

VILLAGE OF COVINGTON

DAYTON REGION, MIAMI COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004



Mary Taylor, CPA

Auditor of State

Village Council
Village of Covington
1 South High Street
Covington, Ohio 45318

We have reviewed the *Report of Independent Accountants* of the Village of Covington, Miami County, prepared by Manning & Associates CPAs, LLC, for the audit period January 1, 2004 through December 31, 2005. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 30, 2007

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**VILLAGE OF COVINGTON
MIAMI COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Auditors'	1
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Funds - For the Year Ended December 31, 2005	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – Proprietary Fund Type - For the Year Ended December 31, 2005	4
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Funds - For the Year Ended December 31, 2004	5
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – Proprietary Fund Type - For the Year Ended December 31, 2004	6
Notes to the Financial Statements	7 - 12
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	14 – 15
Schedule of Findings	16
Schedule of Prior Audit Findings	19

MANNING & ASSOCIATES CPAs, LLC
6105 NORTH DIXIE DRIVE
DAYTON, OHIO 45414

REPORT OF INDEPENDENT ACCOUNTANTS

Mayor and Members of Council
Village of Covington
1 S. High St.
Covington, Ohio 45318

We have audited the accompanying financial statements of the Village of Covington, Miami County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on the 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 described more fully in Note 1, the Village has prepared financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its large (i.e. major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004 or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Covington, Miami County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2006, on our consideration of the Village's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Manning & Associates CPAs, LLC
Dayton, Ohio

December 14, 2006

**VILLAGE OF COVINGTON
MIAMI COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005

	GOVERNMENTAL FUND TYPES			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property & Local Taxes	\$ 349,724	\$ 152,541	\$ 0	\$ 502,265
Municipal Income Taxes	619,860	0	0	619,860
Intergovernmental Receipts	51,147	123,352	49,318	223,817
Special Assessments	6,571	0	0	6,571
Charges for Services	12,216	0	0	12,216
Fines, Licenses, Permits	2,989	0	0	2,989
Earnings on Investments	166	269	7,936	8,371
Misc	25,807	274	11,001	37,082
Total Cash Receipts	<u>1,068,480</u>	<u>276,436</u>	<u>68,255</u>	<u>1,413,171</u>
Cash Disbursements:				
Current:				
Security of Persons & Property	550,678	0	37,050	587,728
Leisure Time Activities	25,662	0	0	25,662
Community Environment	1,518	0	0	1,518
Transportation	0	336,355	0	336,355
General Government	275,301	0	0	275,301
Debt Service: Redemption of Principal	0	0	0	0
Interest & Other Fiscal Charges	0	0	13,918	13,918
Capital Outlay	216,888	58,248	253,237	528,373
Total Cash Disbursements	<u>1,070,047</u>	<u>394,603</u>	<u>304,205</u>	<u>1,768,855</u>
Total Receipts Over/(Under) Disbursements	<u>(1,567)</u>	<u>(118,167)</u>	<u>(235,950)</u>	<u>(355,684)</u>
Other Financing Receipts/(Disbursements):				
Sale of Bonds	0	0	900,000	900,000
Sale of Assets	204	200	2,032	2,436
Transfers-In	0	110,000	0	110,000
Transfers-Out	(110,000)	0	0	(110,000)
Total Other Financing Receipts (Disbursements)	<u>(109,796)</u>	<u>110,200</u>	<u>902,032</u>	<u>902,436</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(111,363)</u>	<u>(7,967)</u>	<u>666,082</u>	<u>546,752</u>
Fund Cash Balances, January 1, 2005	<u>689,357</u>	<u>34,868</u>	<u>76,506</u>	<u>800,731</u>
Fund Cash Balances, December 31, 2005	<u>\$ 577,994</u>	<u>\$ 26,901</u>	<u>\$ 742,588</u>	<u>\$ 1,347,483</u>

The Notes to the Financial Statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES - PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 816,922
Earnings on Investments	674
Misc	0
Total Operating Cash Receipts	817,596
Operating Cash Disbursements:	
Personal Service	299,379
Travel Transportation	7,369
Contractual Services	139,373
Supplies & Materials	45,413
Capital Outlay	123,052
Total Operating Cash Disbursements	614,586
Operating Income (Loss)	203,010
Non-Operating Receipts/(Disbursements):	
Sale of Fixed Assets	305
Debt Service: Redemption of Principal	(75,430)
Interest & Other Fiscal Charges	(8,026)
Total Non-Operating Receipts/(Disbursements)	(83,151)
Net Income/(Loss)	119,859
Fund Cash Balances, January 1, 2005	291,096
Fund Cash Balances, December 31, 2005	\$ 410,955

The Notes to the Financial Statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004

	GOVERNMENTAL FUND TYPES			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property & Local Taxes	\$ 297,824	\$ 158,172	\$ 0	\$ 455,996
Municipal Income Taxes	632,695	0	0	632,695
Intergovernmental Receipts	36,562	110,305	44,314	191,181
Special Assessments	3,417	0	0	3,417
Charges for Services	16,268	0	0	16,268
Fines, Licenses, Permits	2,571	0	0	2,571
Earnings on Investments	252	114	0	366
Misc	8,719	3,826	9,000	21,545
Total Cash Receipts	<u>998,308</u>	<u>272,417</u>	<u>53,314</u>	<u>1,324,039</u>
Cash Disbursements:				
Current:				
Security of Persons & Property	563,028	0	0	563,028
Leisure Time Activities	22,056	0	0	22,056
Community Environment	1,059	0	0	1,059
Transportation	0	260,003	0	260,003
General Government	237,654	0	0	237,654
Capital Outlay	102,564	73,700	27,408	203,672
Total Cash Disbursements	<u>926,361</u>	<u>333,703</u>	<u>27,408</u>	<u>1,287,472</u>
Total Receipts Over/(Under) Disbursements	<u>71,947</u>	<u>(61,286)</u>	<u>25,906</u>	<u>36,567</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	0	37,500	0	37,500
Transfers-Out	(39,000)	0	0	(39,000)
Total Other Financing Receipts (Disbursements)	<u>(39,000)</u>	<u>37,500</u>	<u>0</u>	<u>(1,500)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>32,947</u>	<u>(23,786)</u>	<u>25,906</u>	<u>35,067</u>
Fund Cash Balances, January 1, 2004, restated	<u>656,410</u>	<u>58,654</u>	<u>50,600</u>	<u>765,664</u>
Fund Cash Balances, December 31, 2004	<u>\$ 689,357</u>	<u>\$ 34,868</u>	<u>76,506</u>	<u>\$ 800,731</u>

The Notes to the Financial Statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES - PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 735,757
Miscellaneous	1,210
Total Operating Cash Receipts	736,967
Operating Cash Disbursements:	
Personal Service	293,988
Travel Transportation	8,940
Contractual Services	63,630
Supplies & Materials	111,826
Capital Outlay	331,687
Total Operating Cash Disbursements	810,071
Operating Income (Loss)	(73,104)
Non-Operating Receipts/(Disbursements):	
Debt Service: Redemption of Principal	(69,598)
Interest & Other Fiscal Charges	(12,898)
Total Non-Operating Receipts/(Disbursements)	(82,496)
Income/(Loss) before Interfund Transfers/Advances	(155,600)
Transfers-In	1,500
Net Income/(Loss)	(154,100)
Fund Cash Balances, January 1, 2004	445,196
Fund Cash Balances, December 31, 2004	\$ 291,096

The Notes to the Financial Statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Covington, Miami County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly elected six-member Council. The Village provides general governmental services, including water and sewer utilities, refuse services, street maintenance, and police protection.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

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 a payment is made 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. Cash and Investments

Certificates of deposit are valued at cost.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains and losses at the time of sale are recorded as receipts or disbursements, respectively.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use.

The Village classifies its funds into the following types:

1. General Fund

The General Fund is used to account for all activities of the Village not required to be included in another fund. It is used to account for all financial resources except those required by law or contract to be restricted.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

**VILLAGE OF COVINGTON
MIAMI COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

3. Capital Project Funds

These funds are used to accumulate resources for the payment of construction, improvements, and purchase of equipment for the Village. The Village had the following significant capital project funds:

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

4. 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 water services to residents.

Sewer Fund – This fund receives charges for services from residents to cover the cost of providing sewer services to residents.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash balance as of January 1. The County Budget Commission must also approve estimated resources.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are cancelled, and reappropriated in the subsequent year.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

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 cash basis of accounting used by the Village.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2005</u>	<u>2004</u>
Demand Deposits	\$ 1,682,443	\$1,016,679
Certificates of Deposit	<u>75,995</u>	<u>75,148</u>
Total Deposits	<u>\$ 1,758,438</u>	<u>\$1,091,827</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF COVINGTON
MIAMI COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 as follows:

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,054,522	\$ 1,068,684	\$ 14,162
Special Revenue	380,210	386,636	6,426
Capital Projects	15,000	970,287	955,287
Enterprise	742,000	817,901	75,901
Total	<u>\$ 2,191,732</u>	<u>\$ 3,243,508</u>	<u>\$ 1,051,776</u>

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,753,879	\$ 1,180,047	\$ 573,832
Special Revenue	415,078	394,603	20,475
Capital Projects	91,506	304,205	(212,699)
Enterprise	1,033,096	698,042	335,054
Total	<u>\$ 3,293,559</u>	<u>\$ 2,576,897</u>	<u>\$ 716,662</u>

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,184,765	\$ 998,308	\$ (186,457)
Special Revenue	340,000	309,917	(30,083)
Capital Projects	15,000	53,314	38,314
Enterprise	758,500	738,467	(20,033)
Total	<u>\$ 2,298,265</u>	<u>\$ 2,100,006</u>	<u>\$ (198,259)</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,522,875	\$ 965,361	\$ 557,514
Special Revenue	385,971	333,703	52,268
Capital Projects	65,353	27,408	37,945
Enterprise	1,209,055	892,567	316,488
Total	<u>\$ 3,183,254</u>	<u>\$ 2,219,039</u>	<u>\$ 964,215</u>

**VILLAGE OF COVINGTON
MIAMI COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by Village Council. 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 by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

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.

5. 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 \$610,166 and \$632,695 for 2005 and 2004 respectively.

6. DEBT

Debt outstanding at December 31, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$ 39,235	8.38%
Village Hall Renovation Bond	<u>900,000</u>	4.25%
Total	<u>\$ 939,235</u>	

The Ohio Water Development Authority (OWDA) loan relates to a water plant improvement project. The ODWA has approved a loan of \$879,067 to the Village for this project. The loan will be repaid in semi-annual installments of \$42,519.61, over 25 years. Final payment due July 1, 2006. The loan is collateralized by water and sewer receipts.

The Village issued Village Hall Renovation Bonds, Series 2005, dated July 20, 2005 in the amount of \$900,000. The Series consists of one Bond. Interest will be paid semi-annually on June 1 and December 1, starting with December 1, 2005. The bond will be redeemed in annual installments of \$90,000, starting December 1, 2006 and ending with the final payment on December 1, 2015.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

6. DEBT (continued)

Amortization of the above debt is scheduled as follows:

	OWDA Water Authority Loan	Village Renovation Bond
2006	\$42,520	\$128,250
2007		124,425
2008		120,600
2009		116,775
2010		112,950
2011-2015	_____	507,375
TOTAL	\$42,520	\$1,110,375

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time 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 postretirement 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 2005 and 2004, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2005 and 2004. The Village has paid all contributions required through December 31, 2005.

8. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- General Liability
- Public Officials Liability
- Vehicle
- Law Enforcement
- Property

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

9. FUND RECLASSIFICATIONS

Beginning January 1, 2004, the Village reclassified the Income Tax, Expendable Trust Fund to the General Fund to reflect the nature of the fund's activity. This reclassification resulted in the following changes in fund cash balances:

	General Fund	Expendable Trust
Fund cash balance, December 31, 2003	\$ 36,036	\$620,374
Reclassification of Fund	620,374	(620,374)
Fund cash balance, January 1, 2004	\$656,410	\$ 0

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MANNING & ASSOCIATES, CPAs, LLC
6105 North Dixie Drive
Dayton, Ohio 45414

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Village of Covington, Miami County (the Village), as of and for the years ended December 31, 2005, and 2004, and have issued our report thereon dated December 14, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters 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 judgment, 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 2005-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses. In a separate letter to the Village's management dated December 14, 2006, we reported other matters involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the Village'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, 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 is described in the accompanying schedule of findings as items 2005-001 through 2005-004. In a separate letter to the Village's management dated December 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

Manning & Associates CPAs, LLC
Dayton, Ohio

December 14, 2006

VILLAGE OF COVINGTON
MIAMI COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-001

Ohio Rev. 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, 2005 and 2004, the Village had expenditures exceeding temporary appropriations in all funds, before the Village passed the permanent appropriations. In 2005, the Village neglected to appropriate the expenditures for the Village Hall Renovation in the amount of \$232,854.

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 Auditor of State Bulletin 97-110 by monitoring expenditures so that 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.

Response: Fiscal Officer will monitor budgetary more closely.

FINDING NUMBER 2005-002

Computerize Accounting System – Currently the fund journal, receipts ledger, payroll ledger, and appropriations/disbursements 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. We recommend that an accounting software program (such as Uniform Accounting Network) be implemented to provide for more efficient and effective financial reporting.

Response: None

FINDING NUMBER 2005-003

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

VILLAGE OF COVINGTON
MIAMI COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-003 (CONTINUED)

1. **“Then and Now” certificate** – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the “then and Now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

3. **Blanket certificate** – The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one line item appropriation.
4. **Super Blanket certificate** – The district may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

The Village did not properly certify the availability of funds prior to purchase commitment for some of the expenditures and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can lead to misappropriation of monies and negative cash fund balances. Unless the exceptions noted above are utilized, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

To improve controls over disbursements and to help reduce the possibility that Village funds will exceed budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, “then and now” certification should be used. We recommend the Village certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</p>

FINDING NUMBER 2005-004

In 2005, the Village issued bonds in the amount of \$900,000 for the purpose of renovating the village hall. The Village failed to properly reflect the issuance of the bonds (debt) and corresponding payments to contractors for work performed on the renovations in the annual financial report of the Village.

Failure to accurately record revenues and expenditures to the proper line item could result in material misstatements to the financial statements. These financial statements have been adjusted to reflect the activity in the Capital Projects Fund.

The Village should establish a Debt Service Fund for future bond retirements.

Response: Council will review the bond covenants for future reporting.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END DECEMBER 31, 2005 AND 2004**

FINDING NUMBER	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED, PARTIALLY CORRECTED; SIGNIFICANTLY DIFFERENT CORRECTIVE ACTION TAKEN; OR FINDING NO LONGER VALID; <i>EXPLAIN:</i>
2003-VOC-001	ORC Sec. 5705.39 - Appropriations in excess of estimated resources	Partially Corrected	Amended Certificate and Appropriations filed at end of year. Re-issued as management comment.
2003-VOC-002	ORC Sec. 5705.41 (B) - Expending funds without prior appropriations	No	Not corrected. Comment repeated in current audit as Finding Number 2005-001
2003-VOC-003	Computerize Accounting System	No	Not corrected. Comment repeated in current audit as Finding Number 2005-002
2003-VOC-004	ORC Sec. 5705.41 (D) - Certifications of funds availability	No	Not corrected. Comment repeated in current audit as Finding Number 2005-003



Mary Taylor, CPA
Auditor of State

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
APRIL 12, 2007**