

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

*Financial Statements
(Audited)*

For The Years Ended
December 31, 2003 and 2002

KAY MCKINNEY, FISCAL OFFICER



**Auditor of State
Betty Montgomery**

Members of Council
Village of Covington

We have reviewed the Independent Auditor's Report of the Village of Covington, Miami County, prepared by Trimble, Julian & Grube, Inc. for the audit period January 1, 2002 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 29, 2004

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**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard
Suite B
Worthington, Ohio 43085

Telephone 614.846.1899
Facsimile 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Village of Covington, (the “Village”) Miami County, Ohio as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 2, the Village prepares its financial statements on the basis of accounting prescribed or permitted by Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances and fund balances of the Village of Covington, Miami County, as of December 31, 2003 and 2002, and its combined cash receipts and disbursements, combined budgeted and actual receipts and budgeted and actual disbursements for the years then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 25, 2004, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Trimble, Julian & Grube, Inc.
June 25, 2004

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

COMBINED STATEMENT OF CASH FUND BALANCES
ALL FUND TYPES -
DECEMBER 31, 2003 AND 2002

	2003	2002
<u>Cash and Investments</u>		
Cash and cash equivalents	\$ 1,136,275	\$ 1,063,128
Investments	74,585	72,237
Total Cash and Investments	\$ 1,210,860	\$ 1,135,365
 <u>Fund Balances</u>		
<u>Governmental Fund Types:</u>		
General Fund	\$ 36,036	\$ 31,208
Special Revenue Funds	58,654	62,421
Capital Projects Fund	50,600	57,466
Total Governmental Fund Types	145,290	151,095
 <u>Proprietary Fund Type:</u>		
Enterprise Funds	445,196	449,333
 <u>Fiduciary Fund Type:</u>		
Expendable Trust Fund	620,374	534,937
Total Fund Balances	\$ 1,210,860	\$ 1,135,365

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH FUND
BALANCES - ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND TYPE -
FOR THE YEAR ENDED DECEMBER 31, 2003

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Cash receipts:					
Local income taxes	\$ -	\$ -	\$ -	\$ 569,611	\$ 569,611
Property and other taxes	292,394	142,403	-	-	434,797
Intergovernmental	35,660	96,850	30,639	-	163,149
Special assessments	3,256	-	-	-	3,256
Charges for services	40,011	-	-	-	40,011
Fines, licenses, and permits	16,663	-	-	-	16,663
Interest income	1,390	94	-	-	1,484
Miscellaneous	9,464	779	-	-	10,243
Total cash receipts	<u>398,838</u>	<u>240,126</u>	<u>30,639</u>	<u>569,611</u>	<u>1,239,214</u>
Cash disbursements:					
Current:					
Security of persons and property	556,469	2,995	-	-	559,464
Leisure time activities	25,547	-	-	-	25,547
Community environment	1,097	-	-	-	1,097
Transportation	-	256,173	-	-	256,173
General government	199,169	-	-	19,174	218,343
Capital outlay	<u>1,728</u>	<u>59,725</u>	<u>37,505</u>	-	<u>98,958</u>
Total cash disbursements	<u>784,010</u>	<u>318,893</u>	<u>37,505</u>	<u>19,174</u>	<u>1,159,582</u>
Total cash receipts over/(under) cash disbursements	<u>(385,172)</u>	<u>(78,767)</u>	<u>(6,866)</u>	<u>550,437</u>	<u>79,632</u>
Other financing receipts/(disbursements):					
Transfers-in	465,000	75,000	-	-	540,000
Transfers-out	<u>(75,000)</u>	<u>-</u>	<u>-</u>	<u>(465,000)</u>	<u>(540,000)</u>
Total other financing receipts/(disbursements)	<u>390,000</u>	<u>75,000</u>	<u>-</u>	<u>(465,000)</u>	<u>-</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	4,828	(3,767)	(6,866)	85,437	79,632
Cash fund balances, January 1, 2003	<u>31,208</u>	<u>62,421</u>	<u>57,466</u>	<u>534,937</u>	<u>686,032</u>
Cash fund balances, December 31, 2003	<u>\$ 36,036</u>	<u>\$ 58,654</u>	<u>\$ 50,600</u>	<u>\$ 620,374</u>	<u>\$ 765,664</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES - PROPRIETARY FUND TYPE -
FOR THE YEAR ENDED DECEMBER 31, 2003

	Proprietary Fund Type
	Enterprise
Operating cash receipts:	
Charges for services	\$ 668,283
Miscellaneous	2,038
Total operating cash receipts	670,321
Operating cash disbursements:	
Personal services	266,817
Travel transportation	4,293
Contractual services	139,799
Supplies and material	84,401
Capital outlay	96,526
Total operating cash disbursements	591,836
Operating income	78,485
Nonoperating cash receipts/(disbursements):	
Interest	915
Intergovernmental	1,501
Debt service:	
Principal	(64,217)
Interest and fiscal charges	(20,821)
Total nonoperating cash receipts/(disbursements)	(82,622)
Net loss	(4,137)
Cash fund balances, January 1, 2003	449,333
Cash fund balances, December 31, 2003	\$ 445,196

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND ENCUMBRANCES COMPARED WITH EXPENDITURE
AUTHORITY - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2003

Fund Types	Receipts					Disbursements						
	County Certified Unencumbered Cash	2003 Budget	Total Estimated Resources	Actual 2003 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2003 Appropriations	Total	Actual 2003 Disbursements	Encumbrances Outstanding at 12/31/03	Total	Variance Favorable (Unfavorable)
Governmental:												
General	\$ 34,162	\$ 1,179,998	\$ 1,214,160	\$ 863,838	\$ (316,160)	\$ -	\$ 1,214,159	\$ 1,214,159	\$ 859,010	\$ -	\$ 859,010	\$ 355,149
Special Revenue	52,822	326,900	379,722	315,126	(11,774)	-	378,147	378,147	318,893	-	318,893	59,254
Capital Projects	57,218	15,000	72,218	30,639	15,639	-	72,218	72,218	37,505	-	37,505	34,713
Proprietary:												
Enterprise	456,195	663,000	1,119,195	672,737	9,737	-	1,119,194	1,119,194	676,874	-	676,874	442,320
Fiduciary:												
Expendable Trust	534,970	570,000	1,104,970	569,611	(389)	-	807,175	807,175	484,174	-	484,174	323,001
Total (Memorandum only)	<u>\$ 1,135,367</u>	<u>\$ 2,754,898</u>	<u>\$ 3,890,265</u>	<u>\$ 2,451,951</u>	<u>\$ (302,947)</u>	<u>\$ -</u>	<u>\$ 3,590,893</u>	<u>\$ 3,590,893</u>	<u>\$ 2,376,456</u>	<u>\$ -</u>	<u>\$ 2,376,456</u>	<u>\$ 1,214,437</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH FUND
BALANCES - ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND TYPE -
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Cash receipts:					
Local income taxes	\$ -	\$ -	\$ -	\$ 583,284	\$ 583,284
Property and other taxes	162,030	145,820	-	-	307,850
Intergovernmental	164,611	89,750	80,252	-	334,613
Special assessments	5,384	-	-	-	5,384
Charges for services	36,298	-	-	-	36,298
Fines, licenses, and permits	16,496	-	-	-	16,496
Interest income	4,261	320	-	-	4,581
Donations	25,000	-	-	-	25,000
Miscellaneous	1,974	10,987	2,993	11	15,965
Total cash receipts	<u>416,054</u>	<u>246,877</u>	<u>83,245</u>	<u>583,295</u>	<u>1,329,471</u>
Cash disbursements:					
Current:					
Security of persons and property	543,310	2,434	-	-	545,744
Leisure time activities	22,475	-	-	-	22,475
Transportation	1,021	225,691	-	-	226,712
General government	180,221	-	-	27,775	207,996
Capital outlay	514,111	101,728	61,941	-	677,780
Total cash disbursements	<u>1,261,138</u>	<u>329,853</u>	<u>61,941</u>	<u>27,775</u>	<u>1,680,707</u>
Total cash receipts over/(under) cash disbursements	<u>(845,084)</u>	<u>(82,976)</u>	<u>21,304</u>	<u>555,520</u>	<u>(351,236)</u>
Other financing receipts/(disbursements):					
Transfers-in	585,000	95,000	-	-	680,000
Transfers-out	(95,000)	-	-	(585,000)	(680,000)
Total other financing receipts/(disbursements)	<u>490,000</u>	<u>95,000</u>	<u>-</u>	<u>(585,000)</u>	<u>-</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	(355,084)	12,024	21,304	(29,480)	(351,236)
Cash fund balances, January 1, 2002	<u>386,292</u>	<u>50,397</u>	<u>36,162</u>	<u>564,417</u>	<u>1,037,268</u>
Cash fund balances, December 31, 2002	<u>\$ 31,208</u>	<u>\$ 62,421</u>	<u>\$ 57,466</u>	<u>\$ 534,937</u>	<u>\$ 686,032</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES - PROPRIETARY FUND TYPE -
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Proprietary Fund Type
	Enterprise
Operating cash receipts:	
Charges for services	\$ 666,068
Miscellaneous	1,919
Total operating cash receipts	667,987
Operating cash disbursements:	
Personal services	246,299
Travel transportation	28,488
Contractual services	71,886
Supplies and material	181,065
Capital outlay	118,846
Total operating cash disbursements	646,584
Operating income	21,403
Nonoperating cash receipts/(disbursements):	
Interest	2,644
Debt service:	
Principal	(59,251)
Interest and fiscal charges	(25,788)
Total nonoperating cash receipts/(disbursements)	(82,395)
Net loss	(60,992)
Cash fund balances, January 1, 2002	510,325
Cash fund balances, December 31, 2002	\$ 449,333

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND ENCUMBRANCES COMPARED WITH EXPENDITURE
AUTHORITY - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2002

Fund Types	Receipts					Disbursements						
	County Certified Unencumbered Cash	2002 Budget	Total Estimated Resources	Actual 2002 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2002 Appropriations	Total	Actual 2002 Disbursements	Encumbrances Outstanding at 12/31/02	Total	Variance Favorable (Unfavorable)
Governmental:												
General	\$ 389,245	\$ 919,935	\$ 1,309,180	\$ 1,001,054	\$ 81,119	\$ -	\$ 1,377,492	\$ 1,377,492	\$ 1,356,138	\$ -	\$ 1,356,138	\$ 21,354
Special Revenue	40,795	310,431	351,226	341,877	31,446	-	390,298	390,298	329,853	-	329,853	60,445
Capital Projects	14,716	19,500	34,216	83,245	63,745	21,198	66,441	87,639	61,941	-	61,941	25,698
Proprietary:												
Enterprise	517,185	537,333	1,054,518	670,631	133,298	-	1,053,616	1,053,616	731,623	-	731,623	321,993
Fiduciary:												
Expendable Trust	564,450	574,000	1,138,450	583,295	9,295	-	783,375	783,375	612,775	-	612,775	170,600
Total (Memorandum only)	\$ 1,526,391	\$ 2,361,199	\$ 3,887,590	\$ 2,680,102	\$ 318,903	\$ 21,198	\$ 3,671,222	\$ 3,692,420	\$ 3,092,330	\$ -	\$ 3,092,330	\$ 600,090

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Village of Covington (the "Village") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Village operates under a council-mayor form of government and provides the following services: police protection, water, sewer, trash, street maintenance and repair, as well as other general government services.

Management believes the financial statements included in this report represent all of the funds of the Village over which the Village officials have direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant of the Village's accounting policies are described below.

A. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the Village are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. The following fund types are used by the Village:

GOVERNMENTAL FUNDS

General Fund

The general fund is used to account for all activities of the Village not required to be included in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

The Village had the following significant Special Revenue Funds:

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

Capital Projects Fund

This fund is used to accumulate resources for the payment of construction and improvements to land and building. The Village had the following significant capital projects fund:

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

Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sanitary Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Fiduciary Fund (Trust Fund)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary fund:

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

Local Income Tax Fund (Expendable Trust) - This fund receives monies from collections on the Village's one and one half percent income tax imposed. Funds collected are used in both general operations of the Village and for capital expenditures and maintenance and repairs as required.

B. BASIS OF ACCOUNTING

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

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

C. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds are legally required to be budgeted and appropriated, except Agency funds. The primary level of budgetary control is at the item level within each fund. Any budgetary modifications at this level may only be made by resolution of the Village's Council.

Tax Budget:

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. The expressed purpose of the tax budget is to reflect the need for existing (or increased) tax rates.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

Estimated Resources:

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews receipt estimates. The County Budget Commission certifies its actions to the Village by September 1. As part of this certification, the Village receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about January 1, the certificate is amended to include unencumbered fund balances at December 31 of the preceding year. Further amendments may be made during the year if the Village determines that receipts collected will be greater than or less than the prior estimates and the Budget Commission find the revised estimates to be reasonable. Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations:

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriations measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. The Village had no supplemental appropriations during the year ended December 31, 2003 and one in 2002.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. The Village had no outstanding encumbrances at December 31, 2003 or 2002.

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

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

D. CASH AND INVESTMENTS

For reporting purposes, the Village considers “Cash and Cash Equivalents” to be cash on hand, demand deposits, and all investments held by the Village with a maturity date less than or equal to three months from the date of purchase. Interest income earned and received by the Village totaled \$2,399 and \$7,225 for the years ended December 31, 2003 and 2002, respectively.

E. PROPERTY, PLANT, AND EQUIPMENT

Fixed assets are not capitalized in any of the Village’s funds. Instead, capital acquisition and construction costs are reflected as expenditures in the fund in the year expended. The costs of normal maintenance and repairs are also expended, along with improvements. Depreciation is not recorded.

F. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursable basis, are recorded when received in accordance with the Village’s method of accounting.

G. UNPAID VACATION AND SICK LEAVE

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

H. INTERFUND TRANSACTIONS

During the course of normal operations, the Village had transactions between funds. The most significant include:

Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

I. TOTAL COLUMNS ON FINANCIAL STATEMENTS

Total columns on the financial statements are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS

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

	2003	2002
Deposits:		
Demand deposits	\$ 1,136,275	\$ 1,063,128
Investments:		
Certificates of Deposit	74,585	72,237
Total deposits and investments	\$ 1,210,860	\$ 1,135,365

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

Investments: Certificates of Deposit are insured by the Federal Deposit Insurance Corporation.

NOTE 4 - COMPLIANCE

The following funds had appropriations in excess of estimated resources for the year ended December 31, 2002, in noncompliance with Ohio Revised Code Section 5705.39:

<u>Fund Type/Fund</u>	<u>Excess</u>
General Fund	\$ 68,312
<u>SPECIAL REVENUE FUND TYPE:</u>	
Street Construction, Maintenance & Repair	13,600
State Highway	25,472
<u>CAPITAL PROJECTS FUND TYPE:</u>	
Equipment	32,225

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 4 - COMPLIANCE - (Continued)

The following funds had expenditures in excess of appropriations for the years ended December 31, 2003 and 2002 in noncompliance with Ohio Revised Code Section 5703.41(B):

2003:

<u>Fund Type/Fund</u>	<u>Program</u>	<u>Item</u>	<u>Excess</u>
General	Police Enforcement	Contractual Services	\$ 997
General	Street Lights	Contractual Services	2,340
General	Other Security of Persons and Property	Salaries	232
General	Parks	Salaries	3,579
General	Council	Benefits	108
General	Council	Supplies and Materials	1,227
General	Other General Government	Contractual Services	890

SPECIAL REVENUE FUND TYPE:

Street Fund	Street Cleaning and Snow Removal	Supplies and Materials	1,691
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ENTERPRISE FUND TYPE:

Water Operating	Office	Salaries	2,814
Water Operating	Office	Supplies and Materials	2,094
Water Operating	Filtration	Supplies and Materials	568
Water Operating	Other Equipment	Supplies and Materials	400

2002

<u>Fund Type/Fund</u>	<u>Program</u>	<u>Item</u>	<u>Excess</u>
General	Police Enforcement	Contractual Service	\$ 1,511
General	Transfers	Transfers	75,000

SPECIAL REVENUE FUND TYPE:

Street	Construction and Repair	Capital Outlay	12,009
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ENTERPRISE FUND TYPE:

Water Operating	Office	Supplies and Materials	289
Water Operating	Billing	Other-Personal Services	158
Water Operating	Supply	Contractual Service	1,620
Water Operating	Supply	Supplies and Materials	6,851
Water Operating	Supply	Capital Outlay	55,911
Water Operating	Filtration	Supplies and Materials	995
Water Operating	Pumping	Supplies and Materials	6,849
Sewer Operating	Billing	Supplies and Materials	202
Sewer Operating	Other Uses	Other Uses	11,167

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 4 - COMPLIANCE - (Continued)

The Village did not properly encumber all commitment as required by Ohio law contrary to Section 5705.41 (D), Ohio Revised Code.

NOTE 5 - DEBT OBLIGATION

At December 31, 2003, the Village's debt obligation consisted of the following issuance:

<u>Description</u>	<u>Balance at December 31, 2003</u>
1985 Ohio Water Development Authority (OWDA) loan, due in semiannual payments of \$42,519 through 2006 at a rate of 8.38%.	<u>\$ 184,263</u>
Total debt obligation at December 31, 2003	<u>\$ 184,263</u>

Transactions for the years ended December 31, 2003 and 2002 are summarized as follows:

2003:	<u>Balance at December 31, 2002</u>	<u>Payments</u>	<u>Balance at December 31, 2003</u>
OWDA loan - 1985	<u>\$ 248,480</u>	<u>\$ (64,217)</u>	<u>\$ 184,263</u>
2002:	<u>Balance at December 31, 2001</u>	<u>Payments</u>	<u>Balance at December 31, 2002</u>
OWDA loan - 1985	<u>\$ 307,731</u>	<u>\$ (59,251)</u>	<u>\$ 248,480</u>

The principal and interest requirement to retire the debt obligation outstanding at December 31, 2003, is as follows:

<u>Year Ending December 31</u>	<u>1985 OWDA Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 33,399	\$ 9,120
2005	72,397	12,641
2006	<u>78,467</u>	<u>6,571</u>
Total	<u>\$ 184,263</u>	<u>\$ 28,332</u>

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

NOTE 6 - PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Village. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County annually. However, if the property owner elects, he/she may make semiannual payments.

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

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

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

NOTE 7 - LOCAL INCOME TAX

This locally levied tax of one and one half percent applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the Village and to earnings of nonresidents (except certain transients) earned in the Village. It also applies to the net income of business organizations located within the Village. Tax receipts are credited to the Village and amounted to \$569,611 and \$583,284 for 2003 and 2002, respectively.

NOTE 8 - RETIREMENT SYSTEMS

The Village's full-time law enforcement officers belong to the Ohio Police & Fire Pension Funds (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, members of OP&F contributed 10% of their wages to the OP&F. The Village contributed an amount equal to 19.5% of their wages. OPERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. As of December 31, 2003, the Village's unpaid portion for OP&F was \$11,106 for the year ended 2003. All contributions were paid up to date for OP&F at the end of 2002 and all required contributions were paid for OPERS through 2003 and 2002.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

NOTE 9 - RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- General liability and casualty
- Public official's liability
- Property (fleet and fire)

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

NOTE 10 - CONTINGENT LIABILITY

LITIGATION

The Village is currently not involved in litigation.

NOTE 11 - INTERFUND TRANSACTIONS

The Village had the following interfund transactions for the year ended December 31, 2003 and 2002:

<u>2003:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Fund Type/Fund</u>		
General Fund	\$ 465,000	\$ 75,000
<u>Special Revenue Fund</u>		
Street Construction, Maintenance & Repair	75,000	-
<u>Expendable Trust Fund</u>		
Local Income Tax	-	465,000
Total	<u>\$ 540,000</u>	<u>\$ 540,000</u>
<u>2002:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Fund Type/Fund</u>		
General Fund	\$ 585,000	\$ 95,000
<u>Special Revenue Fund</u>		
Street Construction, Maintenance & Repair	95,000	-
<u>Expendable Trust Fund</u>		
Local Income Tax	-	585,000
Total	<u>\$ 680,000</u>	<u>\$ 680,000</u>

All transfers were made in accordance with Section 5705.14, 5705.15 and 5705.16 of the Ohio Revised Code.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard
Suite B
Worthington, Ohio 43085

Telephone 614.846.1899
Facsimile 614.846.2799

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the Village of Covington, (the “Village”), Miami County, Ohio, as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated June 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2003-VOC-001, 2003-VOC-002, and 2003-VOC-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 25, 2004.

Members of Council and Mayor
Village of Covington

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2003-VOC-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the Village in a separate letter dated June 25, 2004.

This report is intended for the information of the Village Council and management of the Village of Covington and is not intended to be and should not be used by anyone other than these specified parties.

Trimble, Julian & Grube, Inc.
June 25, 2004

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2003-VOC-001

Ohio Revised Code Section 5705.39 requires that no fund should have appropriations in excess of estimated resources.

It was noted during the audit that the Village had appropriations in excess of estimated resources in the following funds for the year ended December 31, 2002:

<u>Fund Type/Fund</u>	<u>Excess</u>
General Fund	\$ 68,312
<u>SPECIAL REVENUE FUND TYPE:</u>	
Street Construction, Maintenance & Repair	13,600
State Highway	25,472
<u>CAPITAL PROJECTS FUND TYPE:</u>	
Equipment	32,225

With appropriations exceeding estimated resources, the Village is appropriating monies that are not in the Village's depository or in the process of collection that were certified to the County Auditor. This may result in a fund deficit.

We recommend that the Village comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget prior to year end. If it is determined that estimated revenues will be greater than initially anticipated, the Village should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO
DECEMBER 31, 2003 AND 2002**

SCHEDULE OF FINDINGS

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2003-VOC-002

Ohio Revised Code Section 5705.41 (B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that for the years ended December 31, 2003 and 2002 the Village had expenditures exceeding appropriations in the following funds:

2003:

<u>Fund Type/Fund</u>	<u>Program</u>	<u>Item</u>	<u>Excess</u>
General	Police Enforcement	Contractual Services	\$ 997
General	Street Lights	Contractual Services	2,340
General	Other Security of Persons and Property	Salaries	232
General	Parks	Salaries	3,579
General	Council	Benefits	108
General	Council	Supplies and Materials	1,227
General	Other General Government	Contractual Services	890
 <u>SPECIAL REVENUE FUND TYPE:</u>			
Street Fund	Street Cleaning and Snow Removal	Supplies and Materials	1,691
 <u>ENTERPRISE FUND TYPE:</u>			
Water Operating	Office	Salaries	2,814
Water Operating	Office	Supplies and Materials	2,094
Water Operating	Filtration	Supplies and Materials	568
Water Operating	Other Equipment	Supplies and Materials	400

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO
DECEMBER 31, 2003 AND 2002**

SCHEDULE OF FINDINGS

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2003-VOC-002 - (Continued)

2002

<u>Fund Type/Fund</u>	<u>Program</u>	<u>Item</u>	<u>Excess</u>
General	Police Enforcement	Contractual Service	\$ 1,511
General	Transfers	Transfers	75,000
 <u>SPECIAL REVENUE FUND TYPE:</u>			
Street	Construction and Repair	Capital Outlay	12,009
 <u>ENTERPRISE FUND TYPE:</u>			
Water Operating	Office	Supplies and Materials	289
Water Operating	Billing	Other-Personal Services	158
Water Operating	Supply	Contractual Service	1,620
Water Operating	Supply	Supplies and Materials	6,851
Water Operating	Supply	Capital Outlay	55,911
Water Operating	Filtration	Supplies and Materials	995
Water Operating	Pumping	Supplies and Materials	6,849
Sewer Operating	Billing	Supplies and Materials	202
Sewer Operating	Other Uses	Other Uses	11,167

With expenditures exceeding appropriations, the Village is expending monies that have not been appropriated and approved by Council. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the Village comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2003-VOC-003

Computerize Accounting System - Currently, the fund journal, receipts ledger, payroll ledger, and appropriation/disbursement ledger are all computed manually. There are many transactions which are recorded once in the fund journal and again in the respective ledgers which provides for a greater chance of error. It is also very inefficient to record information twice. It was noted during the audit that numerous errors were made in posting receipts and expenditures between the journal and the ledgers. These errors misstate revenue and expenditures and prevent the Council from making informed financial decisions. We recommend that an accounting software program (such as Uniform Accounting Network) be implemented to provide for more efficient and effective financial reporting

Finding Number	2003-VOC-004
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Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted that during the year that the Village made several expenditures in which an invoice was dated prior to the purchase order as certified by the Clerk, thus causing 89% of 2003 expenditures and 86% of 2002 expenditures tested not to be certified in a timely manner.

Without timely certification, the Village increases the risk that purchases may be made for an improper public purpose, expend more funds than are appropriated, or available in the treasury or in the process of collection. Thus a negative fund balance may result.

We recommend that all orders or contracts involving the expenditure of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. A policy and procedure statement adopted by the Board and distributed at least annually may be beneficial. The Village should consider using “Then” and “Now” certificates where applicable.

**VILLAGE OF COVINGTON
MIAMI COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-VOC-001	Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated resources.	No	The Village Fiscal Officer is attempting to monitor more closely amended certificates and file amendments with the County Auditor.
2001-VOC-002	Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated.	No	The Village is attempting to monitor and amend its appropriations as necessary.
2001-VOC-003	<i>Computerize Accounting System</i> - Currently, the fund journal, receipts ledger, payroll ledger, and appropriation/disbursement ledger are all computed manually. There are many transactions which are recorded once in the fund journal and again in the respective ledgers which provides for a greater chance of error. It is also very inefficient to record information twice. It was noted during the audit that numerous errors were made in posting receipts and expenditures between the journal and the ledgers. These errors misstate revenue and expenditures and prevent the Council from making informed financial decisions.	No	The Village Fiscal Officer is attempting to computerize the Village's financials.
2001-VOC-004	Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the expenditure of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	No	The Village Fiscal Officer is attempting to properly submit and approve purchase orders before purchases are made.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF COVINGTON

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 12, 2004**