

**Covington Exempted Village School District**  
**Miami County, Ohio**

Basic Financial Statements  
June 30, 2008 and 2007  
with Independent Auditors' Report





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Covington Exempted Village School District, Miami County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2006 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 5, 2009

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covington Exempted Village School District (the District) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2008 and 2007, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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The management's discussion and analysis on pages 3 – 12 and 46 – 55 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clark, Schufer, Huchett & Co.*

Springfield, Ohio  
December 23, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's discussion and analysis of the Covington Exempted Village School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$583,719 which represents a 45.22% increase from 2006.
- General revenues accounted for \$6,602,640 in revenue or 79.76% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,675,380 or 20.24% of total revenues of \$8,278,020.
- The District had \$7,694,301 in expenses related to governmental activities; \$1,675,380 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,602,640 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$7,588,099 in revenues and other financing sources and \$6,940,240 in expenditures and other financing uses. During fiscal year 2007, the general fund's fund balance increased \$647,859 from \$24,101 to \$671,960.

**Using these Basic Financial Statements**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

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

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-45 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2007 and 2006.

	<b>Net Assets</b>	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 3,554,333	\$ 2,752,324
Capital assets, net	<u>1,634,058</u>	<u>1,471,811</u>
Total assets	<u>5,188,391</u>	<u>4,224,135</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,511,387	2,375,335
Long-term liabilities	<u>802,442</u>	<u>557,957</u>
Total liabilities	<u>3,313,829</u>	<u>2,933,292</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	1,403,021	1,471,811
Restricted	181,515	109,889
Unrestricted (deficit)	<u>290,026</u>	<u>(290,857)</u>
Total net assets	<u>\$ 1,874,562</u>	<u>\$ 1,290,843</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$1,874,562. Of this total, \$181,515 is restricted in use.

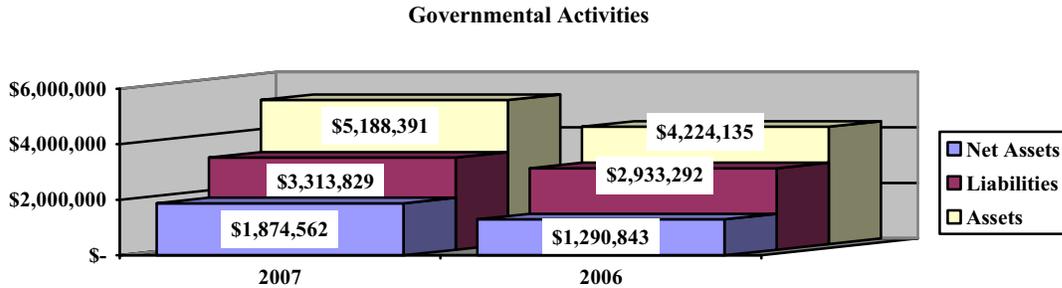
At year-end, capital assets represented 31.49% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$1,403,021. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$181,515, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$290,026 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2007 and 2006:



The table below shows the change in net assets for fiscal year 2007 and 2006. The school district income tax revenue increased due to the Districts passage of a 5 year levy.

**Change in Net Assets**

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,008,190	\$ 870,796
Operating grants and contributions	655,010	520,298
Capital grants and contributions	12,180	-
General revenues:		
Property taxes	1,746,393	1,893,294
School district income tax	1,748,641	742,436
Grants and entitlements	3,020,854	3,008,979
Investment earnings	52,428	33,743
Other	34,324	46,707
Total revenues	<u>8,278,020</u>	<u>7,116,253</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Change in Net Assets**

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 3,505,210	\$ 3,277,186
Special	737,063	731,484
Other	15,921	24,575
Support services:		
Pupil	314,191	290,515
Instructional staff	411,747	382,984
Board of education	8,692	10,898
Administration	724,006	740,293
Fiscal	226,165	197,046
Operations and maintenance	537,817	502,269
Pupil transportation	260,235	318,971
Central	143,174	135,265
Operations of non-instructional services		
Other non-instructional services	84,632	89,804
Food service operations	271,728	272,601
Extracurricular activities	443,602	431,757
Interest and fiscal charges	<u>10,118</u>	<u>-</u>
Total expenses	<u>7,694,301</u>	<u>7,405,648</u>
Change in net assets	583,719	(289,395)
Net assets at beginning of year	<u>1,290,843</u>	<u>1,580,238</u>
Net assets at end of year	<u>\$ 1,874,562</u>	<u>\$ 1,290,843</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$583,719. Total governmental expenses of \$7,694,301 were offset by program revenues of \$1,675,380 and general revenues of \$6,602,640. Program revenues supported 21.77% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 78.71% of total governmental revenue.

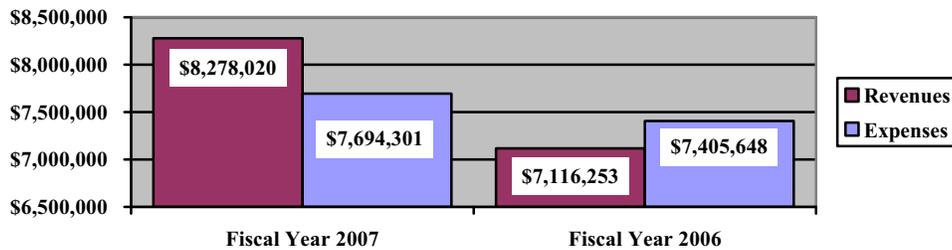
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,258,194 or 55.34% of total governmental expenses for fiscal 2007.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
<b>Program expenses</b>				
Instruction:				
Regular	\$ 3,505,210	\$ 2,918,743	\$ 3,277,186	\$ 2,772,502
Special	737,063	422,237	731,484	606,554
Other	15,921	7,260	24,575	11,679
Support services:				
Pupil	314,191	272,659	290,515	248,527
Instructional staff	411,747	318,033	382,984	314,500
Board of education	8,692	8,692	10,898	10,898
Administration	724,006	698,730	740,293	700,687
Fiscal	226,165	226,165	197,046	197,046
Operations and maintenance	537,817	522,063	502,269	491,295
Pupil transportation	260,235	232,989	318,971	306,308
Central	143,174	126,474	135,265	118,648
Operations of non-instructional services				
Other non-instructional services	84,632	23,800	89,804	21,296
Food service operations	271,728	(10,020)	272,601	(15,034)
Extracurricular activities	443,602	240,978	431,757	229,648
Interest and fiscal charges	10,118	10,118	-	-
<b>Total expenses</b>	<u>\$ 7,694,301</u>	<u>\$ 6,018,921</u>	<u>\$ 7,405,648</u>	<u>\$ 6,014,554</u>

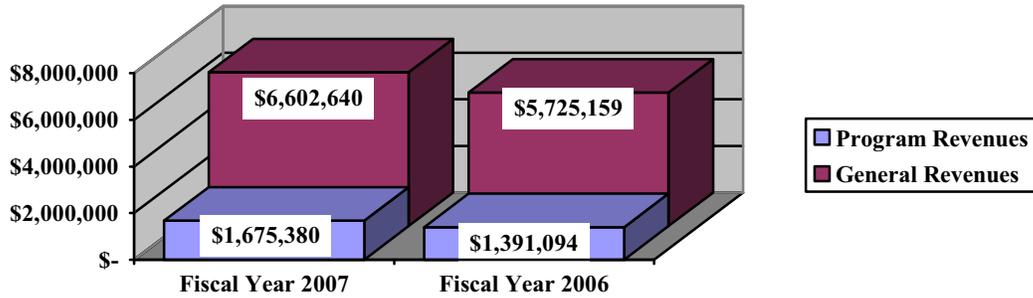
The dependence upon tax and other general revenues for governmental activities is apparent, 78.63% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.23%.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$932,285, which is higher than last year's total of \$281,808. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 671,960	\$ 24,101	\$ 647,859	2,688.10 %
Other Governmental	<u>260,325</u>	<u>257,707</u>	<u>2,618</u>	1.02 %
Total	<u>\$ 932,285</u>	<u>\$ 281,808</u>	<u>\$ 650,477</u>	230.82 %

**General Fund**

The District's general fund balance increased \$647,859. Revenues exceed expenditures for fiscal year 2007 by \$398,161. The increase in income tax revenue is attributed to the additional 1.25 percent income tax levy approved in May 2006, with collections beginning in January 2007. The increase in earnings on investments is due to higher interest rates. The increase in debt service and capital outlay expenditures is due to the District entering into new capital lease for copiers during the current fiscal year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The table that below assists in illustrating the financial activities and fund balance of the general fund.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,501,771	\$ 2,785,544	\$ 716,227	25.71 %
Tuition	457,194	403,600	53,594	13.28 %
Earnings on investments	52,428	27,865	24,563	88.15 %
Intergovernmental	3,244,567	3,008,979	235,588	7.83 %
Other revenues	<u>80,409</u>	<u>85,288</u>	<u>(4,879)</u>	<u>(5.72) %</u>
Total	<u>\$ 7,336,369</u>	<u>\$ 6,311,276</u>	<u>\$ 1,025,093</u>	<u>16.24 %</u>
<b><u>Expenditures</u></b>				
Instruction	\$ 4,019,664	\$ 3,772,370	\$ 247,294	6.56 %
Support services	2,401,936	2,367,215	34,721	1.47 %
Non-instructional services	15,967	31,330	(15,363)	(49.04) %
Extracurricular activities	218,418	213,489	4,929	2.31 %
Capital outlay	251,571	-	251,571	100.00 %
Debt service	<u>30,652</u>	<u>-</u>	<u>30,652</u>	<u>100.00 %</u>
Total	<u>\$ 6,938,208</u>	<u>\$ 6,384,404</u>	<u>\$ 553,804</u>	<u>8.67 %</u>

***General Fund Budgeting Highlights***

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

For the general fund, original budgeted revenues and other financing sources were \$6,500,622 which equaled final budgeted revenues and other financing sources. Actual revenues and other financing sources for fiscal 2007 was \$6,926,721. This represents a \$426,099 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,510,119 were increased to \$6,697,381 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$6,696,057, which was \$1,324 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2007, the District had \$1,634,058 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

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

	Governmental Activities	
	2007	2006
Land	\$ 352,453	\$ 352,453
Land improvements	356,422	360,182
Building and improvements	465,829	502,170
Furniture and equipment	368,457	157,458
Vehicles	90,897	99,548
Total	\$ 1,634,058	\$ 1,471,811

The overall increase in capital assets of \$162,247 is primarily due to capital outlays of \$333,112 exceeding depreciation expense of \$170,103 and disposals of \$762 (net of accumulated depreciation) for fiscal 2007.

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

***Debt Administration***

At June 30, 2007, the District had \$231,037 in capital lease obligations outstanding. Of this total, \$44,428 is due within one year and \$186,609 is due in greater than one year. The following table summarizes the outstanding obligations for fiscal 2007 compared to 2006

**Outstanding Debt, at Year End**

	Governmental Activities 2007	Governmental Activities 2006
Capital lease obligations	\$ 231,037	\$ -
Total	\$ 231,037	\$ -

At June 30, 2007, the District's overall legal debt margin was \$7,460,569 with an unvoted debt margin of \$82,895.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Current Financial Related Activities**

The District's revenues exceeded expenditures in fiscal year 2007, following three years of deficit spending. This was achieved through the passage of an additional income tax, coupled with reductions in force and budget cuts.

The District faces many challenges as the school buildings age. The District does not have a Permanent Improvement Levy; therefore all improvements and capital projects have been funded by General Fund dollars. When the budget got tight several years ago, drastic reductions in the capital outlay budget were made, thus delaying the repair of facilities, school bus purchases, and computer upgrades. The Board has made two unsuccessful attempts in the last year to pass a Permanent Improvement Levy.

The District will likely be offered funds sometime in 2008 from the Ohio School Facilities Commission for a school facilities project. This offer is coming much sooner than anticipated due to additional funds invested in the project from the Governor's tobacco securitization initiative. The Board and Community must collaboratively decide if they wish to participate in the program, and if so, the scope of the building project.

The additional income tax was for five years, and was passed in conjunction with the expiration of a 5 mill emergency levy. The Board promised to evaluate the school's financial condition at that end of that five year period. The decision on future levies, be it an income tax renewal or replacement, bond and/or maintenance levy, will likely hinge on how the Board and Community decide to proceed with the OSFC's offer.

The Board of Education is committed to achieving the highest levels of student achievement for all students, using all resources (local, state and federal) to their most efficient means.

**Contacting the District's Financial Management**

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

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

STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 797,960
Receivables:	
Taxes . . . . .	2,666,924
Accounts . . . . .	6,430
Intergovernmental . . . . .	54,088
Accrued interest . . . . .	5,418
Prepayments. . . . .	5,322
Materials and supplies inventory . . . . .	18,191
Capital assets:	
Land . . . . .	352,453
Depreciable capital assets, net . . . . .	1,281,605
Capital assets, net. . . . .	<u>1,634,058</u>
 Total assets. . . . .	 <u>5,188,391</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	46,303
Accrued wages and benefits . . . . .	557,270
Pension obligation payable. . . . .	160,713
Intergovernmental payable . . . . .	52,582
Unearned revenue . . . . .	1,694,519
Long-term liabilities:	
Due within one year. . . . .	88,885
Due within more than one year . . . . .	713,557
Total liabilities . . . . .	<u>3,313,829</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt . .	1,403,021
Restricted for:	
State funded programs . . . . .	6,313
Student activities . . . . .	80,371
Other purposes . . . . .	94,831
Unrestricted (deficit). . . . .	<u>290,026</u>
Total net assets . . . . .	<u>\$ 1,874,562</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 3,505,210	\$ 459,681	\$ 118,594	\$ 8,192	\$ (2,918,743)
Special . . . . .	737,063	56,109	258,717	-	(422,237)
Other . . . . .	15,921	8,661	-	-	(7,260)
Support services:					
Pupil . . . . .	314,191	-	41,532	-	(272,659)
Instructional staff . . . . .	411,747	-	93,714	-	(318,033)
Board of education . . . . .	8,692	-	-	-	(8,692)
Administration . . . . .	724,006	11,037	14,239	-	(698,730)
Fiscal . . . . .	226,165	-	-	-	(226,165)
Operations and maintenance . . . . .	537,817	14,185	1,569	-	(522,063)
Pupil transportation . . . . .	260,235	-	23,258	3,988	(232,989)
Central . . . . .	143,174	-	16,700	-	(126,474)
Operation of non-instructional services:					
Other non-instructional services . . . . .	84,632	57,554	3,278	-	(23,800)
Food service operations . . . . .	271,728	201,864	79,884	-	10,020
Extracurricular activities . . . . .	443,602	199,099	3,525	-	(240,978)
Interest and fiscal charges . . . . .	10,118	-	-	-	(10,118)
Total governmental activities . . . . .	<u>\$ 7,694,301</u>	<u>\$ 1,008,190</u>	<u>\$ 655,010</u>	<u>\$ 12,180</u>	<u>(6,018,921)</u>

**General Revenues:**

Property taxes levied for:

General purposes . . . . .	1,746,393
School district income tax . . . . .	1,748,641
Grants and entitlements not restricted	
to specific programs . . . . .	3,020,854
Investment earnings . . . . .	52,428
Miscellaneous . . . . .	34,324
Total general revenues . . . . .	<u>6,602,640</u>

Change in net assets . . . . . 583,719

Net assets at beginning of year . . . . . 1,290,843

Net assets at end of year . . . . . \$ 1,874,562

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 465,950	\$ 301,099	\$ 767,049
Receivables:			
Taxes . . . . .	2,666,924	-	2,666,924
Accounts . . . . .	550	5,880	6,430
Intergovernmental . . . . .	7,374	46,714	54,088
Accrued interest . . . . .	5,418	-	5,418
Prepayments . . . . .	5,322	-	5,322
Materials and supplies inventory . . . . .	-	18,191	18,191
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	30,911	-	30,911
<b>Total assets . . . . .</b>	<u>\$ 3,182,449</u>	<u>\$ 371,884</u>	<u>\$ 3,554,333</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 15,326	\$ 30,977	\$ 46,303
Accrued wages and benefits . . . . .	518,925	38,345	557,270
Compensated absences payable . . . . .	35,754	-	35,754
Pension obligation payable . . . . .	140,207	20,506	160,713
Intergovernmental payable . . . . .	31,694	20,888	52,582
Deferred revenue . . . . .	74,064	843	74,907
Unearned revenue . . . . .	1,694,519	-	1,694,519
<b>Total liabilities . . . . .</b>	<u>2,510,489</u>	<u>111,559</u>	<u>2,622,048</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	51,582	92,940	144,522
Reserved for materials and supplies inventory . . . . .	-	18,191	18,191
Reserved for prepayments . . . . .	5,322	-	5,322
Reserved for property tax unavailable for appropriation . . . . .	97,144	-	97,144
Reserved for capital maintenance . . . . .	24,434	-	24,434
Reserved for school bus purchase . . . . .	6,477	-	6,477
Unreserved, undesignated reported in:			
General fund . . . . .	487,001	-	487,001
Special revenue funds . . . . .	-	149,194	149,194
<b>Total fund balances . . . . .</b>	<u>671,960</u>	<u>260,325</u>	<u>932,285</u>
<b>Total liabilities and fund balances . . . . .</b>	<u>\$ 3,182,449</u>	<u>\$ 371,884</u>	<u>\$ 3,554,333</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2007

<b>Total governmental fund balances</b>		\$	932,285
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,634,058
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	74,064	
Intergovernmental revenue		843	
Total			74,907
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease obligation		231,037	
Compensated absences		535,651	
Total			(766,688)
<b>Net assets of governmental activities</b>		\$	1,874,562

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 3,501,771	\$ -	\$ 3,501,771
Tuition. . . . .	457,194	-	457,194
Charges for services. . . . .	-	200,260	200,260
Earnings on investments. . . . .	52,428	8,712	61,140
Classroom materials and fess. . . . .	41,161	-	41,161
Extracurricular. . . . .	-	184,452	184,452
Other local revenues. . . . .	39,248	151,064	190,312
Intergovernmental - State. . . . .	3,236,852	52,101	3,288,953
Intergovernmental - Federal . . . . .	7,715	350,956	358,671
Total revenue . . . . .	<u>7,336,369</u>	<u>947,545</u>	<u>8,283,914</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	3,370,441	85,719	3,456,160
Special. . . . .	641,361	111,541	752,902
Other. . . . .	7,862	8,059	15,921
Support services:			
Pupil. . . . .	271,071	41,698	312,769
Instructional staff . . . . .	309,950	99,968	409,918
Board of education . . . . .	8,638	-	8,638
Administration. . . . .	696,607	28,565	725,172
Fiscal . . . . .	225,890	-	225,890
Operations and maintenance. . . . .	525,835	11,412	537,247
Pupil transportation . . . . .	243,819	9,288	253,107
Central. . . . .	120,126	17,200	137,326
Operation of non-instructional services:			
Other non-instructional services . . . . .	15,967	68,665	84,632
Food service operations. . . . .	-	268,234	268,234
Extracurricular activities. . . . .	218,418	196,451	414,869
Capital outlay . . . . .	251,571	-	251,571
Debt service:			
Principal retirement . . . . .	20,534	-	20,534
Interest and fiscal charges . . . . .	10,118	-	10,118
Total expenditures . . . . .	<u>6,938,208</u>	<u>946,800</u>	<u>7,885,008</u>
Excess of revenues over expenditures . . . . .	<u>398,161</u>	<u>745</u>	<u>398,906</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	159	2,032	2,191
Transfers (out). . . . .	(2,032)	(159)	(2,191)
Capital lease transaction . . . . .	251,571	-	251,571
Total other financing sources (uses) . . . . .	<u>249,698</u>	<u>1,873</u>	<u>251,571</u>
Net change in fund balances . . . . .	647,859	2,618	650,477
<b>Fund balances at beginning of year. . . . .</b>	<u>24,101</u>	<u>257,707</u>	<u>281,808</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 671,960</u>	<u>\$ 260,325</u>	<u>\$ 932,285</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Net change in fund balances - total governmental funds</b>	\$	650,477
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.</p>		
Capital asset additions	\$ 333,112	
Current year depreciation	<u>(170,103)</u>	
Total		163,009
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(762)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Taxes	(6,737)	
Intergovernmental revenue	<u>843</u>	
Total		(5,894)
<p>Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		20,534
<p>Proceeds of capital lease transactions are recorded as revenue in the funds, however in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.</p>		
		(251,571)
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>7,926</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>583,719</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,977,778	\$ 2,977,778	\$ 3,104,763	\$ 126,985
Tuition. . . . .	393,700	393,700	449,820	56,120
Earnings on investments. . . . .	25,000	25,000	47,010	22,010
Classroom materials and fees . . . . .	40,600	40,600	41,236	636
Other local revenues . . . . .	46,500	46,500	36,507	(9,993)
Intergovernmental - State . . . . .	3,009,044	3,009,044	3,236,852	227,808
Intergovernmental - Federal. . . . .	8,000	8,000	7,715	(285)
Total revenue . . . . .	<u>6,500,622</u>	<u>6,500,622</u>	<u>6,923,903</u>	<u>423,281</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,618,899	5,701,206	3,415,401	2,285,805
Special. . . . .	49,984	154,484	629,774	(475,290)
Other. . . . .	-	-	6,571	(6,571)
Support services:				
Pupil. . . . .	125,320	118,007	269,080	(151,073)
Instructional staff . . . . .	53,646	53,646	307,664	(254,018)
Board of education . . . . .	5,522	5,522	8,648	(3,126)
Administration. . . . .	79,984	80,257	702,114	(621,857)
Fiscal . . . . .	87,377	87,377	227,210	(139,833)
Operations and maintenance. . . . .	313,254	313,381	526,443	(213,062)
Pupil transportation . . . . .	115,962	115,962	247,170	(131,208)
Central. . . . .	27,283	30,523	120,729	(90,206)
Operation of non-instructional services . . . . .	30,000	30,000	15,967	14,033
Extracurricular activities. . . . .	867	4,995	217,254	(212,259)
Total expenditures . . . . .	<u>6,508,098</u>	<u>6,695,360</u>	<u>6,694,025</u>	<u>1,335</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>(7,476)</u>	<u>(194,738)</u>	<u>229,878</u>	<u>424,616</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	-	-	2,659	2,659
Transfers in. . . . .	-	-	159	159
Transfers (out) . . . . .	(2,021)	(2,021)	(2,032)	(11)
Total other financing sources (uses) . . . . .	<u>(2,021)</u>	<u>(2,021)</u>	<u>786</u>	<u>2,807</u>
Net change in fund balance . . . . .	(9,497)	(196,759)	230,664	427,423
<b>Fund balance at beginning of year. . . . .</b>	155,824	155,824	155,824	-
<b>Prior year encumbrances appropriated . . . . .</b>	57,296	57,296	57,296	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 203,623</u>	<u>\$ 16,361</u>	<u>\$ 443,784</u>	<u>\$ 427,423</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2007

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 42,268
Total assets. . . . .	<u>\$ 42,268</u>
<b>Liabilities:</b>	
Due to students . . . . .	\$ 42,268
Total liabilities . . . . .	<u>\$ 42,268</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District was established in 1837 through the consolidation of existing land areas and school districts. The District serves an area of approximately 35 square miles. It is located in Miami County, and includes all of the village of Covington and Newberry, Newton and Washington Townships. The District is staffed by 29 non-certificated employees, and 63 certificated full-time teaching personnel who provide services to 836 students and other community members. The District currently operates three instructional/support buildings.

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

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

**A. Reporting Entity**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Metropolitan Dayton Educational Cooperative Association

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

Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, Director, at 303 Corporate Center Dr., Suite 208, Vandalia, Ohio 45377.

Southwestern Ohio Instructional Technology Association

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Upper Valley Joint Vocational School

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

The Covington Education Fund

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

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

*INSURANCE PURCHASING POOL*

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

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

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Southwestern Ohio Educational Purchasing Council Insurance Program

The District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A five member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board and includes 32 school districts with combined student enrollment of 62,649 combined values of \$1,425,139,321. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to: retain a portion of the predictable losses; transfer a portion of the catastrophic risk; broaden the district insurance program coverage's; budget for known maximum costs; and insulate the district from future market upheavals. The District paid \$28,210 to the group during fiscal year 2007 for property and casualty insurance. Cambridge Integrated Services Group, is responsible for processing claims. Marsh Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between Southwestern Ohio EPC Insurance Program and member schools.

*RELATED ORGANIZATION*

The J. R. Clarke Public Library

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

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

*PROPRIETARY FUND*

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

**D. Basis of Accounting**

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

**E. Budgets**

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

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

Tax Budget:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final Certificate of Estimated Resources in effect at the time the final appropriation resolution was passed by the Board of Education.

Appropriations:

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

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

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

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

Lapsing of Appropriations:

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**F. Cash and Investments**

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$52,428, which includes \$19,804 assigned from other funds.

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

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

**G. Inventory**

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

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

**H. Capital Assets**

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

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

**I. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of current service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

**K. Fund Balance Reserves**

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

**L. Net Assets**

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The amount restricted for other purposes represents amounts restricted by State statute for school bus purchases and amounts restricted for the education foundation fund (a nonmajor governmental fund).

**M. Estimates**

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

**N. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a reserve. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**O. Interfund Activity**

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

**P. Extraordinary and Special Items**

Extraordinary items are transactions of events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2007, the District did not incur any transactions that would be classified as an extraordinary item or special item.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Latch Key	\$ 543
IDEA Part B Grant	4,819

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

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

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

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**A. Deposits with Financial Institutions**

At June 30, 2007, the carrying amount of all District deposits was \$599,911. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2007, \$356,949 of the District’s bank balance of \$705,717 was exposed to custodial risk as discussed below, while \$348,768 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**B. Investments**

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 240,317	\$ 240,317

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

*Credit Risk:* Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 240,317	100.00

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 599,911
Investments	240,317
Total	<u>\$ 840,228</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 797,960
Agency funds	42,268
Total	<u>\$ 840,228</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

Transfers to the general fund from:	
Nonmajor governmental funds	\$ 159
Transfers to nonmajor governmental funds from:	
General fund	2,032

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The transfers out of the nonmajor capital projects funds into the general fund represents residual equity transfers for projects that were completed and closed during the year. These transfers totaled \$159.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

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

**NOTE 6 - PROPERTY TAXES**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 6 - PROPERTY TAXES - (Continued)**

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

The District receives property taxes from Miami County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007 was \$97,144 in the general fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$150,681 in the general fund.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 78,768,600	90.04	\$ 80,074,650	91.29
Public Utility Personal	3,368,150	3.85	3,307,310	3.77
Tangible Personal Property	<u>5,347,210</u>	<u>6.11</u>	<u>4,328,310</u>	<u>4.94</u>
Total	<u>\$ 87,483,960</u>	<u>100.00</u>	<u>\$ 87,710,270</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$40.40		\$35.85	

**NOTE 7 - INCOME TAX**

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

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2007 consisted of income and property taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<b>Governmental Activities:</b>	
Taxes	\$ 2,666,924
Accounts	6,430
Intergovernmental	54,088
Accrued interest	<u>5,418</u>
Total	<u>\$ 2,732,860</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/07</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 352,453	\$ -	\$ -	\$ 352,453
Total capital assets, not being depreciated	<u>352,453</u>	<u>-</u>	<u>-</u>	<u>352,453</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	808,592	24,900	-	833,492
Buildings and improvements	3,203,480	15,591	-	3,219,071
Furniture and equipment	789,964	280,116	(125,916)	944,164
Vehicles	451,560	12,505	-	464,065
Total capital assets, being depreciated	<u>5,253,596</u>	<u>333,112</u>	<u>(125,916)</u>	<u>5,460,792</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(448,410)	(28,660)	-	(477,070)
Buildings and improvements	(2,701,310)	(51,932)	-	(2,753,242)
Furniture and equipment	(632,506)	(68,355)	125,154	(575,707)
Vehicles	(352,012)	(21,156)	-	(373,168)
Total accumulated depreciation	<u>(4,134,238)</u>	<u>(170,103)</u>	<u>125,154</u>	<u>(4,179,187)</u>
Governmental activities capital assets, net	<u>\$ 1,471,811</u>	<u>\$ 163,009</u>	<u>\$ (762)</u>	<u>\$ 1,634,058</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 69,637
Special	1,181

Support Services:

Pupil	327
Instructional staff	1,383
Board of education	54
Administration	2,902
Fiscal	686
Operations and maintenance	1,331
Pupil transportation	21,156
Central	5,555
Extracurricular activities	63,430
Food service operations	<u>2,461</u>
Total depreciation expense	<u>\$ 170,103</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

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

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$251,571. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$25,157, leaving a current book value of \$226,414. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2007 fiscal year totaled \$20,534 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 61,305
2009	61,306
2010	61,305
2011	61,305
2012	<u>30,653</u>
Total minimum lease payments	275,874
Less: Amount representing interest	<u>(44,837)</u>
Total	<u>\$ 231,037</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2007, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/2007</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
Capital lease obligation	\$ -	\$ 251,571	\$ (20,534)	\$ 231,037	\$ 44,428
Compensated absences	<u>557,957</u>	<u>60,026</u>	<u>(46,578)</u>	<u>571,405</u>	<u>44,457</u>
Total long-term obligations, governmental activities	<u>\$ 557,957</u>	<u>\$ 311,597</u>	<u>\$ (67,112)</u>	<u>\$ 802,442</u>	<u>\$ 88,885</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$7,460,569 and an unvoted debt margin of \$82,895.

**NOTE 12 - RISK MANAGEMENT**

**A. Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2007, the District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Purchasing Council Insurance Program, a public entity self-insurance purchasing. The District contracted with Marsh Insurance Company for brokerage service. Coverage is provided by Selective Insurance Company of the Southeast, Federal Insurance Co, Travelers Insurance & American Alternative Insurance Company. Insurance coverage provided includes the following:

Building - Replacement Cost	\$16,712,211
Contents (\$1,000 deductible)	5,028,538
Automobile:	
Liability	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate	3,000,000
Excess Liability Umbrella	5,000,000
Excess Property	300,000,000
Boiler and Machinery	50,000,000
School Board Legal Liability	1,000,000

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 12 - RISK MANAGEMENT - (Continued)**

**B. Workers' Compensation**

For fiscal year 2007, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The GRP is split into tiers grouping districts with similar experiences. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the tier. Each participant pays its workers' compensation premium to the State based on the rate for the tier rather than its individual rate. Participation in the GRP is limited to credit rated school districts. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

**C. Medical Benefits**

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

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended June 30 2007, 2006, and 2005 were \$90,916, \$92,374, and \$92,447; 40.23 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$54,340 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 13 - PENSION PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website 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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$428,513, \$417,398 and \$407,327; 83.34 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$71,400 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$4,335 made by the District and \$7,430 made by plan members.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 13 - PENSION PLANS - (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$32,963 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$45,645 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ 230,664
Net adjustment for revenue accruals	412,466
Net adjustment for expenditure accruals	(297,260)
Net adjustment for other sources/uses	248,912
Adjustment for encumbrances	<u>53,077</u>
GAAP basis	<u>\$ 647,859</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 17 - STATUTORY RESERVES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside balance as of June 30, 2006	\$ (57,312)	\$ -
Current year set-aside requirement	119,682	119,682
Qualifying disbursements	<u>(147,255)</u>	<u>(95,248)</u>
Total	<u>\$ (84,885)</u>	<u>\$ 24,434</u>
Balance carried forward to FY 2008	<u>\$ (84,885)</u>	<u>\$ 24,434</u>

The District had qualifying expenditures during the year that reduced the textbook set-asides below zero. This extra amount maybe carried forward to reduce the set-aside requirements of future years.

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

A schedule of the restricted assets at June 30, 2007 follows:

Amount restricted for capital acquisition	\$ 24,434
Amount restricted for school bus purchases	<u>6,477</u>
Total restricted assets	<u>\$ 30,911</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The management's discussion and analysis of the Covington Exempted Village School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2008 are as follows:

- In total, net assets of governmental activities increased \$696,443 which represents a 37.15% increase from 2007.
- General revenues accounted for \$6,629,281 in revenue or 80.60% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,596,051 or 19.40% of total revenues of \$8,225,332.
- The District had \$7,528,889 in expenses related to governmental activities; \$1,596,051 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,629,281 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$7,240,374 in revenues and \$6,566,365 in expenditures. During fiscal year 2008, the general fund's fund balance increased \$674,009 from \$671,960 to \$1,345,969.

**Using these Basic Financial Statements**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

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

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-46 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2008 and 2007.

	<b>Net Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2008</u>	<u>2007</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 4,062,325	\$ 3,554,333
Capital assets, net	<u>1,538,254</u>	<u>1,634,058</u>
Total assets	<u>5,600,579</u>	<u>5,188,391</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,328,066	2,511,387
Long-term liabilities	<u>701,508</u>	<u>802,442</u>
Total liabilities	<u>3,029,574</u>	<u>3,313,829</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	1,393,868	1,403,021
Restricted	205,013	181,515
Unrestricted	<u>972,124</u>	<u>290,026</u>
Total net assets	<u>\$ 2,571,005</u>	<u>\$ 1,874,562</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$2,571,005. Of this total, \$205,013 is restricted in use.

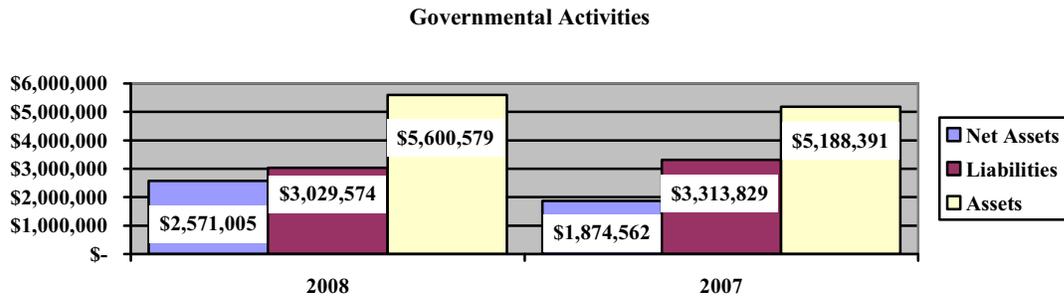
At year-end, capital assets represented 27.47% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2008, were \$1,393,868. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$205,013, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$972,124 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2008 and 2007:



The table below shows the change in net assets for fiscal year 2008 and 2007.

**Change in Net Assets**

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 760,134	\$ 1,008,190
Operating grants and contributions	833,281	655,010
Capital grants and contributions	2,636	12,180
General revenues:		
Property taxes	1,670,216	1,746,393
School district income tax	1,670,057	1,748,641
Grants and entitlements	3,148,821	3,020,854
Investment earnings	61,258	52,428
Other	<u>78,929</u>	<u>34,324</u>
Total revenues	<u>8,225,332</u>	<u>8,278,020</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**Change in Net Assets**

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 3,465,216	\$ 3,505,210
Special	686,344	737,063
Other	5,013	15,921
Support services:		
Pupil	286,211	314,191
Instructional staff	327,371	411,747
Board of education	14,759	8,692
Administration	738,872	724,006
Fiscal	227,011	226,165
Business	2,743	-
Operations and maintenance	555,414	537,817
Pupil transportation	264,982	260,235
Central	126,791	143,174
Operations of non-instructional services		
Other non-instructional services	95,595	84,632
Food service operations	284,240	271,728
Extracurricular activities	434,587	443,602
Interest and fiscal charges	<u>13,740</u>	<u>10,118</u>
Total expenses	<u>7,528,889</u>	<u>7,694,301</u>
Change in net assets	696,443	583,719
Net assets at beginning of year	<u>1,874,562</u>	<u>1,290,843</u>
Net assets at end of year	<u>\$ 2,571,005</u>	<u>\$ 1,874,562</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$696,443. Total governmental expenses of \$7,528,889 were offset by program revenues of \$1,596,051 and general revenues of \$6,629,281. Program revenues supported 21.20% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 78.89% of total governmental revenue.

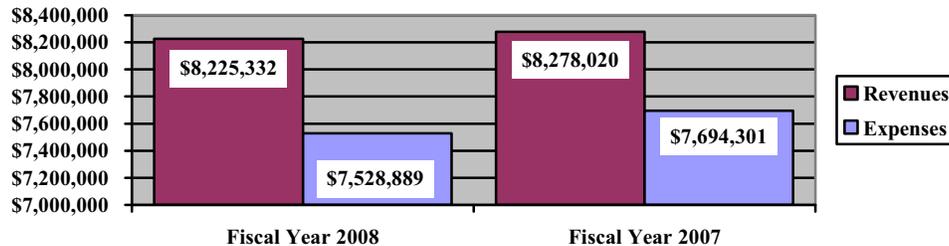
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,156,573 or 55.21% of total governmental expenses for fiscal year 2008.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2008 and 2007.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
<b>Program expenses</b>				
Instruction:				
Regular	\$ 3,465,216	\$ 3,056,454	\$ 3,505,210	\$ 2,918,743
Special	686,344	295,813	737,063	422,237
Other	5,013	5,013	15,921	7,260
Support services:				
Pupil	286,211	231,187	314,191	272,659
Instructional staff	327,371	247,939	411,747	318,033
Board of education	14,759	14,759	8,692	8,692
Administration	738,872	708,256	724,006	698,730
Fiscal	227,011	227,011	226,165	226,165
Business	2,743	2,743	-	-
Operations and maintenance	555,414	541,906	537,817	522,063
Pupil transportation	264,982	239,978	260,235	232,989
Central	126,791	110,361	143,174	126,474
Operations of non-instructional services				
Other non-instructional services	95,595	26,529	84,632	23,800
Food service operations	284,240	(5,457)	271,728	(10,020)
Extracurricular activities	434,587	216,606	443,602	240,978
Interest and fiscal charges	13,740	13,740	10,118	10,118
<b>Total expenses</b>	<u>\$ 7,528,889</u>	<u>\$ 5,932,838</u>	<u>\$ 7,694,301</u>	<u>\$ 6,018,921</u>

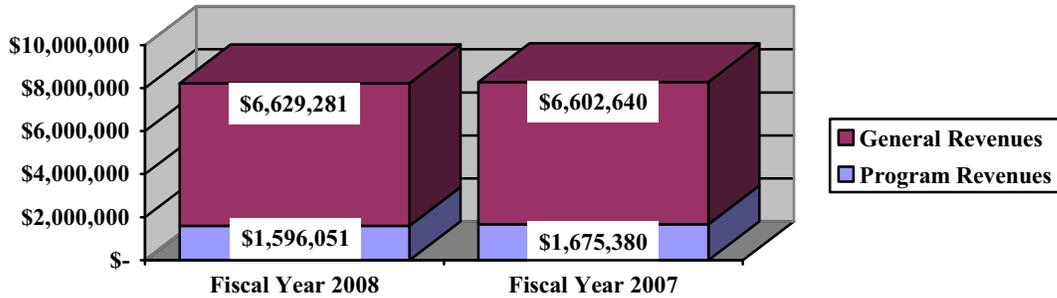
The dependence upon tax and other general revenues for governmental activities is apparent, 80.77% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.80%.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below presents the District's governmental activities revenue for fiscal year 2008 and 2007.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,641,376 which is higher than last year's total of \$932,285. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	<u>Fund Balance June 30, 2008</u>	<u>Fund Balance June 30, 2007</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 1,345,969	\$ 671,960	\$ 674,009	100.30 %
Other Governmental	<u>295,407</u>	<u>260,325</u>	<u>35,082</u>	13.48 %
Total	<u>\$ 1,641,376</u>	<u>\$ 932,285</u>	<u>\$ 709,091</u>	76.06 %

**General Fund**

The District's general fund balance increased \$674,009. The decrease in income tax revenue is attributed to inflated 2007 receipts from catch-up money related to implementation of the 1.25% rate, and receipts of \$55,000 in 2007 from a one-time occurrence. The decrease in tuition revenue is contributed to a decrease in the number of students attending Covington Schools under open enrollment. The increase in earnings on investments is due to higher interest rates and an increased cash balance. The decrease in capital outlay expenditures is due to the District not entering into new capital leases during the current fiscal year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The table that below assists in illustrating the financial activities and fund balance of the general fund.

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,332,231	\$ 3,501,771	\$ (169,540)	(4.84) %
Tuition	347,086	457,194	(110,108)	(24.08) %
Earnings on investments	61,063	52,428	8,635	16.47 %
Intergovernmental	3,390,047	3,244,567	145,480	4.48 %
Other revenues	<u>109,947</u>	<u>80,409</u>	<u>29,538</u>	36.73 %
Total	<u>\$ 7,240,374</u>	<u>\$ 7,336,369</u>	<u>\$ (95,995)</u>	(1.31) %
<b><u>Expenditures</u></b>				
Instruction	\$ 3,922,001	\$ 4,019,664	\$ (97,663)	(2.43) %
Support services	2,293,884	2,401,936	(108,052)	(4.50) %
Non-instructional services	31,087	15,967	15,120	94.70 %
Extracurricular activities	219,002	218,418	584	0.27 %
Capital outlay	-	251,571	(251,571)	(100.00) %
Debt service	<u>100,391</u>	<u>30,652</u>	<u>69,739</u>	227.52 %
Total	<u>\$ 6,566,365</u>	<u>\$ 6,938,208</u>	<u>\$ (371,843)</u>	(5.36) %

***General Fund Budgeting Highlights***

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

For the general fund, final budgeted revenues and other financing sources were \$7,307,711, which was higher than the original budgeted revenues and other financing sources of \$7,211,392. Actual revenues and other financing sources for fiscal year 2008 were \$7,507,182. This represents a \$295,790 increase over original revenues. This increase is primarily due to an increase in intergovernmental State revenue.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,766,933 were increased to \$6,836,261 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$6,630,918, which was \$205,343 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2008, the District had \$1,538,254 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2008 balances compared to 2007:

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

	Governmental Activities	
	2008	2007
Land	\$ 352,453	\$ 352,453
Land improvements	329,284	356,422
Building and improvements	474,299	465,829
Furniture and equipment	313,258	368,457
Vehicles	68,960	90,897
Total	\$ 1,538,254	\$ 1,634,058

The overall decrease in capital assets of \$95,804 is primarily due to depreciation expense of \$176,643 and disposals of \$159 (net of accumulated depreciation) exceeding capital outlays of \$80,998 for fiscal year 2008.

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

***Debt Administration***

At June 30, 2008, the District had \$144,386 in capital lease obligations outstanding. Of this total, \$37,020 is due within one year and \$107,366 is due in greater than one year. The following table summarizes the outstanding obligations for fiscal 2008 compared to 2007.

**Outstanding Debt, at Year End**

	Governmental Activities 2008	Governmental Activities 2007
Capital lease obligations	\$ 144,386	\$ 231,037
Total	\$ 144,386	\$ 231,037

At June 30, 2008, the District's overall legal debt margin was \$8,214,564 with an unvoted debt margin of \$91,273.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**Current Financial Related Activities**

The District's revenues exceeded expenditures in fiscal year 2008. The total cost of services provided was down slightly, due to the following: the retirement of four certified staff members, a decrease in the number of students requiring special education services from County consortium program, and a premium credit on medical insurance, due to our loss ratio being below the insurance group average. Local property taxes decreased due to the expiration of the 5 mill Emergency Levy and the phase-out of taxes on tangible personal property; however, income tax receipts exceeded projections. Future income tax growth will likely be affected by the slowdown in the economy.

The District faces many challenges as the school buildings age. The District does not have a Permanent Improvement Levy; therefore all improvements and capital projects have been funded by general fund dollars. Major capital improvement projects and purchases have been limited in recent years.

The District was offered funds from the Ohio School Facilities Commission for a school facilities project in fiscal year 2009. This offer came much sooner than anticipated due to additional funds invested in the project from the Governor's tobacco securitization initiative. Rather than rushing the process, the Board decided to defer, allowing time to seek community input and determine the scope of the project, with the goal of participating in fiscal year 2010.

Covington Schools has a permanent income tax of 0.50% and an additional 1.25%, which expires at the end of 2010. The additional income tax was for five years, and was passed in conjunction with the expiration of a 5 mill emergency levy. The Board promised to evaluate the school's financial condition at that end of that five year period. The decision on future levies, be it an income tax renewal or replacement, bond and/or maintenance levy, will likely hinge on how the Board and Community decide to proceed with the OSFC's offer.

The Board of Education is committed to achieving the highest levels of student achievement for all students, using all resources (local, State and federal) to their most efficient means.

**Contacting the District's Financial Management**

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

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

STATEMENT OF NET ASSETS  
JUNE 30, 2008

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,714,830
Receivables:	
Taxes . . . . .	2,289,584
Accounts . . . . .	8,028
Intergovernmental . . . . .	27,018
Prepayments. . . . .	5,456
Materials and supplies inventory . . . . .	17,409
Capital assets:	
Land . . . . .	352,453
Depreciable capital assets, net . . . . .	1,185,801
Capital assets, net. . . . .	1,538,254
 Total assets. . . . .	 5,600,579
<b>Liabilities:</b>	
Accounts payable. . . . .	20,327
Accrued wages and benefits . . . . .	556,895
Pension obligation payable. . . . .	156,828
Intergovernmental payable . . . . .	23,938
Unearned revenue . . . . .	1,570,078
Long-term liabilities:	
Due within one year. . . . .	61,504
Due within more than one year . . . . .	640,004
Total liabilities . . . . .	3,029,574
<b>Net Assets:</b>	
Invested in capital assets, net of related debt . . . . .	1,393,868
Restricted for:	
Capital projects . . . . .	14,445
State funded programs . . . . .	513
Federally funded programs . . . . .	313
Student activities . . . . .	88,260
Other purposes . . . . .	101,482
Unrestricted . . . . .	972,124
Total net assets . . . . .	\$ 2,571,005

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 3,465,216	\$ 365,160	\$ 43,602	\$ -	\$ (3,056,454)
Special . . . . .	686,344	42,170	348,361	-	(295,813)
Other . . . . .	5,013	-	-	-	(5,013)
Support services:					
Pupil . . . . .	286,211	-	55,024	-	(231,187)
Instructional staff . . . . .	327,371	-	79,432	-	(247,939)
Board of education . . . . .	14,759	-	-	-	(14,759)
Administration . . . . .	738,872	15,776	14,840	-	(708,256)
Fiscal . . . . .	227,011	-	-	-	(227,011)
Business . . . . .	2,743	-	-	-	(2,743)
Operations and maintenance . . . . .	555,414	10,888	2,620	-	(541,906)
Pupil transportation . . . . .	264,982	-	22,368	2,636	(239,978)
Central . . . . .	126,791	-	16,430	-	(110,361)
Operation of non-instructional services:					
Other non-instructional services . . . . .	95,595	1,636	67,430	-	(26,529)
Food service operations . . . . .	284,240	178,688	111,009	-	5,457
Extracurricular activities . . . . .	434,587	145,816	72,165	-	(216,606)
Interest and fiscal charges . . . . .	13,740	-	-	-	(13,740)
Total governmental activities . . . . .	<u>\$ 7,528,889</u>	<u>\$ 760,134</u>	<u>\$ 833,281</u>	<u>\$ 2,636</u>	<u>(5,932,838)</u>

**General Revenues:**

Property taxes levied for:

General purposes . . . . .	1,670,216
School district income tax . . . . .	1,670,057
Grants and entitlements not restricted to specific programs . . . . .	3,148,821
Investment earnings . . . . .	61,258
Miscellaneous . . . . .	78,929
Total general revenues . . . . .	<u>6,629,281</u>
Change in net assets . . . . .	696,443
<b>Net assets at beginning of year . . . . .</b>	<u>1,874,562</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 2,571,005</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 1,312,759	\$ 315,976	\$ 1,628,735
Receivables:			
Taxes . . . . .	2,289,584	-	2,289,584
Accounts . . . . .	1,754	6,274	8,028
Intergovernmental . . . . .	7,085	19,933	27,018
Due from other funds . . . . .	475	-	475
Prepayments . . . . .	5,456	-	5,456
Materials and supplies inventory . . . . .	-	17,409	17,409
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	86,095	-	86,095
Total assets . . . . .	<u>\$ 3,703,208</u>	<u>\$ 359,592</u>	<u>\$ 4,062,800</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 15,165	\$ 5,162	\$ 20,327
Accrued wages and benefits . . . . .	520,158	36,737	556,895
Compensated absences payable . . . . .	10,777	-	10,777
Pension obligation payable . . . . .	136,336	20,492	156,828
Intergovernmental payable . . . . .	22,619	1,319	23,938
Due to other funds . . . . .	-	475	475
Deferred revenue . . . . .	82,106	-	82,106
Unearned revenue . . . . .	1,570,078	-	1,570,078
Total liabilities . . . . .	<u>2,357,239</u>	<u>64,185</u>	<u>2,421,424</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	22,971	73,395	96,366
Reserved for materials and supplies inventory . . . . .	-	17,409	17,409
Reserved for prepayments . . . . .	5,456	-	5,456
Reserved for property tax unavailable for appropriation . . . . .	73,972	-	73,972
Reserved for capital maintenance . . . . .	76,982	-	76,982
Reserved for school bus purchase . . . . .	9,113	-	9,113
Unreserved, undesignated reported in:			
General fund . . . . .	1,157,475	-	1,157,475
Special revenue funds . . . . .	-	190,158	190,158
Capital projects funds . . . . .	-	14,445	14,445
Total fund balances . . . . .	<u>1,345,969</u>	<u>295,407</u>	<u>1,641,376</u>
Total liabilities and fund balances . . . . .	<u>\$ 3,703,208</u>	<u>\$ 359,592</u>	<u>\$ 4,062,800</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2008

<b>Total governmental fund balances</b>		\$ 1,641,376
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,538,254
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 82,106	
Total		82,106
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital lease obligation	144,386	
Compensated absences payable	546,345	
Total		(690,731)
<b>Net assets of governmental activities</b>		<b>\$ 2,571,005</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 3,332,231	\$ -	\$ 3,332,231
Tuition. . . . .	347,086	-	347,086
Charges for services. . . . .	-	177,012	177,012
Earnings on investments. . . . .	61,063	8,174	69,237
Classroom materials and fess. . . . .	40,836	-	40,836
Extracurricular. . . . .	-	174,405	174,405
Other local revenues. . . . .	69,111	179,804	248,915
Intergovernmental - State. . . . .	3,383,249	24,917	3,408,166
Intergovernmental - Federal . . . . .	6,798	413,447	420,245
Total revenue . . . . .	<u>7,240,374</u>	<u>977,759</u>	<u>8,218,133</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	3,362,242	63,480	3,425,722
Special. . . . .	554,746	123,626	678,372
Other. . . . .	5,013	-	5,013
Support services:			
Pupil. . . . .	228,501	56,199	284,700
Instructional staff . . . . .	243,125	80,878	324,003
Board of education . . . . .	14,705	-	14,705
Administration. . . . .	703,524	27,334	730,858
Fiscal . . . . .	213,584	-	213,584
Operations and maintenance. . . . .	540,811	8,145	548,956
Pupil transportation . . . . .	233,869	10,575	244,444
Central. . . . .	115,765	16,327	132,092
Operation of non-instructional services:			
Other non-instructional services . . . . .	31,087	64,508	95,595
Food service operations. . . . .	-	281,362	281,362
Extracurricular activities. . . . .	219,002	210,243	429,245
Debt service:			
Principal retirement . . . . .	86,651	-	86,651
Interest and fiscal charges . . . . .	13,740	-	13,740
Total expenditures . . . . .	<u>6,566,365</u>	<u>942,677</u>	<u>7,509,042</u>
Net change in fund balances . . . . .	674,009	35,082	709,091
<b>Fund balances at beginning of year. . . . .</b>	<u>671,960</u>	<u>260,325</u>	<u>932,285</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 1,345,969</u>	<u>\$ 295,407</u>	<u>\$ 1,641,376</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<b>Net change in fund balances - total governmental funds</b>	\$	709,091
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceed capital outlays in the current period.</p>		
Capital asset additions	\$ 80,998	
Current year depreciation	<u>(176,643)</u>	
Total		(95,645)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(159)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Taxes	8,042	
Intergovernmental revenue	<u>(843)</u>	
Total		7,199
<p>Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		86,651
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>(10,694)</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u><u>696,443</u></u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,451,597	\$ 3,379,749	\$ 3,593,172	\$ 213,423
Tuition. . . . .	337,226	429,200	351,058	(78,142)
Earnings on investments. . . . .	63,862	65,000	66,481	1,481
Classroom materials and fees . . . . .	39,227	43,800	40,836	(2,964)
Other local revenues . . . . .	36,630	34,000	38,132	4,132
Intergovernmental - State . . . . .	3,249,793	3,319,642	3,383,090	63,448
Intergovernmental - Federal. . . . .	4,455	8,000	4,638	(3,362)
Total revenue . . . . .	<u>7,182,790</u>	<u>7,279,391</u>	<u>7,477,407</u>	<u>198,016</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,826,586	3,574,131	3,466,773	107,358
Special. . . . .	151,758	582,746	565,242	17,504
Other. . . . .	-	8,319	8,069	250
Support services:				
Pupil. . . . .	142,561	237,556	230,420	7,136
Instructional staff . . . . .	58,053	269,071	260,989	8,082
Board of education . . . . .	6,910	15,435	14,971	464
Administration. . . . .	71,400	726,602	704,777	21,825
Fiscal . . . . .	72,375	220,132	213,520	6,612
Operations and maintenance. . . . .	286,333	572,637	555,437	17,200
Pupil transportation . . . . .	83,838	253,063	245,462	7,601
Central. . . . .	35,074	118,796	115,228	3,568
Operation of non-instructional services . . . . .	24,000	32,050	31,087	963
Extracurricular activities. . . . .	7,540	225,723	218,943	6,780
Total expenditures . . . . .	<u>6,766,428</u>	<u>6,836,261</u>	<u>6,630,918</u>	<u>205,343</u>
Excess of revenues over expenditures. . . . .	<u>416,362</u>	<u>443,130</u>	<u>846,489</u>	<u>403,359</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	1,691	-	1,760	1,760
Transfers (out) . . . . .	(505)	-	-	-
Sale of capital assets. . . . .	26,911	28,320	28,015	(305)
Total other financing sources (uses) . . . . .	<u>28,097</u>	<u>28,320</u>	<u>29,775</u>	<u>1,455</u>
Net change in fund balance . . . . .	444,459	471,450	876,264	404,814
<b>Fund balance at beginning of year. . . . .</b>	443,784	443,784	443,784	-
<b>Prior year encumbrances appropriated . . . . .</b>	53,077	53,077	53,077	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 941,320</u>	<u>\$ 968,311</u>	<u>\$ 1,373,125</u>	<u>\$ 404,814</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2008

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 40,255
Total assets. . . . .	\$ 40,255
<b>Liabilities:</b>	
Accounts payable. . . . .	\$ 292
Due to students . . . . .	39,963
Total liabilities . . . . .	\$ 40,255

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District was established in 1837 through the consolidation of existing land areas and school districts. The District serves an area of approximately 35 square miles. It is located in Miami County and includes all of the village of Covington and Newberry, Newton and Washington Townships. The District is staffed by 29 non-certified employees and 62 certified full-time teaching personnel who provide services to 824 students and other community members. The District currently operates three instructional/support buildings.

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

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

**A. Reporting Entity**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Metropolitan Dayton Educational Cooperative Association

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

Southwestern Ohio Educational Purchasing Council

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

Southwestern Ohio Instructional Technology Association

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

Upper Valley Joint Vocational School

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

The Covington Education Fund

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

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

*INSURANCE PURCHASING POOL*

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

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

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

The District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A seven member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board and includes 96 school districts with combined student enrollment of 50,105 combined values of \$1,308,145,565. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to: retain a portion of the predictable losses; transfer a portion of the catastrophic risk; broaden the district insurance program coverage's; budget for known maximum costs; and insulate the district from future market upheavals. The District paid \$55,770 to the group during fiscal year 2008 for property and casualty insurance. Specialty Claims Services, Inc. is responsible for processing claims. Arthur J. Gallagher & Co. is the sales and marketing representative, which establishes agreements between Southwestern Ohio EPC Insurance Program and member schools.

*RELATED ORGANIZATION*

The J. R. Clarke Public Library

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

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

*PROPRIETARY FUND*

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

**D. Basis of Accounting**

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2008 are recorded as deferred revenue on the fund financial statements.

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

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

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

**E. Budgets**

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

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

Tax Budget:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final certificate of estimated resources in effect at the time the final appropriation resolution was passed by the Board of Education.

Appropriations:

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

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

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

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

Lapsing of Appropriations:

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

**F. Cash and Investments**

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2008. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$61,063, which includes \$10,477 assigned from other funds.

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

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

**G. Inventory**

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

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

**H. Capital Assets**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

**I. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2008, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of current service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

**K. Fund Balance Reserves**

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

**L. Net Assets**

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The amount restricted for other purposes represents amounts restricted by State statute for school bus purchases and amounts restricted for the education foundation fund (a nonmajor governmental fund).

**M. Estimates**

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

**N. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a reserve. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

**O. Interfund Activity**

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

**P. Extraordinary and Special Items**

Extraordinary items are transactions of events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2008, the District did not incur any transactions that would be classified as an extraordinary item or special item.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 14) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances**

Fund balances at June 30, 2008 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Miscellaneous state grant	\$ 13
IDEA Part B grant	6,693

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**A. Deposits with Financial Institutions**

At June 30, 2008, the carrying amount of all District deposits was \$684,785. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$593,271 of the District's bank balance of \$943,442 was exposed to custodial risk as discussed below, while \$350,171 was covered by the Federal Deposit Insurance Corporation.

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

**B. Investments**

As of June 30, 2008, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	<u>\$ 1,070,300</u>	<u>\$ 1,070,300</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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 District has no investment policy dealing with 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 District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 1,070,300</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 684,785
Investments	1,070,300
Total	<u>\$ 1,755,085</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,714,830
Agency funds	40,255
Total	<u>\$ 1,755,085</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2008, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 475

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were requested, but were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

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

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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 year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property tax is being phased out. For 2007, tangible personal property was assessed at 12.50% for property, including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 6 - PROPERTY TAXES - (Continued)**

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Miami County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2008 was \$73,972 in the general fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2007 was \$97,144 in the general fund.

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

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 80,074,650	91.29	\$ 88,207,540	93.50
Public utility personal	3,307,310	3.77	3,065,390	3.25
Tangible personal property	<u>4,328,310</u>	<u>4.94</u>	<u>3,063,510</u>	<u>3.25</u>
Total	<u>\$ 87,710,270</u>	<u>100.00</u>	<u>\$ 94,336,440</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$35.85		\$35.75	

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 7 - INCOME TAX**

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

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2008 consisted of income and property taxes, accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

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

**Governmental activities:**

Taxes	\$ 2,289,584
Accounts	8,028
Intergovernmental	<u>27,018</u>
Total	<u>\$ 2,324,630</u>

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance <u>06/30/07</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/08</u>
Governmental activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 352,453	\$ -	\$ -	\$ 352,453
Total capital assets, not being depreciated	<u>352,453</u>	<u>-</u>	<u>-</u>	<u>352,453</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	833,492	2,200	-	835,692
Buildings and improvements	3,219,071	36,790	-	3,255,861
Furniture and equipment	944,164	42,008	(78,555)	907,617
Vehicles	464,065	-	(52,154)	411,911
Total capital assets, being depreciated	<u>5,460,792</u>	<u>80,998</u>	<u>(130,709)</u>	<u>5,411,081</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(477,070)	(29,338)	-	(506,408)
Buildings and improvements	(2,753,242)	(28,320)	-	(2,781,562)
Furniture and equipment	(575,707)	(97,048)	78,396	(594,359)
Vehicles	(373,168)	(21,937)	52,154	(342,951)
Total accumulated depreciation	<u>(4,179,187)</u>	<u>(176,643)</u>	<u>130,550</u>	<u>(4,225,280)</u>
Governmental activities capital assets, net	<u>\$ 1,634,058</u>	<u>\$ (95,645)</u>	<u>\$ (159)</u>	<u>\$ 1,538,254</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 72,782
Special	1,309

Support services:

Pupil	301
Instructional staff	1,252
Board of education	54
Administration	2,802
Fiscal	816
Business	2,743
Operations and maintenance	1,331
Pupil transportation	20,374
Central	3,913
Extracurricular activities	67,097
Food service operations	<u>1,869</u>
Total depreciation expense	<u>\$ 176,643</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

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

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$251,571. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2008 was \$58,321, leaving a current book value of \$136,081. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2008 fiscal year totaled \$86,651 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2008:

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2009	\$ 47,779
2010	47,779
2011	47,779
2012	<u>23,889</u>
Total minimum lease payments	167,226
Less: Amount representing interest	<u>(22,840)</u>
Total	<u>\$ 144,386</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2008, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/2008</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
Capital lease obligation	\$ 231,037	\$ -	\$ (86,651)	\$ 144,386	\$ 37,020
Compensated absences	<u>571,405</u>	<u>30,174</u>	<u>(44,457)</u>	<u>557,122</u>	<u>24,484</u>
Total long-term obligations, governmental activities	<u>\$ 802,442</u>	<u>\$ 30,174</u>	<u>\$ (131,108)</u>	<u>\$ 701,508</u>	<u>\$ 61,504</u>

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2008, are a voted debt margin of \$8,214,564 and an unvoted debt margin of \$91,273.

**NOTE 12 - RISK MANAGEMENT**

**A. Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2008, the District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Purchasing Council Liability, Fleet & Property Insurance Program, a public entity self-insurance purchasing group. The District contracted with Arthur J. Gallagher & Co. for brokerage service. Coverage is provided by Selective Insurance Company of the Southeast, Federal Insurance Co, Travelers Insurance & American Alternative Insurance Company. Insurance coverage provided includes the following:

Building - Replacement Cost	\$16,712,211
Contents (\$1,000 deductible)	5,028,538
Automobile:	
Liability	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate	3,000,000
Excess Liability Umbrella	5,000,000
Excess Property	300,000,000
Boiler and Machinery	50,000,000
School Board Legal Liability	1,000,000

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 12 - RISK MANAGEMENT - (Continued)**

**B. Workers' Compensation**

For fiscal year 2008, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The GRP is split into tiers grouping districts with similar experiences. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the tier. Each participant pays its workers' compensation premium to the State based on the rate for the tier rather than its individual rate. Participation in the GRP is limited to credit rated school districts. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

**C. Medical Benefits**

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

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$78,507, \$85,127 and \$85,564, respectively; 44.37 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 13 - PENSION PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio**

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio 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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$427,261, \$428,513 and \$417,398, respectively; 83.25 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$19,123 made by the District and \$21,748 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$53,208, \$45,645 and \$42,982, respectively; 44.37 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$5,657, \$5,789 and \$6,810, respectively; 44.37 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**B. State Teachers Retirement System of Ohio**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$32,866, \$32,963 and \$32,108, respectively; 83.25 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

<b>Net Change in Fund Balance</b>	<u>General fund</u>
Budget basis	\$ 876,264
Net adjustment for revenue accruals	(237,033)
Net adjustment for expenditure accruals	38,349
Net adjustment for other sources/uses	(29,775)
Adjustment for encumbrances	<u>26,204</u>
GAAP basis	<u>\$ 674,009</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**NOTE 17 - STATUTORY RESERVES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2008, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside balance as of June 30, 2007	\$ (84,885)	\$ 24,434
Current year set-aside requirement	127,643	127,643
Qualifying disbursements	<u>(157,432)</u>	<u>(75,095)</u>
Total	<u>\$ (114,674)</u>	<u>\$ 76,982</u>
Balance carried forward to FY 2009	<u>\$ (114,674)</u>	<u>\$ 76,982</u>

The District had qualifying expenditures during the year that reduced the and textbook set-aside below zero; this extra amount may be carried forward to reduce the set-aside requirements of future years.

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

A schedule of the restricted assets at June 30, 2008 follows:

Amount restricted for capital acquisition	\$ 76,982
Amount restricted for school bus purchases	9,113
Total restricted assets	<u><u>\$ 86,095</u></u>

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covington Exempted Village School District (the District), as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the District, in a separate letter dated December 23, 2008.

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



Springfield, Ohio  
December 23, 2008





**Mary Taylor, CPA**  
Auditor of State

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT**

**MIAMI COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 17, 2009**