,465</u>	<u>\$ 73,819</u>

\$687,831 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 108,341	\$ 277,953	\$ 386,294
2019	108,179	277,953	386,132
2020	144,189	640,259	784,448
2021	<u>64,672</u>	<u>435,491</u>	<u>500,163</u>
	<u>\$ 425,381</u>	<u>\$ 1,631,656</u>	<u>\$ 2,057,037</u>

***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016 are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment rate of return	7.50 percent of net investments expense, including inflation
Actuarial cost method	Entry Age Normal

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates and 110% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015 adopted by the Retirement Board on April 21, 2016.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:



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Notes to the Basic Financial Statements  
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**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00%	0.50%
US stocks	22.50%	4.75%
Non-US stocks	22.50%	7.00%
Fixed income	19.00%	1.50%
Private equity	10.00%	8.00%
Real assets	15.00%	5.00%
Multi-asset strategies	<u>10.00%</u>	3.00%
Total	<u>100.00%</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's proportionate share of the net pension liability	\$ 3,611,052	\$ 2,727,508	\$ 1,987,947

**Change in Assumptions** The following changes in the actuarial assumptions were made during the June 30, 2016 actuarial valuation period:

- Discount rate was reduced from 7.75% to 7.50%
- Assumed rate of inflation was reduced from 3.25% to 3.00%
- Payroll growth assumption was reduced from 4.00% to 3.50%
- Assumed real wage growth was reduced from 0.75% to 0.50%
- Rates of withdrawal, retirement and disability were updated to reflect recent experience
- Mortality among active members was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females
- Mortality among service retired members and beneficiaries was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates and 110% of female rates

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Notes to the Basic Financial Statements  
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**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

- Mortality among disabled members was updated to the following:
  - RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, and a five-year set-back for the period after disability retirement.

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Future salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	31.00%	8.00%
International equity	26.00%	7.85%
Alternatives	14.00%	8.00%
Fixed income	18.00%	3.75%
Real estate	10.00%	6.75%
Liquidity reserves	<u>1.00%</u>	<u>3.00%</u>
Total	<u>100.00%</u>	<u>7.61%</u>

***Discount Rate*** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

***Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 15,112,341	\$ 11,371,908	\$ 8,216,631

***Changes Between Measurement Date and Report Date*** In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75% to 7.45%. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall change in the School District's net pension liability is expected to be significant.

**NOTE 13 – POSTEMPLOYMENT BENEFITS**

***A. School Employee Retirement System***

***Health Care Plan*** – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder for the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2017, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute, no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor

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**NOTE 13 – POSTEMPLOYMENT BENEFITS (Continued)**

may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for health care surcharge. For fiscal year 2017, this amount was \$23,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal year 2017, the School District's surcharge obligation was \$18,823.

None of the 14% in employer contributions was allocated to the Health Care Fund for the fiscal years June 30, 2017 and 2016. The School District's contributions to the Health Care Fund for the fiscal year June 30, 2015 were \$28,046 which was equal to the required contribution for that year.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of the health care plan are included in SERS' CAFR which can be obtained at [www.ohsers.org](http://www.ohsers.org) under employer/audit resources.

***B. State Teachers Retirement System***

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

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. STRS did not allocate a portion of employer contributions to post-employment health care in fiscal years 2017, 2016 and 2015.

**NOTE 14 – CAPITAL LEASE**

During a prior fiscal year, the School District entered into a lease agreement for copiers. This lease agreement meets the criteria of a capital lease as the risks and benefits of ownership transfers to the leasing party. The capital lease obligation is recorded on the government-wide statements.

Principal payments reported in the governmental fund for fiscal year 2017 totaled \$15,850 and were paid out of the general fund. The fiscal year 2017 principal payment represented the final payment by the School District on this lease agreement.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**NOTE 15 - LONG-TERM OBLIGATIONS**

The activity of the School District's long-term obligations during fiscal year 2017 was as follows:

	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017	Due within One Year
General Obligation Bonds:					
Series 2013 Bonds					
Current Interest	\$ 8,915,000	\$ -	\$ 15,000	\$ 8,900,000	\$ 20,000
Capital Appreciation	65,000	-	-	65,000	-
Accreted Interest	33,452	14,670	-	48,122	-
Bond Premiums	240,935	-	6,756	234,179	-
Total General Obligation Bonds	<u>9,254,387</u>	<u>14,670</u>	<u>21,756</u>	<u>9,247,301</u>	<u>20,000</u>
Net Pension Liability:					
STRS	9,076,690	2,295,218	-	11,371,908	-
SERS	2,207,609	519,899	-	2,727,508	-
Total Net Pension Liability	<u>11,284,299</u>	<u>2,815,117</u>	<u>-</u>	<u>14,099,416</u>	<u>-</u>
Capital Lease Obligations	15,850	-	15,850	-	-
Compensated Absences	495,486	95,836	32,652	558,670	33,543
Total Long-Term Obligations	<u>\$ 21,050,022</u>	<u>\$ 2,925,623</u>	<u>\$ 70,258</u>	<u>\$ 23,905,387</u>	<u>\$ 53,543</u>

Compensated absences and the required pension contributions will be paid from the fund which the employee's salaries are paid; which for the School District is primarily the general fund.

**2013 School Facilities Construction and Improvement Bonds**

On September 5, 2013, the School District issued \$9 million in general obligation serial bonds for the purpose of improving school facilities. Principal and interest payments are made from the debt service fund.

The issue is comprised of both current interest serial bonds, par value of \$8,935,000, and capital appreciation bonds, par value of \$65,000. The interest rates on the current interest bonds range from 1.0% to 6.0%. The capital appreciation bonds mature on November 1, 2022 through November 1, 2030 (stated interest rates ranging from 7.77% to 25.33%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$770,000 in total. Total accreted interest of \$48,122 for the Series 2013 capital appreciation bonds has been included on the statement of net position at June 30, 2017.

Interest payments on the current interest serial bonds are due on May 1 and November 1 of each year. The final maturity stated in the issue is November 1, 2051.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**NOTE 15 - LONG-TERM OBLIGATIONS (Continued)**

The following is a summary of the School District's future annual debt service requirements to maturity for the Series 2013 Bonds:

Fiscal Year Ended June 30,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 20,000	\$ 458,486	\$ 478,486	\$ -	\$ -	\$ -
2019	25,000	458,074	483,074	-	-	-
2020	25,000	457,511	482,511	-	-	-
2021	30,000	456,749	486,749	-	-	-
2022	80,000	455,064	535,064	-	-	-
2023-2027	300,000	1,990,814	2,290,814	45,000	250,000	295,000
2028-2032	435,000	1,722,238	2,157,238	20,000	455,000	475,000
2033-2037	1,395,000	1,944,525	3,339,525	-	-	-
2038-2042	1,435,000	1,588,098	3,023,098	-	-	-
2043-2047	2,110,000	1,120,643	3,230,643	-	-	-
2048-2052	3,045,000	428,479	3,473,479	-	-	-
Total	<u>\$ 8,900,000</u>	<u>\$ 11,080,681</u>	<u>\$ 19,980,681</u>	<u>\$ 65,000</u>	<u>\$ 705,000</u>	<u>\$ 770,000</u>

**Legal Debt Limits**

At June 30, 2017, the School District's overall legal debt limit was \$9,435,810 and the un-voted debt limit was \$104,842. ORC Section 133.06(I) permits school districts to incur net indebtedness in excess of the 9% limitation, without obtaining the consent of the State Superintendent and the Tax Commissioner, when bond proceeds will be used exclusively to fund a school district's Commission-required local effort. Accordingly, the proceeds of the bonds will be used exclusively to fund the School District's Commission-required local effort, and, as a result, are no subject to State consents/special needs approval.

**NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS**

*Metropolitan Educational Technology Association (META Solutions)*

On July 1, 2015, the School District was a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA). On January 1, 2016, MDECA merged with Metropolitan Educational Technology Association (META), which is a computer consortium. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology, and student services, a purchasing cooperative, and other individual services based on each client's needs.

The governing board of META Solutions consists of a president, vice-president, and six board members who represent the members of META. The Board works with META's chief executive officer, chief operating officer, and chief financial officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting, and designating management. Each school district's degree of control is limited to its representation on the Board. The School District paid META \$41,875 for services provided during the fiscal year. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)**

*Southwestern Ohio Educational Purchasing Council*

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 126 public school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit 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. The School District did not make any payments to the SOEPC in fiscal year 2017. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

*Southwestern Ohio Instructional Technology Association*

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member's 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 in the State-assigned SOITA service area. 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 the SOITA. Upon dissolution, the net position 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. The School District paid SOITA \$638 for membership fees in fiscal year 2017. To obtain financial information, write to Southwestern Ohio Instructional Technology Association, Gary Greenberg, who serves as Executive Director, at 1205 East Fifth Street, Dayton, Ohio 45402.

*Upper Valley Career Center*

The Upper Valley Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected Boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or educational service center: Piqua, Shelby, Sidney, and Troy City School Districts and Midwest Education Service Center. To obtain financial information, write to the Upper Valley Career Center, Anthony Fraley, who serves as Treasurer, at 8811 Career Drive, Piqua, Ohio 45356-9254.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)**

*The Covington Education Fund*

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

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

**NOTE 17 – INSURANCE PURCHASING POOLS**

*Ohio School Boards Association Workers' Compensation Group Rating Plan*

The School District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (GRP), insurance purchasing pool. The GRP's business and affairs are conducted by a three member board of directors consisting of the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designees, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Financial information can be obtained from Teri Morgan, Deputy Director of Management Services, at 8050 North High Street Suite 100, Columbus, Ohio 45235.

The intent of the Program is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Program. 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 Program.

Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the Program.

*Southwestern Ohio Educational Purchasing Council Medical Benefits Plan*

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



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 17 – INSURANCE PURCHASING POOLS (Continued)**

*Schools of Ohio Risk Sharing Authority (“SORSA”)*

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA) which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-profit Corporations and functioning under the authority granted by Section 2744.081 of the Ohio Revised Code. SORSA’s purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers.

SORSA is governed by a nine member Board of Directors, each a current public school administrator, elected by and from, the membership for a three year term. The BOD meets nine times a year and is involved in all aspects of the program. The Board retains legal counsel with Peck, Shaffer & Williams LLC. SORSA is managed by an Executive Director. Willis Pooling administers the pool and York Risk Services Group manages the claims. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

**NOTE 18– RELATED ORGANIZATION**

*The J.R. Clarke Public Library*

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

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

**NOTE 19 - CONTINGENCIES**

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2017.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 19 – CONTINGENCIES (Continued)**

Full-Time Equivalency Review

The School District funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the end of the fiscal year.

As a result of the adjustments, the District received \$15,294 in additional funding.

Litigation

The School District is not currently party to any legal proceedings, as either plaintiff or defendant, where management believes the outcome would be material to these financial statements.

**NOTE 20 – INTERFUND TRANSACTIONS**

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.

In fiscal year 2017, the General Fund transferred \$663,546 and \$20,000 to the permanent improvement and food service nonmajor governmental funds, respectively. The transfer to the permanent improvement fund was to finance capital improvement projects at the high school due to renovations, as well as other projects required due to changes in the school campus layout. The transfer to the food service fund was to provide necessary funding for daily operations.

Also, at June 30, 2017, the general fund recorded a due from other funds receivable totaling \$800 which represents the general fund covering the negative cash balance in the Title I grant fund (\$3) and the miscellaneous federal grant fund (\$797) until additional grant funding was received.

**NOTE 21 - ENCUMBRANCES**

At year end the School District had the following amounts encumbered for future purchase obligations:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General Fund	\$ 16,503
Permanent Improvement Fund	741,467
School Facilities Fund	294,376
Non-major Governmental Funds	<u>90,933</u>
	<u>\$ 1,143,279</u>

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**NOTE 22 - SET-ASIDE CALCULATION**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

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

Set-aside Reserve Balance as of June 30, 2016	\$ -
Current Year Set-aside Requirement	148,907
Current Year Offsets	<u>(211,438)</u>
Total	<u>\$ (62,531)</u>
Balance Carried forward to FY 2018	<u>\$ -</u>
Set-aside Reserve Balance June 30, 2017	<u>\$ -</u>

Although the School District had qualifying disbursements during the year that further reduced the set-aside below zero due to current year offsets, the extra amounts may not be used to reduce the set-aside requirements of future years. As such, there was no need to present information concerning such disbursements.

During fiscal year 2014, the School District issued \$9,000,000 in capital related school improvement bonds. These proceeds may be used to reduce capital acquisition below zero for future years. The amount presented each year as a “qualifying offset from bond proceeds” is limited to an amount needed to reduce the reserve for capital improvement to zero. The School District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$8,893,663 at June 30, 2017.

**NOTE 23 - SUBSEQUENT EVENT**

In October 2017, the Board approved the issuance of advance refunding bonds, in the amount not to exceed \$7,885,000. Additionally, the Board approved the issuance of advance refunding bonds in the amount not to exceed \$900,000.

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## REQUIRED SUPPLEMENTARY INFORMATION

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Required Supplementary Information  
Schedule of the School District's Proportionate Share of the Net Pension Liability  
Last Four Measurement Years (1)

	2016	2015	2014	2013
<b><u>School Employees Retirement System of Ohio</u></b>				
School District Proportion of the Net Pension Liability	0.0372658%	0.0386886%	0.0366720%	0.0366720%
School District's Proportionate Share of the Net Pension Liability	\$ 2,727,508	\$ 2,207,609	\$ 1,855,949	\$ 2,180,766
School District's Covered-Employee Payroll	\$ 1,157,336	\$ 1,164,727	\$ 1,065,606	\$ 1,003,027
School District's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	235.67%	189.54%	174.17%	217.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%
<b><u>State Teachers Retirement System of Ohio</u></b>				
School District Proportion of the Net Pension Liability	0.03397336%	0.0328424%	0.0329749%	0.0329749%
School District's Proportionate Share of the Net Pension Liability	\$ 11,371,908	\$ 9,076,690	\$ 8,020,637	\$ 9,554,130
School District's Covered-Employee Payroll	\$ 3,574,650	\$ 3,426,557	\$ 3,369,123	\$ 3,355,346
School District's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	318.13%	264.89%	238.06%	284.74%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

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

Required Supplementary Information  
Schedule of School District Contributions  
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b><u>School Employees Retirement System of Ohio</u></b>										
Contractually Required Contribution	\$ 160,089	\$ 162,027	\$ 153,511	\$ 147,693	\$ 138,819	\$ 142,145	\$ 130,053	\$ 134,507	\$ 85,191	\$ 84,164
Contributions in Relation to the Contractually Required Contribution	(160,089)	(162,027)	(153,511)	(147,693)	(138,819)	(142,145)	(130,053)	(134,507)	(85,191)	(84,164)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District Covered Payroll	\$ 1,143,493	\$ 1,157,336	\$ 1,164,727	\$ 1,065,606	\$ 1,003,027	\$ 1,056,840	\$ 1,034,630	\$ 993,405	\$ 865,762	\$ 857,067
Contributions as a Percentage of School District Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%
<b><u>State Teachers Retirement System of Ohio</u></b>										
Contractually Required Contribution	\$ 527,742	\$ 500,451	\$ 479,718	\$ 437,986	\$ 436,195	\$ 457,774	\$ 475,291	\$ 451,624	\$ 442,288	\$ 427,261
Contributions in Relation to the Contractually Required Contribution	(527,742)	(500,451)	(479,718)	(437,986)	(436,195)	(457,774)	(475,291)	(451,624)	(442,288)	(427,261)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District Covered Payroll	\$ 3,769,586	\$ 3,574,650	\$ 3,426,557	\$ 3,369,123	\$ 3,355,346	\$ 3,521,338	\$ 3,656,085	\$ 3,474,031	\$ 3,402,215	\$ 3,286,623
Contributions as a Percentage of School District Covered Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2017

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**NOTE 1 – SERS CHANGE IN ASSUMPTIONS**

**Measurement Year 2016**

The assumptions used by SERS for the June 30, 2016 actuarial study used to develop the net pension liability amounts reported by the District at June 30, 2017 were changed from those used in the prior actuarial assumptions. The following is a summary of those changes.

- Discount rate was reduced from 7.75% to 7.50%;
- Assumed rate of inflation was reduced from 3.25% to 3.00%;
- Payroll growth assumption was reduced from 4.00% to 3.50%;
- Assumed real wage growth rate was reduced from 0.75% to 0.50%;
- Rates of withdrawal, retirement and disability were updated to reflect recent experience;
- Mortality tables used in the actuarial study were updated to the following:
  - Active members: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females;
  - Service retired members and beneficiaries: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates and 110% of female rates;
  - Disabled members: RP-2000 Disability Mortality Table, 90% for male rates and 100% for female rates, and a five-year set-back for the period after disability retirement.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

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The discussion and analysis of the Covington Exempted Village School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2016 are as follows:

- Total net position reported at June 30, 2016 increased by 21.4 percent from the restated beginning balance as the positive change associated with the increase in current assets and the decrease in the deferred inflows of resources was larger than the negative change associated with the increase in total liabilities for the fiscal year.
- Total assets of governmental activities increased by approximately \$986,000 (3.4 percent) from one year prior as the increase in net capital assets was more than the decrease reported in the cash and cash equivalents and receivables accounts for the year. The increase reported for the deferred outflows of resources was related to the School District's proportionate share of the State-wide pension systems' net pension liability components.
- Total liabilities increased \$1.6 million, or 7.1 percent, during the fiscal year as the increase in the net pension liability reported at June 30, 2016 was more than scheduled debt service payments made on the School District's long-term obligations.
- General revenues accounted for \$9.1 million or 85.1 percent of total revenue. Program specific revenues in the form of charges for services, as well as operating grants and contributions account for \$1.6 million or 14.9 percent of total revenues of \$10.7 million. Total revenue reported for fiscal year 2016 was approximately \$572,000 (5.6 percent) more than the amount reported for the prior year. Additional unrestricted intergovernmental revenue for the current year was higher than the decrease in program revenues (charges for services and operating grants).
- Of the School District's \$9.9 million in expenses, only \$1.6 million were offset by program specific charges for services, grants or contributions. General revenues were used to cover the net expense of \$8.3 million. Total expenses of the School District increased by approximately \$636,000 compared to the prior year due to higher personnel costs (wages, benefits and pension expenses) as well as depreciation expense for fiscal year 2016 compared to fiscal year 2015.
- The General Fund, the School District's primary operating fund, reported a 11.9 percent increase in fund balance for fiscal year 2016 primarily due to an increase in state foundation revenues. The \$2.1 million, unassigned fund balance reported at June 30, 2016 represents 24.9 percent of the total expenditures reported for the General Fund for the fiscal year.

**Using the 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 School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)

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The Statement of Net Position and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregated view of the School District's finances and a longer-term view of those statements. 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 School District's most significant funds with all other non-major funds presented in total in one column. While the General Fund is the general operating fund of the School District, individual fund statements are also presented for the Classroom Facilities Fund since it is also considered a major governmental fund.

### **Reporting the School District as a Whole**

#### *Statement of Net Position and the Statement of Activities*

While this document contains a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The Statement of Net Position and the Statement of Activities answers this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and the change in that net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School 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 Position and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

### **Reporting the School District's Most Significant Funds**

#### *Fund Financial Statements*

The analysis of the School District's funds begins after the statement of activities. The School District uses many funds to account for a multitude of financial transactions. All the funds of the School District can be divided into two categories: governmental and fiduciary funds. The School District does not have any funds which are classified as proprietary. The fund financial statements focus on the School District's most significant funds, and therefore only the major funds are presented separate from the other funds. For fiscal year 2016, the School District has two major governmental funds: the General and Classroom Facilities Funds.

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MIAMI COUNTY**

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Governmental Funds

The School 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, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School 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 Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support programs of the School District. The accounting used for fiduciary funds is much like that in the government-wide financial statements.

**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2016 compared to 2015:

**TABLE 1  
NET POSITION**

	2016	Restated 2015
<i>Assets:</i>		
Current and other Assets	\$ 10,341,253	\$ 21,542,499
Capital Assets	<u>19,393,522</u>	<u>7,206,246</u>
	<u>29,734,775</u>	<u>28,748,745</u>
<i>Deferred Outflows of Resources</i>		
Pension	<u>1,184,119</u>	<u>726,241</u>
	<u>1,184,119</u>	<u>726,241</u>
<i>Liabilities:</i>		
Current and Other Liabilities	2,580,263	2,372,148
Long-Term Liabilities:		
Due within One Year	63,502	101,872
Due in More Than One Year:		
Net Pension Liability	11,284,299	9,876,586
Other Long-term Liabilities	<u>9,702,221</u>	<u>9,720,420</u>
	<u>23,630,285</u>	<u>22,071,026</u>

(Continued)

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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**TABLE 1  
NET POSITION  
(Continued)**

	2016	Restated 2015
<i>Deferred Inflows of Resources</i>		
Pension	776,793	1,785,074
Other Deferred Inflows	1,860,565	1,788,343
	<u>2,637,358</u>	<u>3,573,417</u>
<i>Net Position</i>		
Net Investment in Capital Assets	10,156,737	3,844,936
Restricted	3,117,794	7,430,030
Unrestricted	(8,623,280)	(7,444,423)
	<u>\$ 4,651,251</u>	<u>\$ 3,830,543</u>

In the prior year, the School District adopted GASB Statement 68, “Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27,” which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio’s statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals the School District’s proportionate share of each plan’s collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees’ past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute.

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The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

As required by GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

The amount by which the School District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources is called net position. As of June 30, 2016, the School District's total net position was \$4.7 million. Of that amount, approximately \$10.2 million was the net investment in capital assets. Another \$3.1 million was subject to external restrictions upon its use. The remaining deficit of \$8.6 million resulted from the School District's recognition of its proportionate share of the retirement systems' net pension liability. If the components of recording the net pension liability are removed from the Statement of Net Position, the School District's ending unrestricted net position would be approximately \$2.3 million. We feel this is important to mention as the management of the School District has no control over the management of the State-wide pension funds and or the pension benefits offered; both of which control the net pension liability which has a significant effect on the School District's financial statements.

Total assets increased by \$986,030 at June 30, 2016 compared to one year prior as the increase in net capital assets was more than the decrease reported in the cash and cash equivalents and receivables accounts for the year. The increase reported for the deferred outflows of resources was related to the School District's proportionate share of the State-wide pension systems' net pension liability components.

Total liabilities increased \$1,559,259, or 7.1 percent, during the fiscal year as the increase in the net pension liability reported at June 30, 2016 was more than scheduled debt service payments made on the School District's long-term obligations. The decrease reported for the deferred inflows of resources was related to the School District's proportionate share of the State-wide pension systems' net pension liability components.

Table 2 shows the changes in net position for fiscal year 2016 as compared to those for fiscal year 2015.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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**TABLE 2  
CHANGES IN NET POSITION**

	2016	Restated 2015
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 949,847	\$ 966,119
Operating Grants and Contributions	605,036	951,305
Capital Grants and Contributions	45,155	5,000
General Revenues:		
Property Taxes	2,088,422	2,079,304
Income Taxes	2,389,996	2,278,314
Grants and Entitlements	4,591,492	3,798,790
Other	<u>53,332</u>	<u>72,390</u>
Total Revenues	<u>10,723,280</u>	<u>10,151,222</u>
<b>Program Expenses</b>		
Instruction	5,470,773	4,972,517
Support Services:		
Pupil and Instructional Staff	646,113	592,585
Board of Education, Administration, Fiscal, and Business	1,218,389	1,173,578
Plant Operation and Maintenance	596,580	592,176
Pupil Transportation	486,866	386,423
Central	68,471	54,899
Operation of Non-Instructional Services	409,924	463,860
Extracurricular Activities	574,141	560,682
Interest and Fiscal Charges	<u>431,315</u>	<u>469,483</u>
Total Expenses	<u>9,902,572</u>	<u>9,266,203</u>
Change in Net Position	820,708	885,019
Beginning Net Position	<u>3,830,543</u>	<u>2,945,524</u>
Ending Net Position	<u>\$ 4,651,251</u>	<u>\$ 3,830,543</u>

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for local operating funds. The overall revenue generated by a voted property tax levy does not increase solely as a result of inflation. Local taxes (property and income) made up 41.8 percent of the total revenue for governmental activities for the School District for fiscal year 2016, compared to 42.9 percent in the prior fiscal year. Local tax revenue increased by \$120,800 as the local economy continues to improve resulting in increased income tax revenues. Grants and entitlements increased by \$792,702 as state foundation funding and state assistance for school facilities received for the fiscal year was more than that received in the prior year. Program revenue decreased by \$322,386 mainly due to classifying certain components of state foundation funding as unrestricted for the current year compared to how similar amounts were reported in the prior year.

Total expenses of the School District increased by 6.9 percent in fiscal year 2016 compared with the previous year. The majority of the increase was noted in the functional expenses directly related to student instruction, instructional services as well as pupil and instructional staff support services. The primary driver of expenses for the School District is associated with personnel expenses (wages, fringe benefits, and pension expense), all of which reported increases for the current fiscal year. Depreciation expense for the current year was significantly more as well due to current year addition of the new K-8 building.



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The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows total and net cost of services for each function for last two fiscal years.

**TABLE 3  
TOTAL AND COST OF PROGRAM SERVICES  
GOVERNMENTAL ACTIVITIES**

	2016		2015 - Restated	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 5,470,773	\$ 4,572,439	\$ 4,972,517	\$ 3,743,363
Support Services:				
Pupil and Instructional Staff	646,113	584,099	592,585	529,753
Board of Education, Administration, Fiscal and Business	1,218,389	1,218,389	1,173,578	1,164,342
Plant Operation and Maintenance	596,580	539,745	592,176	580,316
Pupil Transportation	486,866	486,866	386,423	349,999
Central	68,471	63,071	54,899	49,499
Operation of Non-Instructional Services	409,924	48,808	463,860	118,108
Extracurricular Activities	574,141	357,802	560,682	338,916
Interest and Fiscal Charges	431,315	431,315	469,483	469,483
Total Expenses	<u>\$ 9,902,572</u>	<u>\$ 8,302,534</u>	<u>\$ 9,266,203</u>	<u>\$ 7,343,779</u>

As shown in Table 3 above, the net cost of service increased by \$958,755 due to the increases reported in the functional expenses for the current year as well as the decrease in program revenues.

**The School District's Funds**

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$15.7 million and expenditures of \$22.2 million which resulted in a net change of \$(6.5) million in total governmental fund balance for the year. Revenues of the general fund increased by \$601,807 due to increases in state foundation funding received for the year. Total expenditures of the general fund increased by \$218,378 over those reported for fiscal year 2015 due the increased cost of personnel previously discussed. For fiscal year 2016, the fund balance for the general fund increased \$244,663 compared with the decrease of \$248,399 reported for the prior year. The ending fund balance of the general fund was \$2.3 million at June 30, 2016, of which approximately \$2.1 million was reported as unassigned. The ending unassigned fund balance of the general fund at June 30, 2016 represents 24.9 percent of the total general fund expenditures reported for the fiscal year.

The other major fund, the classroom facilities fund, reported a \$6.4 million decrease in fund balance ending the fiscal year at \$1.6 million. The change in the classroom facilities fund was to be expected as the majority of the funding related to school facilities construction project was obtained in prior fiscal years but the majority of the construction activity occurred during the current year. The School District anticipates this fund will be closed out during the subsequent fiscal year after all accounting for the construction projects is finalized.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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**General Fund Budgeting Highlights**

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

For the general fund, budget basis revenue was \$9.2 million as compared to the original budget estimates of \$9.6 million. Despite the School District conservatively estimated the revenues at the beginning of the school year, actual budget basis revenue was only off by 3.5 percent from the original estimates. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$8.3 million; 5.1 percent less than the total anticipated in the original budgeted appropriations. The final budgeted expenditures only changed slightly throughout the course of the fiscal year.

The actual budgetary fund balance for the general fund reported at the end of the fiscal year was \$1.9 million compared with the \$2.3 million anticipated when the original budget was developed. The final, adjusted budget adopted for the fiscal year anticipated an ending general fund balance of \$1.8 million on a budget basis which was \$107,472 less than the actual ending budgetary fund balance.

**Capital Assets**

At the end of fiscal year 2016, the School District had \$19.4 million invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, and construction in progress in governmental activities. Table 4 shows fiscal year 2016 balances compared to 2015 balances; however for greater detail readers should review Note 10 to the basic financial statements.

**TABLE 4  
CAPITAL ASSETS AT JUNE 30  
(Net of Accumulated Depreciation)**

	2016	2015
Land	\$ 529,545	\$ 529,545
Land Improvements	133,952	136,986
Buildings and Improvements	16,927,583	469,520
Furniture and Equipment	527,974	195,281
Vehicles	186,847	164,184
Construction in Progress	1,087,621	5,710,730
Total Net Capital Assets	\$ 19,393,522	\$ 7,206,246

Overall, net capital assets increased \$12.2 million from fiscal year 2015 amounts. This increase in net capital assets resulted from completing the majority of construction and bringing the new K-8 building into operation during the current year. Depreciation expense for the fiscal year was \$325,600 with total additions to capital assets amounting to \$12.6 million.

Cost associated with repair and maintenance of the School District's facilities and other assets that do not extend the useful life of the capitalized item, is included within the plant operation and maintenance function.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
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**Debt Administration**

At June 30, 2016, the School District had \$9.0 million in general obligation bonds and \$15,850 in capital lease obligation outstanding. Of the \$9.0 million in total general obligations outstanding at fiscal year-end, only \$15,000 is due for payment during the next fiscal year. Principal payments for fiscal year 2016 were \$15,000 and \$19,711 on the general obligation bonds and capital lease obligation, respectively.

For more detailed disclosures regarding the School District's debt obligations the reader should refer to Notes 14 and 15 to the basic financial statements.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Carol Forsythe, Treasurer at Covington Exempted Village School District, 807 Chestnut, Covington, OH 45318 or email at [forsythe@covingtonk12.org](mailto:forsythe@covingtonk12.org).

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

Statement of Net Position  
June 30, 2016

	Governmental Activities
<b>ASSETS:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 6,891,049
Inventory Held for Resale	2,071
Materials and Supplies Inventory	1,207
Accounts Receivable	7,578
Intergovernmental Receivable	254,286
Income Taxes Receivable	1,015,260
Property Taxes Receivable	2,169,802
Capital Assets:	
Non Depreciable Assets	1,617,166
Depreciable Assets	17,776,356
Total Assets	29,734,775
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Pension	1,184,119
Total Deferred Outflows of Resources	1,184,119
<b>LIABILITIES:</b>	
Accounts Payable	28,401
Contracts Payable	1,459,158
Retainage Payable	249,376
Accrued Wages and Benefits	618,319
Intergovernmental Payable	154,022
Matured Compensated Absences	32,651
Accrued Interest Payable	38,336
Long-Term Liabilities:	
Due Within One Year	63,502
Due In More Than One Year:	
Net Pension Liability	11,284,299
Other Amounts Due in More than One Year	9,702,221
Total Liabilities	23,630,285
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Property Taxes not Levied to Finance Current Year Operations	1,860,565
Pension	776,793
Total Deferred Inflows of Resources	2,637,358
<b>NET POSITION:</b>	
Net Investment in Capital Assets	10,156,737
Restricted for:	
Debt Service	2,575
Capital Outlay	2,860,690
Maintenance of Facilities	167,140
Student Activities	87,389
Unrestricted	(8,623,280)
Total Net Position	\$ 4,651,251

See accompanying notes to the basic financial statements.



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

Balance Sheet  
Governmental Funds  
June 30, 2016

	General Fund	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,965,708	\$ 3,286,354	\$ 1,638,987	\$ 6,891,049
Receivables:				
Property Taxes	1,830,690	-	339,112	2,169,802
Income Taxes	1,015,260	-	-	1,015,260
Accounts	7,416	-	162	7,578
Intergovernmental	31,954	191,325	31,007	254,286
Materials and Supplies Inventory	-	-	1,207	1,207
Inventory Held for Resale	-	-	2,071	2,071
Total Assets	<u>\$ 4,851,028</u>	<u>\$ 3,477,679</u>	<u>\$ 2,012,546</u>	<u>\$ 10,341,253</u>
<b>LIABILITIES:</b>				
Accounts Payable	\$ 19,227	\$ -	\$ 9,174	\$ 28,401
Contracts Payable	-	1,390,227	68,931	1,459,158
Retainage Payable	-	249,376	-	249,376
Accrued Wages and Benefits	575,382	-	42,937	618,319
Intergovernmental Payable	145,845	-	8,177	154,022
Matured Compensated Absences	32,651	-	-	32,651
Total Liabilities	<u>773,105</u>	<u>1,639,603</u>	<u>129,219</u>	<u>2,541,927</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Property Taxes not Levied to Finance				
Current Year Operations	1,570,975	-	289,590	1,860,565
Unavailable Revenue	205,871	191,325	5,184	402,380
Total Deferred Inflows of Resources	<u>1,776,846</u>	<u>191,325</u>	<u>294,774</u>	<u>2,262,945</u>
<b>FUND BALANCES:</b>				
Nonspendable:				
Inventory	-	-	1,207	1,207
Restricted for:				
Debt	-	-	69,709	69,709
Capital Improvements	-	1,646,751	1,075,084	2,721,835
Facilities Maintenance	-	-	167,140	167,140
Educational Foundation	-	-	39,587	39,587
District Managed Activities	-	-	47,802	47,802
Education Grants	-	-	2,172	2,172
Committed for:				
Capital Improvements	-	-	206,165	206,165
Assigned for:				
Extracurricular Activities	23,515	-	-	23,515
Subsequent Expenditures	38,148	-	-	38,148
Subsequent Appropriations	171,290	-	-	171,290
Unassigned	2,068,124	-	(20,313)	2,047,811
Total Fund Balances	<u>2,301,077</u>	<u>1,646,751</u>	<u>1,588,553</u>	<u>5,536,381</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 4,851,028</u>	<u>\$ 3,477,679</u>	<u>\$ 2,012,546</u>	<u>\$ 10,341,253</u>

See accompanying notes to the basic financial statements.

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

Reconciliation of Total Governmental Fund Balances  
to Net Position of Governmental Activities  
June 30, 2016

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Total Governmental Fund Balances	\$ 5,536,381
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	19,393,522
Certain receivables are not available to provide current financial resources and are reported as deferred inflows of resources in governmental funds:	
Property Taxes Receivable	30,298
Income Taxes Receivable	175,855
Intergovernmental Receivable	191,961
Accounts Receivable	4,266
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	1,184,119
Deferred Inflows - Pension	(776,793)
Net Pension Liability	(11,284,299)
Some liabilities and deferred outflows of resources are not due and payable in the current period and therefore are not reported in the funds. Those items consist of:	
Capital Lease Payable	(15,850)
General Obligation Bonds Payable	(9,013,452)
Accrued Interest Payable	(38,336)
Unamortized Bond Premium	(240,935)
Compensated Absences Payable	<u>(495,486)</u>
Net Position of Governmental Activities	\$ <u>4,651,251</u>

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

Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2016

	General Fund	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Property Taxes	\$ 1,782,214	\$ -	\$ 330,555	\$ 2,112,769
Income Taxes	2,209,602	-	161,288	2,370,890
Intergovernmental	4,541,555	4,960,691	571,308	10,073,554
Tuition and Fees	580,338	-	-	580,338
Interest	7,296	14,791	4,416	26,503
Extracurricular Activities	16,087	-	181,513	197,600
Customer Services and Sales	-	-	163,613	163,613
Gifts and Donations	24,459	-	103,725	128,184
Miscellaneous	26,838	-	6,002	32,840
Total Revenues	<u>9,188,389</u>	<u>4,975,482</u>	<u>1,522,420</u>	<u>15,686,291</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	3,998,125	-	24,279	4,022,404
Special	1,054,699	-	243,047	1,297,746
Student Intervention Services	2,454	-	-	2,454
Other	562	-	-	562
Support Services:				
Pupils	360,020	-	64,182	424,202
Instructional Staff	224,525	-	350	224,875
Board of Education	10,413	-	-	10,413
Administration	865,803	-	-	865,803
Fiscal	291,513	-	5,880	297,393
Operation and Maintenance of Plant	546,506	-	35,422	581,928
Pupil Transportation	495,439	-	6,987	502,426
Central	47,191	-	5,400	52,591
Operation of Non-Instructional Services	32,922	-	349,850	382,772
Extracurricular Activities	323,527	-	215,553	539,080
Capital Outlay	3,384	11,372,035	1,133,053	12,508,472
Debt Service:				
Principal	49,217	-	15,000	64,217
Interest	2,694	-	458,949	461,643
Total Expenditures	<u>8,308,994</u>	<u>11,372,035</u>	<u>2,557,952</u>	<u>22,238,981</u>
Revenues Over/(Under) Expenditures	879,395	(6,396,553)	(1,035,532)	(6,552,690)
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from Sale of Capital Assets	-	-	17,800	17,800
Transfers In	-	2,740	634,732	637,472
Transfers Out	(634,732)	-	(2,740)	(637,472)
Total Other Financing Sources (Uses)	<u>(634,732)</u>	<u>2,740</u>	<u>649,792</u>	<u>17,800</u>
Net Change in Fund Balances	244,663	(6,393,813)	(385,740)	(6,534,890)
Fund Balance, Beginning of Year - restated	<u>2,056,414</u>	<u>8,040,564</u>	<u>1,974,293</u>	<u>12,071,271</u>
Fund Balance, End of Year	<u>\$ 2,301,077</u>	<u>\$ 1,646,751</u>	<u>\$ 1,588,553</u>	<u>\$ 5,536,381</u>

See accompanying notes to the basic financial statements.

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

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, 2016

Total Net Change in Fund Balances - Total Governmental Funds \$ (6,534,890)

*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 are allocated over their estimated useful lives as depreciation expense and report a gain or loss on the disposal of capital assets:

Depreciation Expense	(325,600)
Capital Asset Additions	12,611,958
Loss on Disposed of Capital Assets	(99,082)

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

Property Taxes	(24,347)
Income Taxes	19,106
Intergovernmental	(4,960,055)
Tuition and Fees	4,266
Interest	(1,981)

Repayment of long-term obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the statement of net position:

General Obligation Bonds	15,000
Energy Conservation Notes	29,506
Capital Lease Obligations	19,711

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued Interest Payable	38,242
Accreted Interest on Capital Appreciation Bonds	(14,670)
Amortization of Bond Premium	6,756
Compensated Absences Payable	(21,658)

Contractually required contributions are reported as expenditures in governmental funds however, the statement of activities reports these amounts as deferred outflows. 662,478

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (604,032)

Change in Net Position of Governmental Activities \$ 820,708



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

Statement of Revenues, Expenditures and Changes in  
Fund Balance - Budget (Non-GAAP) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b><u>Revenues:</u></b>				
Property Taxes	\$ 1,786,893	\$ 1,786,893	\$ 1,833,720	\$ 46,827
Income Taxes	2,457,000	2,457,000	2,298,299	(158,701)
Intergovernmental	4,767,374	4,767,374	4,516,453	(250,921)
Tuition and Fees	548,950	548,950	570,568	21,618
Interest	5,000	5,000	8,366	3,366
Rent	3,000	3,000	4,030	1,030
Gifts and Donations	6,150	6,150	8,373	2,223
Miscellaneous	8,100	8,100	7,934	(166)
<b>Total Revenues</b>	<b>9,582,467</b>	<b>9,582,467</b>	<b>9,247,743</b>	<b>(334,724)</b>
<b><u>Expenditures:</u></b>				
Current:				
Instruction:				
Regular	4,180,669	4,148,669	3,976,582	172,087
Special	1,020,015	1,020,015	1,053,614	(33,599)
Student Intervention Services	2,910	2,910	3,419	(509)
Other	-	-	562	(562)
Support Services:				
Pupils	380,304	384,004	360,067	23,937
Instructional Staff	245,769	245,769	224,577	21,192
Board of Education	13,038	13,038	10,652	2,386
Administration:				
Fiscal	921,645	921,645	876,421	45,224
Fiscal	293,085	293,085	281,865	11,220
Operation and Maintenance of Plant	652,149	672,149	543,931	128,218
Pupil Transportation	514,305	514,305	497,471	16,834
Central	56,639	56,697	47,787	8,910
Operation of Non-Instructional Services	85,000	85,000	32,922	52,078
Extracurricular Activities	330,934	342,934	339,665	3,269
Capital Outlay	5,750	5,750	12,034	(6,284)
Debt Service:				
Principal Retirement	30,000	30,000	29,506	494
Interest	600	600	561	39
<b>Total Expenditures</b>	<b>8,732,812</b>	<b>8,736,570</b>	<b>8,291,636</b>	<b>444,934</b>
Excess of Revenues Over (Under) Expenditures	849,655	845,897	956,107	110,210
<b><u>Other Financing Sources (Uses):</u></b>				
Refund of Prior Year Expenditures	6,000	6,000	4,775	(1,225)
Insurance Recoveries	4,000	4,000	2,307	(1,693)
Refund of Prior Year Receipts	(200)	(200)	-	200
Transfers Out	(280,000)	(796,000)	(796,020)	(20)
<b>Total Other Financing Sources (Uses)</b>	<b>(270,200)</b>	<b>(786,200)</b>	<b>(788,938)</b>	<b>(2,738)</b>
Net Change in Fund Balance	579,455	59,697	167,169	107,472
Fund Balance, Beginning of Year	1,730,431	1,730,431	1,730,431	-
Prior Year Encumbrances Appropriated	3,802	3,802	3,802	-
<b>Fund Balance, End of Year</b>	<b>\$ 2,313,688</b>	<b>\$ 1,793,930</b>	<b>\$ 1,901,402</b>	<b>\$ 107,472</b>

See accompanying notes to the basic financial statements.

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

Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2016

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	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
<b>ASSETS:</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 75,576	\$ 42,019
Receivables:		
Accounts	<u>9,461</u>	<u>-</u>
Total Assets	<u>85,037</u>	<u>42,019</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
Accounts Payable	-	1,301
Due to Students	<u>-</u>	<u>40,718</u>
Total Liabilities	<u>-</u>	<u>\$ 42,019</u>
<b>NET POSITION:</b>		
Held in Trust for Scholarships	<u>\$ 85,037</u>	

See accompanying notes to the basic financial statements.

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

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2016

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	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Gifts and Donations	\$ 39,690
Investment Earnings	<u>154</u>
Total Additions	<u>39,844</u>
<b>Deductions:</b>	
Payments in accordance with Trust Agreements	<u>-</u>
Total Deductions	<u>-</u>
<b>Change in Net Position</b>	39,844
<b>Net Position, Beginning of Year - Restated</b>	<u>45,193</u>
<b>Net Position, End of Year</b>	<u><u>\$ 85,037</u></u>

See accompanying notes to the basic financial statements.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Covington Exempted Village School District (the "School District") is a body politic and corporate for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by State statute and federal guidelines.

The School District serves an area of approximately 35 square miles. It is staffed by 33 noncertified employees and 64 certified full-time teaching personnel who provide services to 863 students and other community members. The School District currently operates one instructional/support facility.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities of the School District. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District is associated with five jointly governed organizations, three insurance purchasing pools, and one related organization. These organizations are discussed in Notes 16, 17 and 18 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Metropolitan Educational Technology Association (META)
- Southwestern Ohio Educational Purchasing Council (SOEPC)
- Southwestern Ohio Instructional Technology Association (SOITA)
- Upper Valley Career Center
- The Covington Education Fund

Insurance Purchasing Pools:

- Ohio School Boards Association Workers' Compensation Group Rating Plan
- SOEPC Medical Benefits Plan
- Schools of Ohio Risk Sharing Authority (SORSA)

Related Organization:

- The J.R. Clarke Public Library

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Covington Exempted Village School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

***A. Basis Of Presentation***

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide statements usually distinguish between those activities that are governmental and those that are business-type. The School District, however, has no activities which are reported as business-type.

The statement of net position presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the 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 School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

***B. Fund Accounting***

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

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 deferred outflows of resources versus liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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

Classroom Facilities Fund – A capital projects fund that is used to account for and report monies received that are restricted for expenditures in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The private purpose trust fund accounts for monies held in trust for individual student scholarships. The student managed activities agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

***C. Measurement Focus***

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the School District are included on the Statement of Net Position. The Statement of Activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources along with current liabilities and deferred inflows of resources 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

***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. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

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. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty (60) days of fiscal year end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property 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 7). 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of financial position may report a separate category for deferred outflows of resources. A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. The deferred outflows of resources related to pension are explained further in Note 12.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenues. Property taxes represent amounts for which there is a legally enforceable claim as of June 30, 2016, but which were levied to finance subsequent year operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, income taxes, grants, and delinquent tuition and fees. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. For the School District deferred inflows of resources are reported on the government-wide statement of net position for the following two items related to the School District's net pension liability: (1) the difference between expected and actual experience of the pension system, and (2) the School District's contributions to the pension systems subsequent to the measurement date. Deferred inflows of resources related to pension are further explained in Note 12.

Expenditures/Expenses

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 costs, such as depreciation and amortization are not recognized in governmental funds.

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

***E. Budget Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. 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 tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level.



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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue, are identified by the School District. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2016.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

***F. Cash and Cash Equivalents***

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

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

The School District has invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal year 2016. 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants". The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$7,296; which includes \$329 assigned from other funds.

***G. Inventory***

On government-wide financial statements, inventories are presented at the lower cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed rather than when purchased.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

***H. Capital Assets and Depreciation***

The School District's only capital assets are general capital assets. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position 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 acquisition values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	10-50 years
Furniture and Equipment	5-20 years
Vehicles	8 years

***I. Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures or 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 and uses in governmental funds. Repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them are not presented on the financial statements.

***J. Accrued Liabilities and Long-Term Obligations***

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

In general, 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 governmental funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.

The capital lease, general obligation bonds, and accrued interest that will be paid from governmental funds are recognized as a liability in the fund financial statements when payment is due.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

***K. Compensated Absences***

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

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

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

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts, if any, are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

***L. Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

***M. Fund Balance***

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

Non-spendable - The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the policies of the Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

***N. Net Position***

Net position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

***O. Estimates***

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2016, the School District implemented the Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application* and No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments, as well as requiring certain disclosures related to all fair value measurements be presented with the financial statement. GASB Statement No. 76 elevates GASB Implementation Guides in the GAAP hierarchy as well as emphasizing importance of analogies to authoritative literature when not specified in authoritative GAAP. The implementation of these Standards did not have an effect on the School District fund balance or net position.

It should also be noted that in June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will require the reporting entity to recognize on the face of the financial statements, its proportionate share of the net OPEB liability related to its participation in the School Employees Retirement System (SERS) and the State Teachers Retirement System (STRS). This Standard also enhances accountability and transparency through revised note disclosures and required supplementary information. The provisions of this Standard are required to be implemented for reporting periods beginning after June 15, 2017. The School District has not early implemented GASB Statement No. 75 and is currently in the process of evaluating the impact this Standard will have on its financial statements.

**NOTE 4 – ACCOUNTABILITY**

At June 30, 2016, the food service special revenue fund had deficit fund balance of \$20,313. The general fund is liable for any deficit in other funds and provides operating transfers when cash is required, not when accruals occur.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP) and Actual – 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 GAAP basis for the general fund are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the fund liability is incurred (GAAP basis).

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT**  
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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)**

3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as restricted, committed or assigned fund balance for governmental fund types (GAAP basis).
4. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

<u>Net Change in Fund Balance</u>	
<u>General Fund</u>	
GAAP Basis	\$ 244,663
Net Revenue Accruals	103,348
Net Expenditure Accruals	22,823
Encumbrances	(40,891)
Net Other Financing Sources (Uses)	(158,981)
Change in Fund Balance of Funds Combined with General Fund for Reporting Purposes	<u>(3,793)</u>
Budget Basis	<u>\$ 167,169</u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

State statutes require the classification of monies held by the School District into three categories.

Active Monies – Those monies required to be kept in a “cash” or “near-cash” status for the immediate use of the School District. Such monies must be maintained either as cash in the treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive Monies – Those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested as certificate of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Interim Monies – 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 five years from the date of deposit, or by savings or deposit accounts, including passbook accounts. Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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;



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)**

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$3,369,340 of the School District's bank deposits was exposed to custodial credit risk because it was uninsured and collateralized, while \$750,000 was covered by the FDIC. The uninsured deposits of the School District are covered by pooled collateral arrangements as explained below, however non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

The School District's investment policy permits the purchase of any security specifically authorized by the Ohio Revised Code (the ORC) and includes the following:

*Interest Rate Risk:* The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)**

*Credit Risk:* The School District’s investment policy limits investments to those authorized by State statute.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District’s investment policy does not address investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk:* The School District places no limit on the amount that may be invested in any one issuer. At June 30, 2016, 68 percent of the School District’s investment portfolio was in STAR Ohio, 19 percent in money market mutual funds, and 13 percent in commercial paper.

At June 30, 2016, the School District’s investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Matures in less than One Year</u>
Commerical Paper	\$ 409,597	\$ 409,597
Mutual Fund	563,175	563,175
STAR Ohio	<u>2,040,845</u>	<u>2,040,845</u>
Total	<u>\$ 3,013,617</u>	<u>\$ 3,013,617</u>

**Fair Value Measurement**

The District’s investments measured and reported at fair value are classified according to the following hierarchy:

- Level 1 – Investments reflect prices quoted in active markets.
- Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 – Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the transparency of the instrument and should not be perceived as the particular investment’s risk. The District’s investments in negotiable commercial paper and money market mutual fund both are categorized as level 2 – observable inputs, as of June 30, 2016.

Investments classified in Level 2 of the fair value hierarchy are valued using pricing sources as provided by the investment managers.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 7 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility personal property located in the school district. Real property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, 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 2016 represents collections of calendar year 2015 taxes. Public utility real property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at thirty-five percent of true value.

The School District receives property taxes from Miami County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2016 First Half Collections		2015 Second Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate property	\$ 94,233,870	95.91%	\$ 94,056,810	95.96%
Public utility personal property	4,014,460	4.09%	3,955,410	4.04%
Total	\$ 98,248,330	100.00%	\$ 98,012,220	100.00%
Tax rate per \$1,000 of assessed valuation	\$34.29		\$39.59	

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2016 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 inflows of resources.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 7 - PROPERTY TAXES (Continued)**

The amount available as an advance at June 30, 2016, was \$223,928 in the general fund and \$43,027 in the bond retirement fund. The amount available for advance at June 30, 2015 was \$276,182 in the general fund and \$52,887 in the bond retirement 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.

**NOTE 8 – INCOME TAX**

The School District levies a voted tax of one-half percent for general operations on the income of residents and of estates. The tax was effective on April 1, 1994, and is a continuing tax. The School District's residents also approved an additional one and a quarter percent, for five years, effective January 2006 and has been subsequent renewed through 2020. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund, the permanent improvement fund, and the classroom facilities fund.

An additional one-quarter percent continuing income tax was passed in May 2013, effective January 1, 2014, along with a 3.89 mill bond levy, to fund the construction of a new pre-kindergarten through eight grade school facility and renovations to the existing high school building.

**NOTE 9 - RECEIVABLES**

Receivables at June 30, 2016, consisted of current and delinquent property taxes, income taxes, accounts, and intergovernmental grants. 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 fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

*General Fund:*

Miscellaneous amounts due from other governments	\$ 31,954
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*Classroom Facilities Fund:*

Ohio School Facilities Commission	191,325
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*Non-major Governmental Funds:*

Title VI-B Grant	17,503
Title I Grant	13,504
Non-major Governmental Funds	<u>31,007</u>
Total Intergovernmental Receivables	<u>\$ 254,286</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 10 - CAPITAL ASSETS**

A summary of the School District's general capital assets for fiscal year 2016 is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<i>Capital Assets, not being depreciated</i>				
Land	\$ 529,545	\$ -	\$ -	\$ 529,545
Construction in Progress	5,710,730	12,507,396	(17,130,505)	1,087,621
	<u>6,240,275</u>	<u>12,507,396</u>	<u>(17,130,505)</u>	<u>1,617,166</u>
<i>Capital Assets, being depreciated</i>				
Land Improvements	852,207	18,068	(109,096)	761,179
Buildings and Improvements	3,477,301	16,719,445	(1,144,635)	19,052,111
Furniture and Equipment	904,349	411,060	(384,546)	930,863
Vehicles	590,996	86,494	(92,654)	584,836
Total Depreciable Capital Assets	<u>5,824,853</u>	<u>17,235,067</u>	<u>(1,730,931)</u>	<u>21,328,989</u>
<i>Less: Accumulated Depreciation</i>				
Land Improvements	(715,221)	(21,102)	109,096	(627,227)
Buildings and Improvements	(3,007,781)	(216,381)	1,099,634	(2,124,528)
Furniture and Equipment	(709,068)	(47,549)	353,728	(402,889)
Vehicles	(426,812)	(40,568)	69,391	(397,989)
Total Accumulated Depreciation	<u>(4,858,882)</u>	<u>(325,600) *</u>	<u>1,631,849</u>	<u>(3,552,633)</u>
<b>Depreciable Capital Assets, Net</b>	<u>965,971</u>	<u>16,909,467</u>	<u>(99,082)</u>	<u>17,776,356</u>
<b>Total Capital Assets, Net</b>	<u>\$ 7,206,246</u>	<u>\$ 29,416,863</u>	<u>\$(17,229,587)</u>	<u>\$ 19,393,522</u>

\* - Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 222,333
Other	150
Support Services:	
Pupil Support	2,718
Administration	562
Business	2,384
Operation and maintenance of plant	4,874
Pupil transportation	40,739
Central	14,301
Operation of non-instructional services	7,470
Extracurricular activities	30,069
<b>Total Depreciation Expense</b>	<u>\$ 325,600</u>

**NOTE 11 - RISK MANAGEMENT**

Property and Liability

The School District is exposed to various risks of loss related to torts, thefts-of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. For fiscal year 2016, the School District joined together with other school districts in Ohio to participate in the Schools of Ohio Risk Sharing Authority (the "Plan"), an insurance purchasing pool established under Section 2744.081 of the ORC.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 11 - RISK MANAGEMENT (Continued)**

The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a nine member board consisting of superintendents, treasurers and business managers.

The York Risk Services Group is responsible for processing claims. Willis Pooling Practice serves as the Plan's administrator, sales representative, and marketing representative who establish agreements between the Plan and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

Coverage limits as of June 30, 2016 are as follows:

Buildings and Contents - replacement cost (\$500 deductible)	\$ 28,907,786
Equipment Breakdown (\$500 deductible)	50,000,000
Automobile Liability	5,000,000
General Liability:	
Per Occurrence	5,000,000
Annual Aggregate	7,000,000
Crime Coverage (\$500 deductible)	100,000

There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage for any part of the last three years.

**Workers' Compensation**

For fiscal year 2016, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. Participation in the GRP is limited to Districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

**Medical Benefits**

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

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 **	Eligible to retire on or after August 1, 2017
Full benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit; or age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or age 60 with 25 years of service credit

\*\* - Members with 25 years of service credit as of August 1, 2017 will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14.0 percent; no allocation was made during the year to the Health Care Fund.

The School District’s contractually required pension contribution to SERS was \$162,027 for fiscal year 2016; \$27,302 of contributions is reported within intergovernmental payable at June 30, 2016.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT**  
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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

The School District's contractually required pension contribution to STRS was \$500,451 for fiscal year 2016; \$85,025 of contributions is reported within intergovernmental payable at June 30, 2016.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 2,207,609	\$ 9,076,690	\$ 11,284,299
Proportion of the net pension liability	0.0386886%	0.03284244%	
Pension expense	\$ 205,877	\$ 398,155	\$ 604,032

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<u>Deferred Outflows of Resources:</u>			
Differences between expected and actual experience	\$ 30,279	\$ 414,015	\$ 444,294
School District's change in proportionate share	77,347	-	77,347
School District contributions subsequent to the measurement date	<u>162,027</u>	<u>500,451</u>	<u>662,478</u>
Total	<u>\$ 269,653</u>	<u>\$ 914,466</u>	<u>\$ 1,184,119</u>
<u>Deferred Inflows of Resources:</u>			
Net difference between projected and actual earnings on pension plan investments	\$ 93,762	\$ 657,256	\$ 751,018
School District's change in proportionate share	<u>-</u>	<u>25,775</u>	<u>25,775</u>
Total	<u>\$ 93,762</u>	<u>\$ 683,031</u>	<u>\$ 776,793</u>

\$662,478 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2017	\$ (8,948)	\$ (155,168)	\$ (164,116)
2018	(8,948)	(155,168)	(164,116)
2019	(13,410)	(155,168)	(168,578)
2020	45,170	196,488	241,658
	\$ 13,864	\$ (269,016)	\$ (255,152)

***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment rate of return	7.75 percent of net investments expense, including inflation
Actuarial cost method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00%	0.00%
US stocks	22.50%	5.00%
Non-US stocks	22.50%	5.50%
Fixed income	19.00%	1.50%
Private equity	10.00%	10.00%
Real assets	10.00%	5.00%
Multi-asset strategies	<u>15.00%</u>	7.50%
Total	<u>100.00%</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$ 3,061,160	\$ 2,207,609	\$ 1,488,848

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Future salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	31.00%	8.00%
International equity	26.00%	7.85%
Alternatives	14.00%	8.00%
Fixed income	18.00%	3.75%
Real estate	10.00%	6.75%
Liquidity reserves	<u>1.00%</u>	3.00%
Total	<u>100.00%</u>	

***Discount Rate*** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

***Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 12,608,207	\$ 9,076,690	\$ 6,090,266

**NOTE 13 – POSTEMPLOYMENT BENEFITS**

***A. School Employee Retirement System***

Plan Description – In addition to a cost sharing multiple employer defined benefit pension plan, SERS administers a postemployment benefit plan. Sections 3309.375 and 3309.69 of the Ohio Revised Code (ORC) permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS offers several types of health plans from various vendors including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health care coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

Funding Policy-The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pension and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2016, the health care allocation is 0.0%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The School District's allocated contributions to the health care fund for the years ended June 30, 2016, 2015 and 2014 were \$0, \$28,046, and \$19,204 respectively; 100% has been contributed for 2015 and 2014, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves, dependents, or surviving beneficiaries. Premiums vary depending on plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of the health care plan are included in SERS' CAFR which can be obtained at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 13 – POSTEMPLOYMENT BENEFITS (Continued)**

***B. State Teachers Retirement System***

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, STRS Ohio did not allocate any portion of the employer contributions to the Health Care Stabilization Fund. The School District’s contribution for health care for the fiscal year ended June 30, 2014 was \$34,249; which equaled the required contribution for the year.

**NOTE 14 – CAPITAL LEASE**

During a prior fiscal year, the School District entered into a lease agreement for copiers. This lease agreement meets the criteria of a capital lease as the risks and benefits of ownership transfers to the leasing party. The capital lease obligation is recorded on the government-wide statements. Principal payments reported in the governmental fund for fiscal year 2016 totaled \$19,711 and are paid out of the general fund.

The lease agreement provides for minimum annual rental payments as follows:

	Fiscal Year <u>Ended June 30,</u> 2017	
Total		\$ 16,382
Less: Amount Representing Interest		<u>16,382</u> (532)
Present Value of Net Minimum Lease Payments		<u>\$ 15,850</u>

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 15 - LONG-TERM OBLIGATIONS**

The activity of the School District's long-term obligations during fiscal year 2016 was as follows:

	Balance July 1, 2015	Increase	Decrease	Balance June 30, 2016	Due within One Year
General Obligation Bonds:					
Series 2013 Bonds					
Current Interest	\$ 8,930,000	\$ -	\$ 15,000	\$ 8,915,000	\$ 15,000
Capital Appreciation	65,000	-	-	65,000	-
Accreted Interest	18,782	14,670	-	33,452	-
Bond Premiums	247,691	-	6,756	240,935	-
Total General Obligation Bonds	<u>9,261,473</u>	<u>14,670</u>	<u>21,756</u>	<u>9,254,387</u>	<u>15,000</u>
Net Pension Liability:					
STRS	8,020,637	1,056,053	-	9,076,690	-
SERS	1,855,949	351,660	-	2,207,609	-
Total Net Pension Liability	<u>9,876,586</u>	<u>1,407,713</u>	<u>-</u>	<u>11,284,299</u>	<u>-</u>
Energy Conservation Notes	29,506	-	29,506	-	-
Capital Lease Obligations	35,561	-	19,711	15,850	15,850
Compensated Absences	495,752	32,386	32,652	495,486	32,652
Total Long-Term Obligations	<u>\$ 19,698,878</u>	<u>\$ 1,454,769</u>	<u>\$ 103,625</u>	<u>\$ 21,050,022</u>	<u>\$ 63,502</u>

Compensated absences and the required pension contributions will be paid from the fund which the employee's salaries are paid; which for the School District is primarily the general fund.

**2013 School Facilities Construction and Improvement Bonds**

On September 5, 2013, the School District issued \$9 million in general obligation serial bonds for the purpose of improving school facilities. Principal and interest payments are made from the debt service fund.

The issue is comprised of both current interest serial bonds, par value of \$8,935,000, and capital appreciation bonds, par value of \$65,000. The interest rates on the current interest bonds range from 1.0% to 6.0%. The capital appreciation bonds mature on November 1, 2022 through November 1, 2030 (stated interest rates ranging from 7.77% to 25.33%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$770,000 in total. Total accreted interest of \$33,452 for the Series 2013 capital appreciation bonds has been included on the statement of net position at June 30, 2016.

Interest payments on the current interest serial bonds are due on May 1 and November 1 of each year. The final maturity stated in the issue is November 1, 2051.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 15 - LONG-TERM OBLIGATIONS (Continued)**

The following is a summary of the School District's future annual debt service requirements to maturity for the Series 2013 Bonds:

Fiscal Year Ended June 30,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 15,000	\$ 458,761	\$ 473,761	\$ -	\$ -	\$ -
2018	20,000	458,486	478,486	-	-	-
2019	25,000	458,074	483,074	-	-	-
2020	25,000	457,511	482,511	-	-	-
2021	30,000	456,749	486,749	-	-	-
2022-2026	335,000	2,102,160	2,437,160	40,000	150,000	190,000
2027-2031	275,000	1,639,351	1,914,351	25,000	555,000	580,000
2032-2036	1,275,000	2,011,275	3,286,275	-	-	-
2037-2041	1,420,000	1,661,018	3,081,018	-	-	-
2042-2046	1,965,000	1,233,297	3,198,297	-	-	-
2047-2051	2,835,000	584,085	3,419,085	-	-	-
2052	695,000	18,675	713,675	-	-	-
Total	<u>\$ 8,915,000</u>	<u>\$ 11,539,442</u>	<u>\$ 20,454,442</u>	<u>\$ 65,000</u>	<u>\$ 705,000</u>	<u>\$ 770,000</u>

Legal Debt Limits

At June 30, 2016, the School District's overall legal debt limit was \$8,842,350 and the un-voted debt limit was \$98,248. ORC Section 133.06(I) permits school districts to incur net indebtedness in excess of the 9% limitation, without obtaining the consent of the State Superintendent and the Tax Commissioner, when bond proceeds will be used exclusively to fund a school district's Commission-required local effort. Accordingly, the proceeds of the bonds will be used exclusively to fund the School District's Commission-required local effort, and, as a result, are no subject to State consents/special needs approval.

**NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS**

*Metropolitan Educational Technology Association (META Solutions)*

On July 1, 2015, the School District was a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA). On January 1, 2016, MDECA merged with Metropolitan Educational Technology Association (META), which is a computer consortium. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology, and student services, a purchasing cooperative, and other individual services based on each client's needs.

The governing board of META Solutions consists of a president, vice-president, and six board members who represent the members of META. The Board works with META's chief executive officer, chief operating officer, and chief financial officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting, and designating management. Each school district's degree of control is limited to its representation on the Board. The School District paid META \$18,771 for services provided during the fiscal year. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)**

*Southwestern Ohio Educational Purchasing Council*

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 126 public school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit 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 made to SOEPC are made from the general fund. The School District paid the SOEPC \$628 for membership fees in fiscal year 2016. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

*Southwestern Ohio Instructional Technology Association*

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member's 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 in the State-assigned SOITA service area. 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 the SOITA. Upon dissolution, the net position 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. The School District paid SOITA \$656 for membership fees in fiscal year 2016. To obtain financial information, write to Southwestern Ohio Instructional Technology Association, Gary Greenberg, who serves as Executive Director, at 1205 East Fifth Street, Dayton, Ohio 45402.

*Upper Valley Career Center*

The Upper Valley Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected Boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or educational service center: Piqua, Sidney, and Troy City School Districts and Midwest Education Service Center. To obtain financial information, write to the Upper Valley Career Center, Anthony Fraley, who serves as Treasurer, at 8811 Career Drive, Piqua, Ohio 45356-9254.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)**

*The Covington Education Fund*

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

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

**NOTE 17 – INSURANCE PURCHASING POOLS**

*Ohio School Boards Association Workers' Compensation Group Rating Plan*

The School District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (GRP), insurance purchasing pool. The GRP's business and affairs are conducted by a three member board of directors consisting of the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designees, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Financial information can be obtained from Teri Morgan, Deputy Director of Management Services, at 8050 North High Street, Suite 100, Columbus, Ohio 45235.

The intent of the Program is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Program. 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 Program.

Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the Program.

*Southwestern Ohio Educational Purchasing Council Medical Benefits Plan*

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 17 – INSURANCE PURCHASING POOLS (Continued)**

*Schools of Ohio Risk Sharing Authority (“SORSA”)*

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA) which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-profit Corporations and functioning under the authority granted by Section 2744.081 of the Ohio Revised Code. SORSA’s purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers.

SORSA is governed by a nine member Board of Directors, each a current public school administrator, elected by and from, the membership for a three year term. The BOD meets nine times a year and is involved in all aspects of the program. The Board retains legal counsel with Peck, Shaffer & Williams LLC. SORSA is managed by an Executive Director. Willis Pooling administers the pool and York Risk Services Group manages the claims. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

**NOTE 18– RELATED ORGANIZATION**

*The J.R. Clarke Public Library*

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

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

**NOTE 19 - CONTINGENCIES**

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 19 – CONTINGENCIES (Continued)**

Full-Time Equivalency Review

Full-Time Equivalency Review – School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts were required to comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year.

As a result of the adjustments, the District was liable for \$11,610 to ODE.

Litigation

The School District is not currently party to any legal proceedings, as either plaintiff or defendant, where management believes the outcome would be material to these financial statements.

**NOTE 20 – INTERFUND TRANSACTIONS**

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.

In fiscal year 2016, the General Fund transferred \$624,732 and \$10,000 to the permanent improvement and food service nonmajor governmental funds, respectively. The transfer to the permanent improvement fund was to finance capital improvement projects at the high school due to renovations, as well as other projects required due to changes in the school campus layout. The transfer to the food service fund was to provide necessary funding for daily operations.

The \$2,740 transfer from the capital project LFI building fund (a nonmajor governmental fund) to the classroom facilities fund was to provide for a required retainage escrow account.

**NOTE 21 - ENCUMBRANCES**

At year end the School District had the following amounts encumbered for future purchase obligations:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General Fund	\$ 40,891
School Facilities Fund	2,782,029
Non-major Governmental Funds	<u>852,341</u>
	<u>\$ 3,675,261</u>

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 22 - SET-ASIDE CALCULATION**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

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

Set-aside Reserve Balance as of June 30, 2015	\$ -
Current Year Set-aside Requirement	146,840
Current Year Qualifying Expenditures	<u>(214,128)</u>
Total	<u>\$ (67,288)</u>
Balance Carried forward to FY 2017	<u>\$ -</u>
Set-aside Reserve Balance June 30, 2016	<u>\$ -</u>

Although the School District had qualifying disbursements during the year that further reduced the set-aside below zero due to current year offsets, the extra amounts may not be used to reduce the set-aside requirements of future years. As such, there was no need to present information concerning such disbursements.

During fiscal year 2014, the School District issued \$9,000,000 in capital related school improvement bonds. These proceeds may be used to reduce capital acquisition below zero for future years. The amount presented each year as a “qualifying offset from bond proceeds” is limited to an amount needed to reduce the reserve for capital improvement to zero. The School District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$8,893,663 at June 30, 2016.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 23 – RESTATEMENT OF FUND BALANCE AND NET POSITION**

During fiscal year 2016, it was determined the Felger Education Foundation would be more appropriately reported as a private-purpose trust fund instead of the special revenue fund it had previously been reported as. This reclassification from governmental fund to fiduciary fund type had the following effect on the School District’s governmental fund balances reported at June 30, 2015:

	<u>General Fund</u>	<u>Classroom Facilities</u>	<u>Non-Major Governmental</u>	<u>Total Governmental</u>
Fund Balance at June 30, 2015 as previously reported	\$ 2,056,414	\$ 8,040,564	\$ 2,019,486	\$ 12,116,464
Adjustments:				
Reclassification of Felger Education Foundations as Private-purpose trust fund instead of special revenue fund	<u>-</u>	<u>-</u>	<u>(45,193)</u>	<u>(45,193)</u>
Fund Balance at June 30, 2015 as restated	<u>\$ 2,056,414</u>	<u>\$ 8,040,564</u>	<u>\$ 1,974,293</u>	<u>\$ 12,071,271</u>

The restatement of this fund also had the following effect on beginning net position reported for the governmental activities as well as the private-purpose trust fiduciary fund.

	<u>Private-Purpose Trust Fund</u>
Net Position at June 30, 2015 as previously reported	\$ -
Adjustments:	
Reclassification of Felger Education Foundations as Private-purpose trust fund instead of special revenue fund	<u>45,193</u>
Net Position at June 30, 2015 as restated	<u>\$ 45,193</u>

  

	<u>Governmental Activities</u>
Net Position at June 30, 2015 as previously reported	\$ 3,875,736
Adjustments:	
Reclassification of Felger Education Foundations as Private-purpose trust fund instead of special revenue fund	<u>(45,193)</u>
Net Position at June 30, 2015 as restated	<u>\$ 3,830,543</u>

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## REQUIRED SUPPLEMENTARY INFORMATION

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**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Required Supplementary Information  
Schedule of the School District's Proportionate Share of the Net Pension Liability  
Last Three Measurement Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><u>School Employees Retirement System of Ohio</u></b>			
School District Proportion of the Net Pension Liability	0.0386886%	0.0366720%	0.0366720%
School District's Proportionate Share of the Net Pension Liability	\$ 2,207,609	\$ 1,855,949	\$ 2,180,766
School District's Covered-Employee Payroll	\$ 1,164,727	\$ 1,065,606	\$ 1,003,027
School District's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	189.54%	174.17%	217.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%
<b><u>State Teachers Retirement System of Ohio</u></b>			
School District Proportion of the Net Pension Liability	0.0328424%	0.0329749%	0.0329749%
School District's Proportionate Share of the Net Pension Liability	\$ 9,076,690	\$ 8,020,637	\$ 9,554,130
School District's Covered-Employee Payroll	\$ 3,426,557	\$ 3,369,123	\$ 3,355,346
School District's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	264.89%	238.06%	284.74%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

Required Supplementary Information  
Schedule of School District Contributions  
Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b><u>School Employees Retirement System of Ohio</u></b>										
Contractually Required Contribution	\$ 162,027	\$ 153,511	\$ 147,693	\$ 138,819	\$ 142,145	\$ 130,053	\$ 134,507	\$ 85,191	\$ 84,164	\$ 90,916
Contributions in Relation to the Contractually Required Contribution	<u>(162,027)</u>	<u>(153,511)</u>	<u>(147,693)</u>	<u>(138,819)</u>	<u>(142,145)</u>	<u>(130,053)</u>	<u>(134,507)</u>	<u>(85,191)</u>	<u>(84,164)</u>	<u>(90,916)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District Covered-Employee Payroll	\$ 1,157,336	\$ 1,164,727	\$ 1,065,606	\$ 1,003,027	\$ 1,056,840	\$ 1,034,630	\$ 993,405	\$ 865,762	\$ 857,067	\$ 851,273
Contributions as a Percentage of School District Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**State Teachers Retirement System of Ohio**

Contractually Required Contribution	\$ 500,451	\$ 479,718	\$ 437,986	\$ 436,195	\$ 457,774	\$ 475,291	\$ 451,624	\$ 442,288	\$ 427,261	\$ 428,513
Contributions in Relation to the Contractually Required Contribution	<u>(500,451)</u>	<u>(479,718)</u>	<u>(437,986)</u>	<u>(436,195)</u>	<u>(457,774)</u>	<u>(475,291)</u>	<u>(451,624)</u>	<u>(442,288)</u>	<u>(427,261)</u>	<u>(428,513)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District Covered-Employee Payroll	\$ 3,574,650	\$ 3,426,557	\$ 3,369,123	\$ 3,355,346	\$ 3,521,338	\$ 3,656,085	\$ 3,474,031	\$ 3,402,215	\$ 3,286,623	\$ 3,296,254
Contributions as a Percentage of School District Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Covington Exempted Village School District  
Miami County  
807 Chestnut Street, Suite A  
Covington, Ohio 45318

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington Exempted Village School District, Miami County, (the School District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 11, 2018.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***School District's Response to Finding***

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the School District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 11, 2018

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2017 AND 2016**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2017-001**

**MATERIAL WEAKNESS – FINANCIAL STATEMENT ERRORS**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The School District's financial statements contained errors in the following line items that were adjusted as a result of including financial activity related to a scholarship trust fund within other governmental funds and governmental activities rather than the proper presentation within a private purpose trust fund:

- Opening net position for fiscal year 2016 in the amount of \$45,193.
- Gifts and donations and investment earnings for fiscal year 2016 in the amount of \$39,690 and \$154, respectively.
- Cash and accounts receivable for fiscal year 2016 in the amount of \$75,576 and \$9,461, respectively.
- Opening net position for fiscal year 2017 in the amount of \$85,037.
- Gifts and donations and investment earnings for fiscal year 2017 in the amount of \$38,669 and \$305, respectively.
- Payments in accordance with trust agreements/operation of non-instructional services for fiscal year 2017 in the amount of \$34,950.

Additionally, the following other adjusted errors were identified:

- For governmental activities, unrestricted net position was overstated and restricted net position was understated by \$229,333 for fiscal year 2016.
- For other governmental funds, committed fund balance was overstated and restricted fund balance was understated by \$229,333 for fiscal year 2016.
- For governmental activities, income tax levied for capital outlay was overstated and income tax levied for general purposes was understated by \$124,732 for fiscal year 2016.
- For the general fund, transfers out and income tax revenue was understated by \$124,732 for fiscal year 2016 and \$163,546 for fiscal year 2017.
- For other governmental funds, transfers in were incorrectly recorded as income tax revenue in the amount of \$124,732 for fiscal year 2016.
- For the permanent improvement fund, transfers in were incorrectly recorded as income tax revenue in the amount of \$163,546 for fiscal year 2017.
- For the classroom facilities fund and other governmental funds, contracts payable and related capital outlay expenditure in the amount of \$52,470 was incorrectly recorded in the classroom facilities fund rather than other governmental funds for fiscal year 2016. This also impacted opening fund balance and capital outlay expenditure in fiscal year 2017.

The above errors were caused by a lack of controls over the School District's financial reporting process.

**FINDING NUMBER 2017-001  
(Continued)**

Failure to properly report financial activity could lead to materially misstated financial statements and users of the financial statements basing their conclusions on incorrect data.

Policies and procedures should be established and implemented to verify the accuracy of amounts reported in the financial statements in accordance with applicable accounting standards.

**Official's Response:**

Covington EVSD takes financial reporting seriously and devotes significant time and resources to preparing accurate financial information for public use. The majority of the errors noted in the 2016 audit related to the manner in which transactions have historically been reported on and have not been an issue in prior audits. Once information was brought the District's attention these issue were corrected, however as it was determined the audit of the District would be conducted on a two-year audit period for the first time in several years, the errors in 2016 naturally affected the results reported for 2017 as well.

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Mrs. Carol A. Forsythe  
Treasurer

**COVINGTON EXEMPTED  
VILLAGE SCHOOL DISTRICT**

Mr. Gene Gooding  
Superintendent

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2017 AND 2016**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2015-001	Material Weakness – Financial Statement Errors	Not Corrected	Errors in the fiscal year 2016 and 2017 financial statements resulted in a repeat of this item as finding 2017- 001.

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# Dave Yost • Auditor of State

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT**

**MIAMI COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 19, 2018**