

Covington Exempted Village School District Miami County, Ohio

Basic Financial Statements

June 30, 2014

with Independent Auditors' Report



Dave Yost • 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, 2013 through June 30, 2014. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 5, 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covington Exempted Village School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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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, 2014, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The schedule of expenditure of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2014, 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* in considering the District's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co

Springfield, Ohio
December 30, 2014

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

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, 2014. 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 2014 are as follows:

- In total, net position of governmental activities increased \$10,833,212 which represents a 325.86% increase from 2013. The large increase in net position is due to the District's inception of an Ohio School Facilities Commission project.
- General revenues accounted for \$18,191,415 in revenue or 90.80% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$1,842,185 or 9.20% of total revenues of \$20,033,600.
- The District had \$9,200,388 in expenses related to governmental activities; \$1,842,185 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 \$18,191,415 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the classroom facilities fund. The general fund had \$8,011,323 in revenues and other financing sources and \$7,710,069 in expenditures. During fiscal year 2014, the general fund's fund balance increased \$301,254 from a fund balance of \$2,003,559 to \$2,304,813.
- The classroom facilities fund had \$8,976,777 in revenues and other financing sources and \$619,686 in expenditures. During fiscal year 2014, the classroom facilities fund's fund balance increased \$8,357,091 from a zero fund balance to \$8,357,091.

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 position* 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 and the classroom facilities funds by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Position 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 2014?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 position* and changes in that position. This change in net position 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 position 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 position and statement of activities can be found on pages 15-16 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 major governmental funds are the general fund and the classroom facilities 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 position 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 17-21 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 assets and liabilities on page 22. 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, 2014
(UNAUDITED)

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 23-52 of this report.

The District as a Whole

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 2014 compared to fiscal year 2013.

	Net Position	
	Governmental Activities 2014	Governmental Activities 2013
<u>Assets</u>		
Current and other assets	\$ 24,658,545	\$ 4,718,153
Capital assets, net	<u>2,042,506</u>	<u>1,471,278</u>
Total assets	<u>26,701,051</u>	<u>6,189,431</u>
<u>Liabilities</u>		
Current liabilities	869,955	721,610
Long-term liabilities	<u>9,933,448</u>	<u>694,367</u>
Total liabilities	<u>10,803,403</u>	<u>1,415,977</u>
<u>Deferred inflows of resources</u>		
Property taxes levied for the next fiscal year	<u>1,739,928</u>	<u>1,448,946</u>
Total deferred inflows	<u>1,739,928</u>	<u>1,448,946</u>
<u>Net Position</u>		
Net investment in capital assets	1,612,324	1,321,695
Restricted	9,357,549	342,787
Unrestricted	<u>3,187,847</u>	<u>1,660,026</u>
Total net position	<u>\$ 14,157,720</u>	<u>\$ 3,324,508</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the District's assets exceeded liabilities and deferred inflows by \$14,157,720. Of this total, \$9,357,549 is restricted in use. Net position increased \$10,833,212 or 325.86%, due to a significant increase in intergovernmental receivables. At year end the State owed the District \$9,581,541 for their share of the Ohio Facilities Construction Commission (OFCC) project.

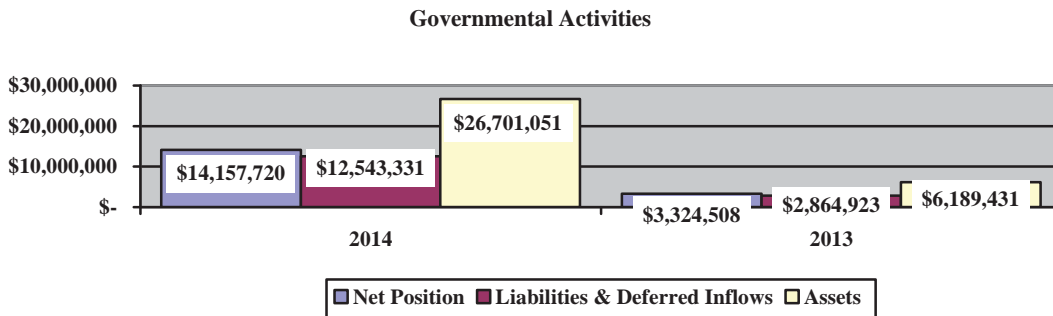
At year-end, capital assets represented 7.65% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2014, was \$1,612,324. These capital assets are used to provide services to the students and are not available for future spending.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

A portion of the District's net position, \$9,357,549, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$3,187,847 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below illustrates the governmental activities assets, liabilities, deferred inflows of resources and net position at June 30, 2014 and 2013:



The table below shows the change in net position for fiscal year 2014 and 2013.

Change in Net Position

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 902,895	\$ 1,098,870
Operating grants and contributions	939,290	891,261
General revenues:		
Property taxes	2,002,126	1,683,843
School district income tax	1,934,188	1,935,144
Grants and entitlements	14,217,051	3,119,670
Investment earnings	20,866	3,678
Other	<u>17,184</u>	<u>22,514</u>
Total revenues	<u>20,033,600</u>	<u>8,754,980</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

Change in Net Position

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,669,320	\$ 3,323,159
Special	1,233,532	914,974
Other	5,034	3,068
Support services:		
Pupil	333,222	381,734
Instructional staff	165,197	341,309
Board of education	13,606	9,908
Administration	865,009	743,370
Fiscal	262,687	254,036
Business	5,436	4,014
Operations and maintenance	543,512	540,397
Pupil transportation	420,146	418,451
Central	80,991	155,607
Operations of non-instructional services		
Other non-instructional services	169,780	73,307
Food service operations	356,176	368,311
Extracurricular activities	529,691	531,269
Interest and fiscal charges	368,896	9,039
Bond issuance costs	<u>178,153</u>	<u>-</u>
Total expenses	<u>9,200,388</u>	<u>8,071,953</u>
Change in net position	10,833,212	683,027
Net position at beginning of year	<u>3,324,508</u>	<u>2,641,481</u>
Net position at end of year	<u>\$ 14,157,720</u>	<u>\$ 3,324,508</u>

Governmental Activities

Net position of the District's governmental activities increased \$10,833,212. Total governmental expenses of \$9,200,388 were offset by program revenues of \$1,842,185 and general revenues of \$18,191,415. Program revenues supported 20.02% 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 90.61% of total governmental revenue. The increase in grants and entitlements is due to the revenue received and outstanding from the State in relation to their share of the OFCC project. The State's share of the project is \$10,755,449. The State's total share has booked as revenue in the current year, because fiscal year 2014 is the year in which it was due.

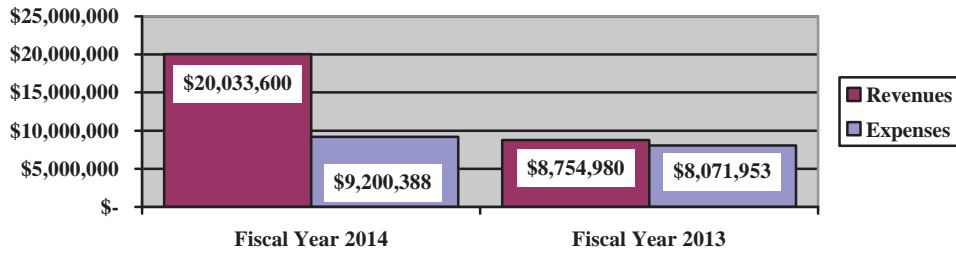
**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,907,886 or 53.34% of total governmental expenses for fiscal year 2014. Instruction expenses increased slightly due to an increase in wages and benefits. The increase in interest and fiscal charges is due to the costs associated with the bonds issued by the District during the current fiscal year.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2014 and 2013.

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 for 2014 compared to 2013. 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 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Program expenses				
Instruction:				
Regular	\$ 3,669,320	\$ 3,210,419	\$ 3,323,159	\$ 2,716,178
Special	1,233,532	590,107	914,974	393,857
Other	5,034	5,034	3,068	3,068
Support services:				
Pupil	333,222	281,592	381,734	333,877
Instructional staff	165,197	164,527	341,309	259,910
Board of education	13,606	13,606	9,908	9,908
Administration	865,009	849,451	743,370	726,472
Fiscal	262,687	262,476	254,036	253,954
Business	5,436	5,436	4,014	4,014
Operations and maintenance	543,512	532,714	540,397	526,154
Pupil transportation	420,146	378,755	418,451	348,506
Central	80,991	75,591	155,607	150,207
Operations of non-instructional services				
Other non-instructional services	169,780	103,121	73,307	13,980
Food service operations	356,176	17,557	368,311	27,744
Extracurricular activities	529,691	320,768	531,269	304,954
Interest and fiscal charges	368,896	368,896	9,039	9,039
Bond issuance costs	178,153	178,153	-	-
Total expenses	\$ 9,200,388	\$ 7,358,203	\$ 8,071,953	\$ 6,081,822

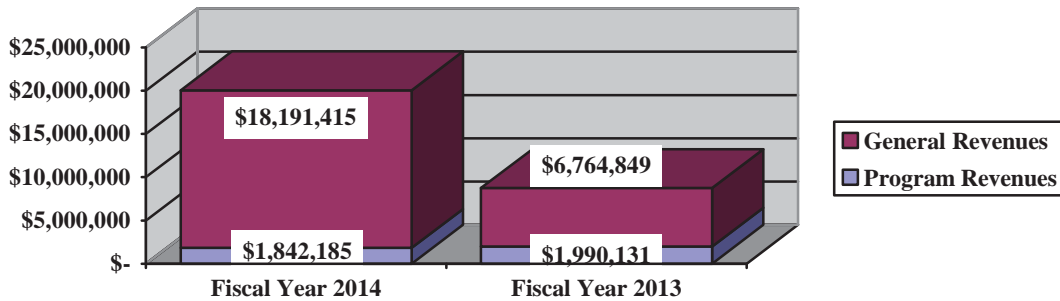
**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent; 77.54% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.98%.

The graph below presents the District's governmental activities revenue for fiscal year 2014 and 2013.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$12,291,526 which is more than last year's total balance of \$2,360,599. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014 and 2013.

	Fund Balance June 30, 2014	Fund Balance June 30, 2013	Increase	Percentage Change
General	\$ 2,304,813	\$ 2,003,559	\$ 301,254	15.04 %
Classroom Facilities	8,357,091	-	8,357,091	100.00 %
Other Governmental	<u>1,629,622</u>	<u>357,040</u>	<u>1,272,582</u>	356.43 %
Total	<u>\$ 12,291,526</u>	<u>\$ 2,360,599</u>	<u>\$ 9,930,927</u>	420.70 %

General Fund

The District's general fund balance increased \$301,254. The decrease in tuition revenue is due to a decrease in open enrollment revenues received during the current fiscal year. The increase in intergovernmental revenue is due to the increase in State foundation revenue. The increase in instruction services is due to an increase in personnel costs. Facilities acquisition and construction expenses increased as the District purchased more assets from the general fund during the current fiscal year compared to the prior fiscal year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

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

	<u>2014</u> <u>Amount</u>	<u>2013</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,660,388	\$ 3,484,871	\$ 175,517	5.04 %
Tuition	494,812	658,194	(163,382)	(24.82) %
Earnings on investments	4,549	3,453	1,096	31.74 %
Intergovernmental	3,712,995	3,396,013	316,982	9.33 %
Other revenues	<u>122,023</u>	<u>123,996</u>	<u>(1,973)</u>	(1.59) %
Total	<u>\$ 7,994,767</u>	<u>\$ 7,666,527</u>	<u>\$ 328,240</u>	4.28 %
<u>Expenditures</u>				
Instruction	\$ 4,649,799	\$ 4,063,589	\$ 586,210	14.43 %
Support services	2,606,251	2,626,694	(20,443)	(0.78) %
Non-instructional services	83,840	42,381	41,459	97.82 %
Extracurricular activities	275,195	263,439	11,756	4.46 %
Debt service	47,253	45,304	1,949	4.30 %
Facilities acquisition and construction	<u>47,731</u>	<u>500</u>	<u>47,231</u>	9,446.20 %
Total	<u>\$ 7,710,069</u>	<u>\$ 7,041,907</u>	<u>\$ 668,162</u>	9.49 %

Classroom Facilities Fund

The classroom facilities fund had \$8,976,777 in revenues and other financing sources and \$619,686 in expenditures. During fiscal year 2014, the classroom facilities fund's fund balance increased \$8,357,091 from a zero fund balance to \$8,357,091.

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.

General fund original revenues and other financing sources were \$7,724,851 and were decreased to \$7,724,586 in the final budgeted revenues and other financing sources. The actual budget basis revenues and other financing sources for fiscal year 2014 totaled \$7,888,305, which was \$163,719 higher than the final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,753,375 were decreased to \$7,703,894 in the final appropriations. The actual budget basis expenditures for fiscal year 2014 totaled \$7,581,378, which was \$122,516 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, 2014
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the District had \$2,042,506 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2014 balances compared to 2013:

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

	Governmental Activities	
	2014	2013
Land	\$ 399,339	\$ 352,453
Construction in progress	619,686	-
Land improvements	165,321	195,540
Building and improvements	508,518	545,059
Furniture and equipment	236,379	233,916
Vehicles	113,263	144,310
Total	\$ 2,042,506	\$ 1,471,278

The overall increase in capital assets of \$571,228 is primarily due to capital outlays of \$733,955 exceeding depreciation expense of \$161,019 and disposals (net of accumulated depreciation) of \$1,708 for fiscal year 2014.

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

Debt Administration

At June 30, 2014, the District had \$9,006,547 general obligation bonds, \$53,761 in capital lease obligations and \$55,722 in energy conservation notes outstanding. Of this total, \$49,416 is due within one year and \$9,066,614 is due in greater than one year. The following table summarizes the outstanding obligations for fiscal 2014 compared to 2013.

Outstanding Debt, at Year End

	Governmental Activities 2014	Governmental Activities 2013
	2014	2013
General obligation bonds	\$ 9,006,547	\$ -
Capital lease obligations	53,761	70,567
Energy conservation notes	55,722	79,016
Total	\$ 9,116,030	\$ 149,583

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, 2014
(UNAUDITED)

Current Financial Related Activities

Operating Revenue

The funding of K-12 public schools in Ohio is a joint effort between the state and local school districts. Like most districts in Ohio, the Covington Exempted Village School District relies on its property & income taxes and state aide to provide the funds necessary to maintain its educational programs. Currently, the state foundation and state reimbursements make up 46% of total General Fund (operating) revenue. Covington's other major sources of General Fund Revenue are local sources - real estate taxes (21%) and income taxes (24%). The balance of our operating revenue comes from tangible personal property tax (on public utilities), open enrollment, student fees, donations, and interest income. *(These percentages are based on a budgetary basis.)*

State Revenue

State foundation funding distributions to school districts are determined by the biennial budget bill. The state budget is adopted in odd numbered years and implemented beginning in even numbered years.

The 2010-11 biennial budget established a new funding formula called the Evidence-Based Model (EBM). Am. Sub. H.B. 153 of the 129th General Assembly, however, repealed the EBM and implemented a temporary funding formula for the 2012-13 biennial budget while the new school funding formula was developed. The temporary formula, called the "Bridge Formula", provided for a simplified approach to fund distribution based on fiscal year 2011 total calculated amounts on per pupil basis for both fiscal year 2012 and fiscal year 2013. The fiscal year 2013 funding calculation involved the use of ADM and funding factors from fiscal year 2011 applied to fiscal year 2013 ADM with additional adjustments utilizing charge-off property valuation data in fiscal year 2011. Based on this approach in fiscal year 2013, school districts were provided total funding amounts without any calculation for various education or support services such as special education, gifted education or transportation. It is important to note that a significant portion of the overall dollars (approximately 7.5%) allocated by the state during the 2010-11 biennium were supplied by one-time Federal Stabilization funds.

The Federal Government dedicated another \$361 million to Ohio schools to prevent education job losses in fiscal year 2012 (Covington's share was \$190,186.) This money was used to fill the gap left by stimulus funds, for wages & benefits to retain staff members. It only represents about half of the total stabilization dollars the federal government supplied over the past biennial. The 2012-2013 executive budget resulted in a net loss for our district.

After five months of debate, the current state funding formula was settled in conference committee and signed by Governor Kasich on June 30, 2013. Depending on many different factors including enrollment and district property valuation, school districts throughout the state could see a maximum increase of 6.25% in fiscal year 2014 and 10.5% in fiscal year 2015. Covington received the maximum increase of 6.25% in fiscal year 2014 and we are anticipating a 10% increase in fiscal year 2015. We do not know what the school funding formula will look like beyond June 30, 2015.

In 2009, Ohio voters approved operating four casino facilities in the state, with a 33% tax to be levied & collected by the State of Ohio on all gross casino revenue. The first of the two casinos opened in May of 2012. Thirty-four percent of the tax is distributed to public school districts based on enrollment. The district first received casino tax revenue in fiscal year 2013; receipts came in at about \$21 per pupil, for a total of \$18,905. Fiscal year 2014 casino revenue was \$45,500. Future income is estimated at about \$45 per pupil for an annual income of approximately \$40,000.

Another source of revenue for the district is from students open enrolling into the district. When a student open enrolls in or out, the state and local share of funding is transferred to the educating district. While we have students enrolling out as well, there are more enrolling in (in fiscal year 2014 there were 66 coming in and 45 going out), which results in a net financial gain for the district. Currently legislation has been introduced to terminate open enrollment; if passed, this would negatively affect our funding.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Local Revenue

For several years, the state of the economy had an adverse effect on the District's local revenue sources. The slowdown in the economy resulted in a 6% reduction in income tax receipts in fiscal year 2010 and no growth in fiscal year 2011. Receipts did rebound in fiscal year 2012, resulting in unpredictable growth of a little over 10%. Fiscal year 2013 receipts increased by 2.6% over the prior year. Fiscal year 2014 showed growth of 8.6%, partially attributed to the "fiscal cliff" (i.e. taxpayers choosing to recognize income in 2012 – tax return filed in April 2013, income received by the school in July 2013 – due to uncertainty regarding federally imposed tax rates for 2013 and beyond.)

The current income tax includes one-half percent (.50%) which was approved in 1993 for continuous or permanent collection, and an additional five-year 1.25% tax (first passed in 2006, with the current levy effective 2011 thru 2015.) The income tax renewal issue will be on the ballot in November of 2014.

In May of 2013, voters approved an initiative to build a new PK-8 facility and renovate the current High School. The approval included a .25% continuous income tax along with a 3.89 property mill levy, both to be effective January 1, 2014.

The Miami County Auditor conducted a re-appraisal in calendar year 2013. While residential, industrial and commercial values declined, agricultural values increased (reflecting Current Agricultural Use Values), resulting in a slight gain of 2% in total Real Property Values. Based on the updated tax value changes, voted tax rates are adjusted proportionately to produce the same amount of revenue as originally approved by the voters (but will not be lower than 20 mills.) The net effect of the updated values was a slight increase in estimated property tax receipts of \$50,000 for the district. Eighty-seven percent of the district's property tax valuation is residential or agricultural.

The operating levies for the District total 30.4 voted mills, but the assessed millage (i.e. effective rate) is at the 20-mill floor for Real Property Class 1, and 22.58 mills for Class 2 Property.

In 2004, legislation (HB66) was approved to phase out the tax on tangible personal property on general business, telephone and telecommunication companies and railroads. Revenue from the state's new Commercial Activity Tax (CAT) was supposed to provide the state a dedicated revenue stream to continue tangible replacement payments through 2017. However, the state's current budget immediately eliminated this reimbursement for Covington which totaled approximately \$111,000 for fiscal year 2012.

Operating Expenditures

Approximately 75% of the District's operating expenses are salaries and benefits. The remaining 25% of operating costs are supplies and materials, purchased services (which include additional personnel hired through the Miami County Educational Service Center), utilities, repairs & maintenance, and tuition fees (charged for students attending special programs or other schools.) In response to deficit spending, reductions in staff were implemented in fiscal year 2012 including 1.5 FTE's in teaching staff and one aide. Negotiations for fiscal year 2012 and fiscal year 2013 resulted in a base wage freeze, as well as step freezes for the 2 year contract. In addition, changes were made to Healthcare benefits, including increased co-pays and deductibles, and the option of an HSA was added, to try and control medical insurance costs. In fiscal year 2013 the district saw additional reductions (thru attrition) of one teacher and one bus driver, plus two additional teachers due to the transition of MD units back to the County ESC Consortium. In fiscal year 2014, certificated and classified staff received a 2.5% base increase and step increases were resumed. Agreements negotiated in fiscal year 2015 cover a three year period. In fiscal year 2015, steps were reinstated and a 2% base wage increase was given. Staff also to receive a 2% base increase in fiscal years 2016 and 2017. *(These percentages are based on a budgetary basis.)*

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

In fiscal year 2012, the Board implemented a HB264 Energy Conservation Project, with estimated annual savings of \$22,000 in utility, operating & maintenance costs. The project was funded with a loan, with principal & interest to be paid with the savings, resulting in a 3.72 year payback period. In addition, the Southwest Ohio Educational Purchasing Council has successfully negotiated savings for member districts with new natural gas and electricity contracts.

Permanent Improvements

A bond issue for a new Pre-K 12 school building, in conjunction with the Ohio Schools Facilities Commission, was defeated by the voters in August of 2010. Subsequently, the Board selected a new architect and worked with the administration and community leaders, to develop an alternative facility solution for the district. The recommendation was to move forward with Pre-K 8 Building, co-funded by the State, and to implement locally fund renovations to the current High School. The levy was approved by voters in May of 2013. This plan will allow the district to lower operating expenses by running the district as a "one campus" facility. We are currently working with the OFCC on the design phase, with construction expected to begin in early spring of 2015.

Conclusion

Covington ended the year with positive cash flow for the second year in a row. With the passage of the building levy and an increase in state funding, the district's current financial situation is favorable. However, since the state funding formula is uncertain beyond fiscal year 2015 and there may be changes to interdistrict open enrollment, we will continue to monitor finances closely and look for opportunities to operate more efficiently and function within the financial parameters provided by the community.

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 POSITION
JUNE 30, 2014

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 12,019,169
Receivables:	
Property taxes	2,145,136
Income taxes.	794,268
Accounts.	19,052
Intergovernmental	9,653,182
Accrued interest	5,703
Prepayments	6,727
Materials and supplies inventory.	15,308
Capital assets:	
Land and construction in progress.	1,019,025
Depreciable capital assets, net.	1,023,481
Capital assets, net	<u>2,042,506</u>
Total assets.	<u>26,701,051</u>
Liabilities:	
Accounts payable.	24,683
Contracts payable.	65,746
Accrued wages and benefits payable	533,643
Pension obligation payable.	138,839
Intergovernmental payable	30,392
Accrued interest payable	76,652
Long-term liabilities:	
Due within one year.	138,705
Due in more than one year.	9,794,743
Total liabilities	<u>10,803,403</u>
Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	<u>1,739,928</u>
Total deferred inflows of resources	<u>1,739,928</u>
Net position:	
Net investment in capital assets	1,612,324
Restricted for:	
Capital projects	9,166,823
Classroom facilities maintenance.	55,549
Student activities	36,964
Other purposes	98,213
Unrestricted.	3,187,847
Total net position.	<u>\$ 14,157,720</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, 2014

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 3,669,320	\$ 403,585	\$ 55,316	\$ (3,210,419)
Special	1,233,532	142,134	501,291	(590,107)
Other	5,034	-	-	(5,034)
Support services:				
Pupil.	333,222	353	51,277	(281,592)
Instructional staff	165,197	-	670	(164,527)
Board of education	13,606	-	-	(13,606)
Administration.	865,009	5,307	10,251	(849,451)
Fiscal.	262,687	180	31	(262,476)
Business.	5,436	-	-	(5,436)
Operations and maintenance	543,512	8,713	2,085	(532,714)
Pupil transportation.	420,146	-	41,391	(378,755)
Central	80,991	-	5,400	(75,591)
Operation of non-instructional services:				
Other non-instructional services	169,780	1,412	65,247	(103,121)
Food service operations	356,176	162,850	175,769	(17,557)
Extracurricular activities.	529,691	178,361	30,562	(320,768)
Interest and fiscal charges	368,896	-	-	(368,896)
Bond issuance costs	178,153	-	-	(178,153)
Total governmental activities	\$ 9,200,388	\$ 902,895	\$ 939,290	(7,358,203)
 General revenues:				
Property taxes levied for:				
General purposes				1,757,319
Debt service.				244,807
School district income tax				1,934,188
Grants and entitlements not restricted to specific programs				3,461,602
Grants and entitlements restricted for				
Ohio Facilities Construction Commission.				10,755,449
Investment earnings				20,866
Miscellaneous				17,184
Total general revenues				18,191,415
Change in net position				10,833,212
Net position at beginning of year				3,324,508
Net position at end of year.				\$ 14,157,720

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 2,024,170	\$ 8,418,684	\$ 1,576,315	\$ 12,019,169
Receivables:				
Property taxes.	1,807,801	-	337,335	2,145,136
Income taxes	794,268	-	-	794,268
Accounts	8,737	-	10,315	19,052
Accrued interest	699	5,004	-	5,703
Intergovernmental.	38,415	9,581,541	33,226	9,653,182
Prepayments.	6,727	-	-	6,727
Materials and supplies inventory.	-	-	15,308	15,308
Total assets	<u>\$ 4,680,817</u>	<u>\$ 18,005,229</u>	<u>\$ 1,972,499</u>	<u>\$ 24,658,545</u>
Liabilities:				
Accounts payable	\$ 24,160	\$ -	\$ 523	\$ 24,683
Contracts payable.	-	65,746	-	65,746
Accrued wages and benefits payable	497,104	-	36,539	533,643
Compensated absences payable	79,622	-	-	79,622
Pension obligation payable	127,020	-	11,819	138,839
Intergovernmental payable	29,085	-	1,307	30,392
Total liabilities.	<u>756,991</u>	<u>65,746</u>	<u>50,188</u>	<u>872,925</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year. . .	1,467,727	-	272,201	1,739,928
Delinquent property tax revenue not available. . .	16,260	-	3,156	19,416
Accrued interest not available.	-	851	-	851
Income tax revenue not available	135,026	-	-	135,026
Intergovernmental revenue not available	-	9,581,541	17,332	9,598,873
Total deferred inflows of resources	<u>1,619,013</u>	<u>9,582,392</u>	<u>292,689</u>	<u>11,494,094</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory.	-	-	15,308	15,308
Prepays.	6,727	-	-	6,727
Restricted:				
Debt service	-	-	64,071	64,071
Capital improvements	-	8,357,091	161,087	8,518,178
Classroom facilities maintenance	-	-	55,549	55,549
Targeted academic assistance	-	-	22	22
Other purposes.	-	-	98,191	98,191
Extracurricular.	-	-	36,964	36,964
Committed:				
Capital improvements	-	-	1,212,374	1,212,374
Student and staff support	15,748	-	-	15,748
Assigned:				
Student instruction	1,985	-	-	1,985
Student and staff support.	24,620	-	-	24,620
Facilities acquisition and construction	200	-	-	200
Subsequent year appropriations	113,174	-	-	113,174
Unassigned (deficit).	2,142,359	-	(13,944)	2,128,415
Total fund balances	<u>2,304,813</u>	<u>8,357,091</u>	<u>1,629,622</u>	<u>12,291,526</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,680,817</u>	<u>\$ 18,005,229</u>	<u>\$ 1,972,499</u>	<u>\$ 24,658,545</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 POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

Total governmental fund balances		\$ 12,291,526
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,042,506
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Property taxes receivable	\$ 19,416	
Income taxes receivable	135,026	
Accrued interest receivable	851	
Intergovernmental receivable	9,598,873	
Total		9,754,166
Unamortized premiums on bonds issued are not recognized in the funds.		(254,446)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(76,652)
Long-term liabilities, including capital leases and notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(9,006,547)	
Capital lease obligations	(53,761)	
Notes payable	(55,722)	
Compensated absences	(483,350)	
Total		(9,599,380)
Net position of governmental activities		\$ 14,157,720

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, 2014

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 1,780,523	\$ -	\$ 244,807	\$ 2,025,330
Income taxes	1,879,865	-	52,264	1,932,129
Tuition	494,812	-	-	494,812
Charges for services	-	-	162,850	162,850
Earnings on investments	4,549	14,441	1,201	20,191
Classroom materials and fees	34,342	-	-	34,342
Extracurricular	22,891	-	184,608	207,499
Rental income	3,392	-	-	3,392
Contributions and donations	40,158	-	86,133	126,291
Other local revenues	21,240	-	5,062	26,302
Intergovernmental - State	3,712,794	1,173,908	40,774	4,927,476
Intergovernmental - Federal	201	-	495,032	495,233
Total revenues	<u>7,994,767</u>	<u>1,188,349</u>	<u>1,272,731</u>	<u>10,455,847</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,665,182	-	22,113	3,687,295
Special	979,583	-	250,851	1,230,434
Other	5,034	-	-	5,034
Support services:				
Pupil	282,696	-	49,813	332,509
Instructional staff	160,695	-	663	161,358
Board of education	13,552	-	-	13,552
Administration	863,926	-	-	863,926
Fiscal	257,961	-	3,423	261,384
Operations and maintenance	559,915	-	10,047	569,962
Pupil transportation	379,159	-	13,225	392,384
Central	88,347	-	5,400	93,747
Operation of non-instructional services:				
Other non-instructional services	83,840	-	85,940	169,780
Food service operations	-	-	356,364	356,364
Extracurricular activities	275,195	-	219,591	494,786
Facilities acquisition and construction	47,731	619,686	-	667,417
Debt service:				
Principal retirement	40,100	-	-	40,100
Interest and fiscal charges	7,153	-	284,371	291,524
Bond issuance costs	-	-	178,153	178,153
Total expenditures	<u>7,710,069</u>	<u>619,686</u>	<u>1,479,954</u>	<u>9,809,709</u>
Excess (deficiency) of revenues over (under) expenditures	<u>284,698</u>	<u>568,663</u>	<u>(207,223)</u>	<u>646,138</u>
Other financing sources (uses):				
Premium on bonds sold	-	-	260,075	260,075
Sale of bonds	-	-	9,000,000	9,000,000
Sale of assets	16,556	-	8,158	24,714
Transfers in	-	7,788,428	-	7,788,428
Transfers (out)	-	-	(7,788,428)	(7,788,428)
Total other financing sources (uses)	<u>16,556</u>	<u>7,788,428</u>	<u>1,479,805</u>	<u>9,284,789</u>
Net change in fund balances	301,254	8,357,091	1,272,582	9,930,927
Fund balances at beginning of year	<u>2,003,559</u>	<u>-</u>	<u>357,040</u>	<u>2,360,599</u>
Fund balances at end of year	<u>\$ 2,304,813</u>	<u>\$ 8,357,091</u>	<u>\$ 1,629,622</u>	<u>\$ 12,291,526</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, 2014

Net change in fund balances - total governmental funds \$ 9,930,927

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	\$ 733,955	
Current year depreciation	(161,019)	
Total		572,936

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position. (1,708)

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

Property taxes	(23,204)	
Income taxes	2,059	
Earnings on investments	851	
Intergovernmental	9,598,047	
Total		9,577,753

Repayment of capital lease and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. 40,100

Issuances of bonds are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing as they increase liabilities on the statement of net position. (9,000,000)

Premiums on bonds are amortized over the life of the issuance in the statement of activities. (260,075)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:

Increase in accrued interest payable	(76,454)	
Accreted interest on capital appreciation bonds	(6,547)	
Amortization of bond premiums	5,629	
Total		(77,372)

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. 50,651

Change in net position of governmental activities **\$ 10,833,212**

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, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 1,721,966	\$ 1,721,966	\$ 1,740,735	\$ 18,769
Income taxes.	1,829,519	1,829,254	1,884,227	54,973
Tuition.	515,000	515,000	510,294	(4,706)
Earnings on investments	3,000	3,000	4,346	1,346
Classroom materials and fees	37,900	37,900	34,342	(3,558)
Rental income	5,000	5,000	3,664	(1,336)
Contributions and donations	7,000	7,000	6,539	(461)
Other local revenues	2,250	2,250	9,048	6,798
Intergovernmental - State	3,593,066	3,593,066	3,674,379	81,313
Intergovernmental - Federal	150	150	201	51
Total revenues	<u>7,714,851</u>	<u>7,714,586</u>	<u>7,867,775</u>	<u>153,189</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,618,975	3,578,862	3,531,361	47,501
Special.	972,920	963,570	977,324	(13,754)
Other.	6,850	6,850	4,186	2,664
Support services:				
Pupil.	354,310	276,515	280,861	(4,346)
Instructional staff	142,480	184,830	177,622	7,208
Board of education	15,750	15,750	13,422	2,328
Administration.	793,725	793,725	848,735	(55,010)
Fiscal	269,900	267,900	260,208	7,692
Operations and maintenance.	634,585	636,441	573,682	62,759
Pupil transportation	409,900	409,900	391,811	18,089
Central.	166,986	155,557	100,368	55,189
Operation of non-instructional services	70,000	70,000	83,836	(13,836)
Extracurricular activities.	269,885	269,885	264,622	5,263
Facilities acquisition and construction	1,500	48,500	47,931	569
Debt service:				
Principal retirement.	23,294	23,294	23,294	-
Interest and fiscal charges.	2,115	2,115	2,115	-
Total expenditures	<u>7,753,175</u>	<u>7,703,694</u>	<u>7,581,378</u>	<u>122,316</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(38,324)</u>	<u>10,892</u>	<u>286,397</u>	<u>275,505</u>
Other financing sources (uses):				
Refund of prior year's expenditures	10,000	10,000	10,536	536
Refund of prior year's receipts.	(200)	(200)	-	200
Sale of capital assets	-	-	9,994	9,994
Total other financing sources (uses)	<u>9,800</u>	<u>9,800</u>	<u>20,530</u>	<u>10,730</u>
Net change in fund balance	(28,524)	20,692	306,927	286,235
Fund balance at beginning of year	1,650,634	1,650,634	1,650,634	-
Prior year encumbrances appropriated	15,241	15,241	15,241	-
Fund balance at end of year	<u>\$ 1,637,351</u>	<u>\$ 1,686,567</u>	<u>\$ 1,972,802</u>	<u>\$ 286,235</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2014

	<u>Agency</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 31,031
Total assets.	<u>\$ 31,031</u>
Liabilities:	
Due to students.	\$ 31,031
Total liabilities	<u>\$ 31,031</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, 2014**

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 33 non-certified employees and 62 certified full-time teaching personnel who provide services to 882 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'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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. 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, food 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. 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, 2014**

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 K-12 schools in Darke, Miami and Montgomery Counties, plus Fairborn City Schools (in Greene County). 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 regional instructional technology needs of the SOITA member schools by facilitating the use of high quality instructional technology to improve both teaching and learning. 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 Position shall be distributed to the federal government, or to a State or local government, for a public purpose. Payments to SOITA are made from the general fund. 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, 2014**

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

Upper Valley Career Center

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

Schools of Ohio Risk Sharing Authority (“SORSA”)

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA) which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code - Non-profit Corporations and functioning under the authority granted by Section 2744.081 of the Ohio Revised Code. SORSA’s purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid \$27,550 for these services to SORSA in fiscal year 2014.

SORSA is governed by a nine member Board of Directors, each a current public school administrator, elected by and from, the membership for a three year term. The BOD meets nine times a year and is involved in all aspects of the program. The Board retains legal counsel with Peck, Shaffer & Williams LLC. SORSA is managed by an Executive Director. Willis Pooling administers the pool and York Risk Services Group manages the claims. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

GOVERNMENTAL FUNDS

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported 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.

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects, and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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 position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. 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 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 position 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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 deferred outflows and all liabilities and deferred inflows associated with the operation of the District are included on the statement of net position.

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.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources 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 Nonexchange 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).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2014, are recorded as deferred inflows on the governmental fund financial statements.

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

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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 purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Miami County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

Lapsing of Appropriations:

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

F. Cash and Investments

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

During fiscal year 2014, investments were limited to federal agency securities, U.S. Treasury notes, commercial papers, U.S. Treasury money market funds and the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio and STAR Plus during fiscal year 2014. 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, 2014.

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 2014 amounted to \$4,549, which includes \$482 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 on the government-wide statements and the fund financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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 position, but are not reported in the fund financial statements.

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

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

<u>Description</u>	<u>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, 2014, 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, 2014, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

J. Accrued Liabilities and Long-Term Obligations

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

In general, 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, 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. Bonds and related interest payments are recognized as a liability on the fund financial statements when they come due for payment.

K. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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

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

L. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

On the fund financial statements, reported prepayments are equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of fund balance.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the District has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2014 included the following individual fund deficit:

<u>Nonmajor governmental fund</u>	
IDEA Part-B	\$ 4,960
Title I	4,674

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur.

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;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all District deposits was \$2,264,769. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$1,211,674 of the District's bank balance of \$2,478,795 was exposed to custodial risk as discussed below, while \$1,267,121 was covered by the FDIC.

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, 2014, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>
FFCB	\$ 3,065,308	\$ -	\$ 500,181	\$ 1,537,208	\$ 1,027,919
FHLB	980,078	-	400,039	-	580,039
FNMA	721,161	-	-	721,161	-
FHLMC	1,099,751	-	-	-	1,099,751
U.S. Treasury note	700,137	-	700,137	-	-
Commercial paper	2,183,121	2,183,121	-	-	-
U.S. Treasury money market	6,191	6,191	-	-	-
STAR Ohio	1,029,684	1,029,684	-	-	-
Total	\$ 9,785,431	\$ 3,218,996	\$ 1,600,357	\$ 2,258,369	\$ 2,707,709

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 STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's U.S. Treasury money market mutual funds were rated AAAM by Standard & Poor's. The District's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The commercial paper held was rated P-1 by Moody's Investors Services. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2014:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FFCB	\$ 3,065,308	31.33
FHLB	980,078	10.02
FNMA	721,161	7.37
FHLMC	1,099,751	11.24
U.S. Treasury note	700,137	7.15
Commercial paper	2,183,121	22.31
U.S. Treasury money market	6,191	0.06
STAR Ohio	<u>1,029,684</u>	<u>10.52</u>
Total	<u>\$ 9,785,431</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Position

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 position as of June 30, 2014:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,264,769
Investments	<u>9,785,431</u>
Total	<u>\$ 12,050,200</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 12,019,169
Agency fund	<u>31,031</u>
Total	<u>\$ 12,050,200</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2014, consisted of the following, as reported in the fund financial statements:

<u>Transfers to the classroom facilities fund from:</u>	
Nonmajor governmental fund	<u>\$ 7,788,428</u>

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 from the building fund (a nonmajor governmental fund) to the classroom facilities fund was necessary to move the local share out of the fund it had been receipted into and into the local share special cost center of the classroom facilities fund. All transfers made in fiscal year 2014 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated for reporting 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 property and public utility property. Real property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Public utility real and personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Miami County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available as an advance at June 30, 2014 was \$302,263 in the general fund and \$58,060 in the debt service fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2013 was \$273,020 in the general fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2014 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 92,274,900	95.77	\$ 93,829,210	96.06
Public utility personal	<u>4,078,600</u>	<u>4.23</u>	<u>3,846,170</u>	<u>3.94</u>
Total	<u>\$ 96,353,500</u>	<u>100.00</u>	<u>\$ 97,675,380</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$35.70		\$39.61	

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. The District's income tax has been renewed twice since its original issue. The current renewal is effective through 2015. 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, the permanent improvement fund (a nonmajor governmental fund) and the classroom facilities fund.

An additional .25% continuing income tax was passed in May 2013, effective January 1, 2014, along with a 3.89 mil bond levy, to fund the construction of a new pre-kindergarten through eighth grade school facility and renovations to the existing high school building.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2014 consisted of income and property taxes, accounts (billings for user charged services and student fees), accrued interest 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - RECEIVABLES - (Continued)

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

Governmental activities:

Property taxes	\$ 2,145,136
Income Taxes	794,268
Accounts	19,052
Intergovernmental	9,653,182
Accrued interest	<u>5,703</u>
Total	<u>\$ 12,617,341</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year, with the exception of the Ohio Facilities Construction Commission intergovernmental receivable of \$9,581,541, which will be collected over the duration of the construction project.

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance 06/30/13	Additions	Deductions	Balance 06/30/14
Governmental activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 352,453	\$ 46,886	\$ -	\$ 399,339
Construction in progress	<u>-</u>	<u>619,686</u>	<u>-</u>	<u>619,686</u>
Total capital assets, not being depreciated	<u>352,453</u>	<u>666,572</u>	<u>-</u>	<u>1,019,025</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	852,207	-	-	852,207
Buildings and improvements	3,474,501	2,800	-	3,477,301
Furniture and equipment	842,967	64,583	(13,615)	893,935
Vehicles	<u>504,396</u>	<u>-</u>	<u>-</u>	<u>504,396</u>
Total capital assets, being depreciated	<u>5,674,071</u>	<u>67,383</u>	<u>(13,615)</u>	<u>5,727,839</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(656,667)	(30,219)	-	(686,886)
Buildings and improvements	(2,929,442)	(39,341)	-	(2,968,783)
Furniture and equipment	(609,051)	(60,412)	11,907	(657,556)
Vehicles	<u>(360,086)</u>	<u>(31,047)</u>	<u>-</u>	<u>(391,133)</u>
Total accumulated depreciation	<u>(4,555,246)</u>	<u>(161,019)</u>	<u>11,907</u>	<u>(4,704,358)</u>
Governmental activities capital assets, net	<u>\$ 1,471,278</u>	<u>\$ 572,936</u>	<u>\$ (1,708)</u>	<u>\$ 2,042,506</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 60,806
Special	226
<u>Support services:</u>	
Pupil	102
Board of education	54
Administration	1,996
Fiscal	109
Business	5,436
Operations and maintenance	7,039
Pupil transportation	26,949
Central	4,124
Extracurricular activities	53,313
Food service operations	865
Total depreciation expense	<u>\$ 161,019</u>

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into a capitalized lease for copiers. 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 \$93,357. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2014 was \$46,678, leaving a current book value of \$46,679. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2014 fiscal year totaled \$16,806 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, 2014:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 21,844
2016	21,844
2017	<u>16,382</u>
Total minimum lease payments	60,070
Less: Amount representing interest	<u>(6,309)</u>
Total	<u>\$ 53,761</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2014, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding			Balance Outstanding		Amounts Due in
	<u>06/30/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/2014</u>	<u>One Year</u>	
Governmental activities:						
Capital lease obligation	\$ 70,567	\$ -	\$ (16,806)	\$ 53,761	\$ 18,200	
Energy conservation notes	79,016	-	(23,294)	55,722	26,216	
Series 2013 bonds						
Current interest bonds	-	8,935,000	-	8,935,000	5,000	
Capital appreciation bonds	-	65,000	-	65,000	-	
Accreted interest	-	6,547	-	6,547	-	
Compensated absences	<u>544,784</u>	<u>37,377</u>	<u>(19,189)</u>	<u>562,972</u>	<u>89,289</u>	
Total	<u>\$ 694,367</u>	<u>\$ 9,043,924</u>	<u>\$ (59,289)</u>	<u>9,679,002</u>	<u>\$ 138,705</u>	
Add: unamortized premium				<u>254,446</u>		
Total on statement of net position				<u>\$ 9,933,448</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.

Capital lease obligation: See Note 10 for detail on the District's capital lease obligation.

- B. On June 3, 2011, the District issued energy conservation notes to provide for energy improvements to various District buildings. The notes bear an interest rate of 3% and will mature during fiscal year 2016. The primary source of repayment of these notes is through energy savings as a result of the improvements.

Payments of principal and interest relating to the energy conservation notes are recorded as expenditures in the general fund. The unmaturing obligations at year end are accounted for in the statement of net position.

The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

Fiscal <u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 26,216	\$ 1,383	\$ 27,599
2016	<u>29,506</u>	<u>561</u>	<u>30,067</u>
Total	<u>\$ 55,722</u>	<u>\$ 1,944</u>	<u>\$ 57,666</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- C. Series 2013 School Facilities Construction and Improvement Bonds - On September 5, 2013, the District issued \$9,000,000 in general obligation serial bonds, for the purpose of improving school facilities. Principal and interest payments are made from the debt service fund (a nonmajor governmental fund).

The issue is comprised of both current interest serial bonds, par value \$8,935,000, and capital appreciation bonds par value \$65,000. The interest rates on the current interest bonds range from 1.0%-6.0%. The capital appreciation bonds mature on November 1, 2022 (stated interest rate 12.42%), November 1, 2023 (stated interest rate 12.77%), November 1, 2024 (stated interest rate 7.77%), November 1, 2025 (stated interest rate 25.33%), November 1, 2026 (stated interest rate 24.61%), November 1, 2027 (stated interest rate 23.13%), November 1, 2028 (stated interest rate 21.52%), November 1, 2029 (stated interest rate 21.00%) and November 1, 2030 (stated interest rate 19.97%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$770,000. Total accreted interest of \$6,547 for Series 2013 capital appreciation bonds has been included on the statement of net position at June 30, 2014.

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

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

Fiscal Year	Current Interest - Series 2013			Capital Appreciation - Series 2013		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 5,000	\$ 459,049	\$ 464,049	\$ -	\$ -	\$ -
2016	15,000	458,949	473,949	-	-	-
2017	15,000	458,761	473,761	-	-	-
2018	20,000	458,486	478,486	-	-	-
2019	25,000	458,074	483,074	-	-	-
2020 - 2024	270,000	2,227,860	2,497,860	20,000	45,000	65,000
2025 - 2029	270,000	1,803,076	2,073,076	35,000	415,000	450,000
2030 - 2034	820,000	1,870,400	2,690,400	10,000	245,000	255,000
2035 - 2039	1,410,000	1,804,448	3,214,448	-	-	-
2040 - 2044	1,675,000	1,427,851	3,102,851	-	-	-
2045 - 2049	2,460,000	868,539	3,328,539	-	-	-
2050 - 2052	1,950,000	161,947	2,111,947	-	-	-
Total	\$ 8,935,000	\$ 12,457,440	\$ 21,392,440	\$ 65,000	\$ 705,000	\$ 770,000

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

D. 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, 2014, are a voted debt margin of \$17,040 and an unvoted debt margin of \$97,675.

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. For fiscal year 2014, the District joined together with other school districts in Ohio to participate in the Schools of Ohio Risk Sharing Authority (the "Plan"), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a nine member board consisting of superintendents, treasurers and business managers.

The York Risk Services Group is responsible for processing claims. Willis Pooling Practice serves as the Plan's administrator, sales representative, and marketing representative who establish agreements between the Plan and its members. Financial information can be obtained from SORSA, Attn: Executive Director, 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

Coverage provided includes the following

Building & Contents	\$27,122,751
Contents (\$1,000 deductible)	
Automobile:	
Liability	15,000,000
General Liability	
Per occurrence	15,000,000
Aggregate	17,000,000
School Board Legal Liability	15,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There was no significant reduction in coverage from the prior year.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

For fiscal year 2014, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see 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), an insurance purchasing pool (See 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 SOEPC.

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, disability, survivor 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, under "Employers/Audit Resources".

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 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 14 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 and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$141,469, \$131,397 and \$134,219, respectively; 82.78 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 website at www.strsoh.org, under "Publications".

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 2014, plan members were required to contribute 11 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 14 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, 2014, 2013 and 2012 were \$445,236, \$436,195 and \$457,774, respectively; 82.58 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$33,818 made by the District and \$26,571 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, 2014 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, 2014**

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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned.

Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012 were \$19,204, \$17,300 and \$21,467, respectively; 82.78 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$8,207, \$7,422 and \$7,926, respectively; 82.78 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, 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, 2014, 2013 and 2012 were \$34,249, \$33,553 and \$35,213, respectively; 82.58 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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 assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 306,927
Net adjustment for revenue accruals	59,887
Net adjustment for expenditure accruals	(90,486)
Net adjustment for other sources/uses	(3,974)
Funds budgeted elsewhere	952
Adjustment for encumbrances	27,948
GAAP basis	<u>\$ 301,254</u>

The public school support fund is a legally budgeted separate special revenue fund that is considered part of the general fund on a GAAP basis.

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 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 17 - SET-ASIDES - (Continued)

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2013	\$ -
Current year set-aside requirement	151,042
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	(44,705)
Excess qualified expenditures from prior years	-
Current year offsets	-
Waiver granted by ODE	-
Prior year offset from bond proceeds	<u>(106,337)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2015	<u>\$ -</u>
Set-aside balance June 30, 2014	<u>\$ -</u>

NOTE 18 - CONTRACTUAL COMMITMENTS

As of June 30, 2014, the District had the following contractual commitments outstanding related to a stadium project. A summary of the primary contractual commitments follows:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid Through June 30, 2014</u>	<u>Remaining Contract Amount</u>
Fanning/Howey	\$ 1,518,922	\$ 549,740	\$ 969,182
Heapy Engineering	<u>53,307</u>	<u>-</u>	<u>53,307</u>
	<u>\$ 1,572,229</u>	<u>\$ 549,740</u>	<u>\$ 1,022,489</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 19 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year - End Encumbrances</u>
General fund	\$ 19,168
Classroom facilities fund	903,436
Other governmental	<u>50,268</u>
Total	<u>\$ 972,872</u>

NOTE 20 - SUBSEQUENT EVENT

On August 1, 2014, Ken Miller became the District's Superintendent.

Covington Exempted Village School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Federal Agency/ Pass Through Agency/ Program Title	Federal CFDA Number	Grant Year	Receipts	Disbursements
U.S. Department of Agriculture: <i>Passed through Ohio Department of Education:</i>				
Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	10.555	2014	\$ 24,266	\$ 24,266
Cash Assistance:				
National School Breakfast Program	10.553	2014	20,693	20,693
National School Lunch Program	10.555	2014	<u>125,618</u>	<u>125,617</u>
Total Nutrition Cluster			<u>170,577</u>	<u>170,576</u>
Total US Department of Agriculture			<u>170,577</u>	<u>170,576</u>
U.S. Department of Education: <i>Passed through Ohio Department of Education:</i>				
Title I, Part A Grants to Local Education Agencies	84.010	2013	6,017	14,026
		2014	<u>127,423</u>	<u>127,364</u>
Total Title I Grants to Local Education Agencies			133,440	141,390
Special Education Grants to States	84.027	2013	10,809	21,711
		2014	<u>156,406</u>	<u>156,054</u>
Total Special Education Grants to States			167,215	177,765
Improving Teacher Quality State Grants	84.367	2013	1,187	-
		2014	<u>22,135</u>	<u>22,113</u>
Total Improving Teacher Quality State Grants			23,322	22,113
Total U.S. Department of Education			<u>323,977</u>	<u>341,268</u>
Total Federal Assistance			<u>\$ 494,554</u>	<u>\$ 511,844</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

1. Significant Accounting Policies:

The accompanying schedule of expenditures of federal awards is a summary of the federal awards programs of the Covington Exempted Village School District. This schedule has been prepared on the cash basis of accounting.

2. U.S. Department of Agriculture Programs:

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2014 the District had no significant food commodities in inventory.

3. Matching Requirements:

Certain federal programs require the School District to contribute non-federal funds (matching funds) to support federally-funded programs. The District has complied with the matching requirements. The expenditure of non-federal (matching) funds is not included on the Schedule of Expenditures of Federal Awards.

**INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covington Exempted Village School District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co

Springfield, Ohio
December 30, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Covington Exempted Village School District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit over compliance, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co

Springfield, Ohio
December 30, 2014

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Noncompliance material to financial statements noted?	None noted

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	None noted
Identification of major programs:	
Title I, Part A Grants to Local Education Agencies CFDA 84.010	
Dollar threshold to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None reported

Section III – Federal Awards Findings and Questioned Costs

None reported

Section IV – Summary of Prior Audit Findings and Questioned Costs

None reported in prior audit



At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success.

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Dave Yost • Auditor of State

COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 17, 2015**