



**Auditor of State  
Betty Montgomery**



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Covington Exempted Village School District  
Miami County  
25 Grant Street  
Covington, Ohio 45318

To the Members of the Board:

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of Covington Exempted Village School District, Miami County, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the aggregate remaining fund information of Covington Exempted Village School District, Miami County, as of June 30, 2004, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards expenditures is presented for additional analysis and is not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

February 22, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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, 2004.

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 2004 are as follows:

- In total, net assets of governmental activities decreased \$1,131,917 which represents a 34.98% decrease from 2003.
- General revenues accounted for \$5,099,420 in revenue or 78.03% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,435,561 or 21.97% of total revenues of \$6,534,981.
- The District had \$7,666,898 in expenses related to governmental activities; \$1,435,561 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 \$5,099,420 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$5,660,313 in revenues and \$6,238,920 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$578,607 from \$1,268,874 to \$690,267.

**Using these Basic Financial Statements**

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

The **Statement of Net Assets and Statement of Activities** provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Reporting the District as a Whole**

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

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

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

**Fund Financial Statements**

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

**Governmental Funds**

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Reporting the District's Fiduciary Responsibilities**

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

**Notes to the Basic Financial Statements**

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

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

<u>Assets</u>	<b>Net Assets</b>
	<b>Governmental</b>
	<b>Activities</b>
	<b>2004</b>
Current and other assets	\$ 3,790,694
Capital assets	<u>1,458,000</u>
Total assets	<u>5,248,694</u>
 <u>Liabilities</u>	
Current liabilities	2,650,016
Long-term liabilities	<u>495,088</u>
Total liabilities	<u>3,145,104</u>
 <u>Net Assets</u>	
Invested in capital assets, net of related debt	1,458,000
Restricted	59,208
Unrestricted	<u>586,382</u>
Total net assets	<u><u>\$ 2,103,590</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$2,103,590. Of this total, \$586,382 is unrestricted in use.

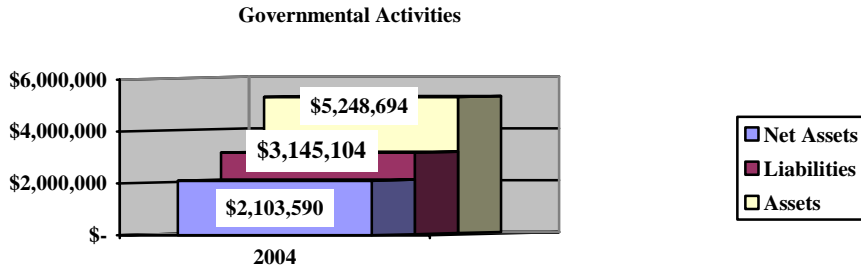
**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

At year-end, capital assets represented 27.78% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$1,458,000. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$59,208, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$586,382 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below presents the District's governmental activities assets, liabilities and net assets for fiscal year 2004.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

	<u><b>Change in Net Assets</b></u>
	<b>Governmental Activities</b>
	<b>2004</b>
<b>Revenues</b>	
Program revenues:	
Charges for services and sales	\$772,132
Operating grants and contributions	663,429
General revenues:	
Property taxes	1,938,399
School district income tax	387,475
Grants and entitlements	2,684,309
Investment earnings	19,826
Other	69,411
Total revenues	<u><u>\$6,534,981</u></u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

	<b>Change in Net Assets</b>
	<b>Governmental Activities 2004</b>
<b>Expenses</b>	
Program expenses:	
Instruction:	
Regular	\$3,163,763
Special	604,409
Other	19,728
Support services:	
Pupil	273,566
Instructional staff	360,810
Board of education	9,010
Administration	769,206
Fiscal	237,069
Operations and maintenance	1,114,304
Pupil transportation	309,344
Central	97,414
Food service operations	259,290
Operations of non-instructional services	66,455
Extracurricular activities	382,530
Total expenses	7,666,898
Change in net assets	(1,131,917)
Net assets at beginning of year	3,235,507
Net assets at end of year	\$2,103,590

**Governmental Activities**

Net assets of the District's governmental activities decreased \$1,131,917. Total governmental expenses of \$7,666,898 were offset by program revenues of \$1,435,561 and general revenues of \$5,099,420. Program revenues supported 18.72% 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 76.67% of total governmental revenue.

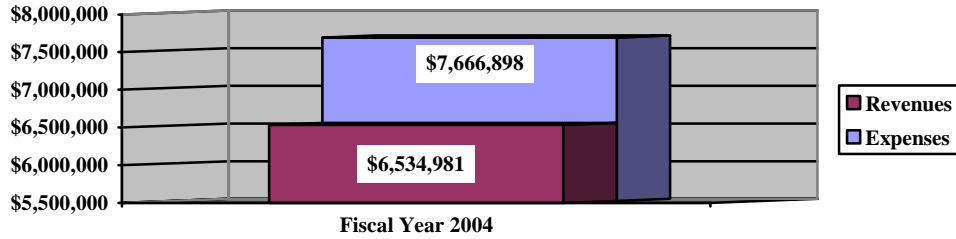
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,787,900 or 49.41% of total governmental expenses for fiscal 2004.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

**Governmental Activities**

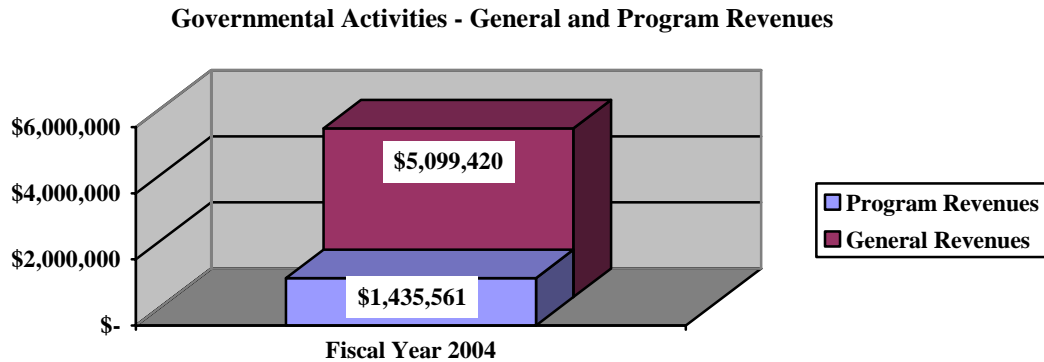
<b>Program expenses</b>	<b>Total Cost of Services 2004</b>	<b>Net Cost of Services 2004</b>
Instruction:		
Regular	\$3,163,763	\$2,725,922
Special	604,409	323,173
Other	19,728	4,502
Support services:		
Pupil	273,566	220,576
Instructional staff	360,810	280,640
Board of education	9,010	9,010
Administration	769,206	727,528
Fiscal	237,069	236,504
Operations and maintenance	1,114,304	1,110,216
Pupil transportation	309,344	309,344
Central	97,414	81,574
Food service operations	259,290	(1,956)
Operations of non-instructional services	66,455	26,035
Extracurricular activities	382,530	178,269
<b>Total expenses</b>	<b>\$7,666,898</b>	<b>\$6,231,337</b>

The dependence upon tax and other general revenues for governmental activities is apparent, 80.61% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.28%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal year 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$923,838, which is lower than last year's total of \$1,731,862. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance June 30, 2004</u>	<u>Fund Balance June 30, 2003</u>	<u>(Decrease)</u>	<u>Percentage Change</u>
General	\$690,267	\$1,268,874	(\$578,607)	(45.60) %
Other Governmental	233,571	462,988	(229,417)	(49.55) %
Total	<u>\$923,838</u>	<u>\$1,731,862</u>	<u>(\$808,024)</u>	(46.66) %

**General Fund**

The District's general fund balance decreased \$578,607 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to expenditures increasing faster than revenues. Expenditures exceed revenues for fiscal year 2004 by \$576,926. On March 3, 2004, the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

<b>Revenues</b>	<b>2004 Amount</b>	<b>2003 Amount</b>	<b>Increase (Decrease)</b>	<b>Percentage Change</b>
Taxes	\$2,316,669	\$2,173,236	\$143,433	6.60 %
Tuition	334,072	331,784	2,288	0.69 %
Earnings on investments	18,456	36,190	(17,734)	(49.00) %
Intergovernmental	2,904,499	3,059,255	(154,756)	(5.06) %
Other revenues	86,617	7,813	78,804	1,008.63 %
<b>Total</b>	<b>5,660,313</b>	<b>5,608,278</b>	<b>52,035</b>	<b>0.93 %</b>
<b>Expenditures</b>				
Instruction	3,536,417	3,361,914	174,503	5.19 %
Support services	2,483,117	2,149,123	333,994	15.54 %
Non-instructional services	30,804	20,572	10,232	49.74 %
Extracurricular activities	186,901	160,079	26,822	16.76 %
<b>Total</b>	<b>\$6,237,239</b>	<b>\$5,691,688</b>	<b>\$545,551</b>	<b>9.59 %</b>

Other revenues increased \$78,804 or 1,008.63% from the prior year. This increase is attributed to an increase in the amount of fees collected by the District in 2004. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. All other revenue remained comparable to 2003.

Instruction expenditures increased 5.19% and represented the largest expenditure item of the District. Support services expenditures increased 15.54% due to higher payroll and benefit costs. While the increase in non-instructional services and extracurricular activities looks huge as a percentage, the dollar figure is not really material to the expenditure total.

**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.

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,826,985 and final budgeted revenues and other financing sources were \$5,744,425. Actual revenues and other financing sources for fiscal 2004 was \$5,686,079. This represents a \$58,346 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,498,293 were lowered to \$7,415,733 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$6,355,383, which was \$1,060,350 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, 2004  
UNAUDITED  
(Continued)**

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2004, the District had \$1,458,000 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

	<b>Capital Assets at June 30 (Net of Depreciation)</b>	
	<b>Governmental Activities</b>	
	<b>2004</b>	<b>2003</b>
Land	\$352,453	\$352,453
Land improvements	366,008	365,235
Building and improvements	412,452	439,726
Furniture and equipment	246,903	266,266
Vehicles	80,184	102,777
Total	<u>\$1,458,000</u>	<u>\$1,526,457</u>

The overall decrease in capital assets of \$68,457 is due to depreciation expense of \$133,423 exceeding capital outlays of \$64,966 in the fiscal year.

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

**Debt Administration**

At June 30, 2004, the District had no debt outstanding.

At June 30, 2004, the District's overall legal debt margin was \$7,393,470, and an unvoted debt margin of \$82,150.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

The District is facing several challenges relating to inadequate funding and increasing expenses. The District relies heavily on property taxes, income taxes, and state aid to provide the funds necessary to maintain its educational programs.

State Foundation funding decreased by five percent, mainly due to a declining resident student enrollment and also changes in the state funding formula. Income tax revenue was down by seven percent, likely caused by the sluggish economy. Property tax collections, increased during the fiscal year; however, the tangible property tax on inventory is being phased out, which could lead to an annual loss of over \$100,000. Open enrollment continues to bring additional revenue into the District. However, the District lost some funding due to the enrollment in community and charter schools. When a student enrolls in a community school, the state not only transfers its share of the funding, it also transfers the local's share of revenue to the sponsoring agency.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

The District faced increasing expenditures in several areas, including maintenance and repairs, insurance, and technology. The District was faced with several emergency repairs during the year, caused by aging facilities. Also, the District completed asbestos removal costing \$41,000. There were unprecedented increases in the costs associated with health care, special education, and property and liability insurance rates. Another area of importance is replacing the aging classroom computers. Several area organizations gave generous donations to replace some of the aging equipment; however, there are not adequate funds to maintain the annual replacement schedule developed by the technology coordinator.

The Board of Education has been mindful of controlling costs while offering a solid academic program to the students. The District is currently educating students at approximately \$170 less per pupil than similar districts and nearly \$1,400 less per pupil than the state average.

The District's financial abilities will be called upon to meet the challenges the future will bring. It is imperative the Board of Education continue to carefully and prudently plan in order to provide the resources required to meet the student's desired needs over the next several years.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's 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**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$1,402,809
Receivables:	
Taxes	2,283,853
Accounts	1,031
Intergovernmental	59,657
Prepayments	4,967
Materials and supplies inventory	38,377
Capital assets:	
Land	352,453
Depreciable capital assets, net	1,105,547
Capital assets, net	1,458,000
 Total assets	 5,248,694
<b>Liabilities:</b>	
Accounts payable	58,778
Accrued wages and benefits	523,341
Pension obligation payable	150,612
Intergovernmental payable	40,533
Deferred revenue	1,876,752
Long-term liabilities:	
Due within one year	61,986
Due within more than one year	433,102
Total liabilities	3,145,104
<b>Net Assets:</b>	
Invested in capital assets, net	1,458,000
Restricted for:	
Other purposes	59,208
Unrestricted	586,382
Total net assets	\$2,103,590

*See accompanying notes to the basic financial statements.*

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Expenses</b>			
<b>Governmental activities:</b>			
Instruction:			
Regular	\$3,163,763	\$376,057	\$61,784
Special	604,409		281,236
Other	19,728	15,226	
Support services:			
Pupil	273,566		52,990
Instructional staff	360,810		80,170
Board of education	9,010		(9,010)
Administration	769,206	30,506	11,172
Fiscal	237,069		565
Operations and maintenance	1,114,304	4,088	
Pupil transportation	309,344		
Central	97,414		15,840
Operation of non-instructional services:			
Food service operations	259,290	180,074	81,172
Other non-instructional services	66,455	2,925	37,495
Extracurricular activities	382,530	163,256	41,005
<b>Total governmental activities</b>	<b>\$7,666,898</b>	<b>\$772,132</b>	<b>\$663,429</b>
 <b>General Revenues:</b>			
Property taxes levied for:			
			1,938,399
			387,475
			2,684,309
			19,826
			69,411
			5,099,420
			(1,131,917)
			3,235,507
			\$2,103,590

*See accompanying notes to the basic financial statements.*

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$1,129,472	\$238,222	\$1,367,694
Receivables:			
Taxes	2,283,853		2,283,853
Accounts	276	755	1,031
Intergovernmental		59,657	59,657
Interfund receivable	23,463		23,463
Prepayments	4,967		4,967
Materials and supplies inventory	627	37,750	38,377
Restricted assets:			
Equity in pooled cash and cash equivalents	35,115		35,115
 Total assets	 <u>3,477,773</u>	 <u>336,384</u>	 <u>3,814,157</u>
<b>Liabilities:</b>			
Accounts payable	45,449	13,329	58,778
Accrued wages and benefits	493,261	30,080	523,341
Compensated absences payable	40,148		40,148
Pension obligation payable	86,134	5,350	91,484
Intergovernmental payable	15,501	25,032	40,533
Interfund payable		23,463	23,463
Deferred revenue	2,107,013	5,559	2,112,572
 Total liabilities	 <u>2,787,506</u>	 <u>102,813</u>	 <u>2,890,319</u>
<b>Fund Balances:</b>			
Reserved for encumbrances	111,700	62,611	174,311
Reserved for materials and supplies inventory	627	37,750	38,377
Reserved for prepayments	4,967		4,967
Reserved for property tax unavailable for appropriation	37,365		37,365
Reserved for budget stabilization	18,363		18,363
Reserved for school bus purchase	16,752		16,752
Unreserved, undesignated (deficit), reported in:			
General fund	500,493		500,493
Special revenue funds		136,551	136,551
Capital projects funds		(3,341)	(3,341)
 Total fund balances	 <u>690,267</u>	 <u>233,571</u>	 <u>923,838</u>
 Total liabilities and fund balances	 <u>\$3,477,773</u>	 <u>\$336,384</u>	 <u>\$3,814,157</u>

*See accompanying notes to the basic financial statements.*

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004**

<b>Total governmental fund balances</b>		<b>\$923,838</b>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,458,000
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$230,261	
Intergovernmental revenue	<u>5,559</u>	
Total		235,820
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	454,940	
Pension obligation payable	<u>59,128</u>	
Total		<u>(514,068)</u>
<b>Net assets of governmental activities</b>		<b><u><u>\$2,103,590</u></u></b>

*See accompanying notes to the basic financial statements.*

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
From local sources:			
Taxes	\$2,316,669		\$2,316,669
Tuition	334,072		334,072
Charges for services		\$180,074	180,074
Earnings on investments	18,456	1,370	19,826
Classroom materials and fess	18,191	11,729	29,920
Extracurricular		219,521	219,521
Other local revenues	68,426	88,097	156,523
Intergovernmental - State	2,900,693	49,307	2,950,000
Intergovernmental - Federal	3,806	571,322	575,128
Total revenue	5,660,313	1,121,420	6,781,733
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	3,006,531	99,099	3,105,630
Special	529,886	69,485	599,371
Other		19,728	19,728
Support services:			
Pupil	218,016	52,999	271,015
Instructional staff	289,050	75,606	364,656
Board of education	8,373		8,373
Administration	731,616	45,680	777,296
Fiscal	246,690	784	247,474
Operations and maintenance	623,513	97	623,610
Pupil transportation	284,645		284,645
Central	81,214	18,157	99,371
Operation of non-instructional services:			
Food service operations		250,390	250,390
Other non-instructional services	30,804	34,508	65,312
Extracurricular activities	186,901	200,782	387,683
Facilities acquisition and construction		485,203	485,203
Total expenditures	6,237,239	1,352,518	7,589,757
Excess of revenues under expenditures	(576,926)	(231,098)	(808,024)
<b>Other financing sources (uses):</b>			
Transfers in		1,681	1,681
Transfers (out)	(1,681)		(1,681)
Total other financing sources (uses)	(1,681)	1,681	
Net change in fund balances	(578,607)	(229,417)	(808,024)
Fund balances at beginning of year (restated)	1,268,874	462,988	1,731,862
<b>Fund balances at end of year</b>	<b>\$690,267</b>	<b>\$233,571</b>	<b>\$923,838</b>

See accompanying notes to the basic financial statements.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Net change in fund balances - total governmental funds** (\$808,024)

*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. This is the amount by which depreciation expense (\$133,423) exceeds capital outlays (\$64,966) in the current period. (68,457)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (246,752)

Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (8,684)

**Change in net assets of governmental activities** (\$1,131,917)

*See accompanying notes to the basic financial statements.*

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**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, 2004**

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
<b>Revenues:</b>				
From local sources:				
Taxes	\$2,362,519	\$2,333,401	\$2,335,549	\$2,148
Tuition	339,181	335,000	334,072	(928)
Earnings on investments	19,440	19,200	18,974	(226)
Classroom materials and fees	29,657	30,279	29,920	(359)
Other local revenues	56,810	44,381	46,134	1,753
Intergovernmental - State	2,999,006	2,962,043	2,900,693	(61,350)
Intergovernmental - Federal	8,059	7,960	7,987	27
Total revenue	<u>5,814,672</u>	<u>5,732,264</u>	<u>5,673,329</u>	<u>(58,935)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	3,551,154	3,505,873	3,003,988	501,885
Special	634,225	628,235	538,501	89,734
Support services:				
Pupil	264,044	261,551	224,192	37,359
Instructional staff	344,574	341,319	292,567	48,752
Board of education	9,112	9,026	7,737	1,289
Administration	811,521	803,857	689,038	114,819
Fiscal	298,963	296,139	253,840	42,299
Operations and maintenance	778,456	771,103	660,963	110,140
Pupil transportation	423,744	419,742	359,788	59,954
Central	97,295	96,376	82,610	13,766
Operation of non-instructional services	36,280	35,937	30,804	5,133
Extracurricular activities	222,529	220,428	188,943	31,485
Total expenditures	<u>7,471,897</u>	<u>7,389,586</u>	<u>6,332,971</u>	<u>1,056,615</u>
Excess of revenues over (under) expenditure	<u>(1,657,225)</u>	<u>(1,657,322)</u>	<u>(659,642)</u>	<u>997,680</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure	9,981	9,858	10,447	589
Refund of prior year receipts	(861)	(853)	(731)	122
Transfers (out)	(1,980)	(1,961)	(1,681)	280
Advances in	2,332	2,303	2,303	
Advances (out)	(23,555)	(23,333)	(20,000)	3,333
Total other financing sources (uses)	<u>(14,083)</u>	<u>(13,986)</u>	<u>(9,662)</u>	<u>4,324</u>
Net change in fund balance	(1,671,308)	(1,671,308)	(669,304)	1,002,004
Fund balance at beginning of year	1,445,971	1,445,971	1,445,971	
Prior year encumbrances appropriated	225,337	225,337	225,337	
<b>Fund balance at end of year</b>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$1,002,004</u></u>	<u><u>\$1,002,004</u></u>

See accompanying notes to the basic financial statements.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004**

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	<u>\$44,488</u>
Total assets	<u><u>44,488</u></u>
<b>Liabilities:</b>	
Accounts payable	75
Due to students	<u>44,413</u>
Total liabilities	<u><u>\$44,488</u></u>

*See accompanying notes to the basic financial statements.*



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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 34 non-certificated employees, 62 certificated full-time teaching personnel who provide services to 868 students and other community members. The District currently operates three instructional/support buildings.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government 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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units.

The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Jointly Governed Organizations**

**Metropolitan Dayton Educational Cooperative Association**

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

**Southwestern Ohio Educational Purchasing Council**

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**Southwestern Ohio Instructional Technology Association**

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

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Upper Valley Joint Vocational School**

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

**The Covington Education Fund**

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

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

**2. 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.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Southwestern Ohio Educational Purchasing Council Medical Benefits Plan**

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

**Southwestern Ohio Educational Purchasing Council Insurance Program**

The District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A five member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board. Charter Members consisted of 6 school districts in Southwest Ohio with combined students of 27,503, and combined values of \$490,259,626. During fiscal year 2004, this program was expanded to include 28 school districts with combined student enrollment of 49,000, and combined values of \$1,122,447,455. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to: Retain a portion of the predictable losses; Transfer a portion of the catastrophic risk; Broaden the districts insurance program coverages; Budget for known maximum costs; and, Insulate the district from future market upheavals. The District paid \$34,997 to the group during fiscal year 2004 for Property and Casualty Insurance. Cambridge Integrated Services Group, Inc. is responsible for processing claims. Marsh Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between Southwest Ohio EPC Insurance Program and member schools.

**3. Related Organization**

**The J. R. Clarke Public Library**

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

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

**B. Fund Accounting**

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Governmental Funds**

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

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

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

**2. 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.

**3. Fiduciary Funds**

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

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

**1. Government-wide Financial Statements**

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

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

**D. Basis of Accounting**

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

**1. Revenues - Exchange and Non-exchange Transactions**

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

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

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**2. Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**3. Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as intergovernmental revenue, with an expenditure reported for the amount used and the remaining amount reported as inventory on the balance sheet.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of 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 for all funds.

**1. Tax Budget:**

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Estimated Resources:**

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure.

On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriation resolution was passed by the Board of Education.

**3. 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 total supplemental appropriations were significant to the original appropriations.

The budget figures which appear in the statements of budgetary comparisons represent the 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.

**4. 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.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), and nonnegotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

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 2004 amounted to \$18,456, which includes \$2,601 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 Treasurer's investment account at year-end is provided in Note 4.

**G. Inventory**

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$250 to \$1,000. The change in capitalization policy was a result of differences in asset costs between the time the previous policy was adopted and the current fiscal year and to a perceived lack of future economic benefit to be derived from deferring the costs of smaller capital assets (see Note 9). Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "*Accounting for Compensated Absences*", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future.

For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of current service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16. The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. 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, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**L. Fund Balance Reserves**

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their 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 when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**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.

**O. 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.

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 15.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Q. Interfund Activity**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2004, the District has implemented GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*", GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*", GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*", GASB Statement No. 39, "*Determining Whether Certain Organizations are Component Units*", GASB Statement No. 41, "*Budgetary Comparison Schedule - Perspective Differences*", and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "*The Financial Reporting Entity*."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE (Continued)**

**Governmental Activities - Fund Reclassification and Restatement of Fund Balance -** Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003. The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<b>General</b>	<b>Nonmajor</b>	<b>Total</b>
Fund balance June 30, 2003	\$1,266,729	\$424,386	\$1,691,115
Fund reclassifications		38,602	38,602
Implementation of GASB Interpretation No. 6	2,145		2,145
Restated fund balance, June 30, 2003	<u>\$1,268,874</u>	<u>\$462,988</u>	<u>\$1,731,862</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<b>Total</b>
Restated fund balance, June 30, 2003	\$1,731,862
GASB 34 adjustments:	
Long-term (deferred) assets	482,572
Capital assets	1,526,457
Pension obligation	(50,646)
Long-term liabilities	(454,738)
Governmental activities net assets, June 30, 2003	<u>\$3,235,507</u>

**B. Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

<b>Nonmajor Funds</b>	<b>Deficit</b>
Title I	\$3,380
Special Trust	3,341

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

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

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 the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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.

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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% 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 division (1) or (2) of this section 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *“Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements”*.

**Deposits:** At year-end, the carrying amount of the District’s deposits was \$1,324,458 and the bank balance was \$1,375,791. Of the bank balance, \$232,309 was covered by federal depository insurance deposited with the District; and \$1,143,482 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District.

Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**Investments:** The District’s investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the District’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District’s name.

Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<b>Reported Amount</b>	<b>Fair Value</b>
Investment in STAR Ohio	\$122,839	\$122,839

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<b>Cash and Cash Equivalents/Deposits</b>	<b>Investments</b>
GASB Statement No. 9	\$1,447,297	
Investments of the cash management pool:		
Investment in STAR Ohio	(122,839)	122,839
GASB Statement No. 3	\$1,324,458	\$122,839

**5. INTERFUND TRANSACTIONS**

**A.** Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General	Nonmajor governmental funds	\$23,463

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

**B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

<b>Transfers to Nonmajor Governmental funds from:</b>	
General Fund	\$1,681

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.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory.

Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 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 revenue.

The amount available as an advance at June 30, 2004 was \$37,365 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$66,945 in the general fund.

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. PROPERTY TAXES (Continued)**

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<b>2003 Second Half Collections</b>		<b>2004 First Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/residential and other real estate	\$71,317,920	87.97%	\$72,092,030	87.76%
Public utility personal	3,497,430	4.31%	3,469,230	4.22%
Tangible personal property	6,251,870	7.72%	6,588,410	8.02%
<b>Total</b>	<b>\$81,067,220</b>	<b>100.00%</b>	<b>\$82,149,670</b>	<b>100.00%</b>
Tax rate per \$1,000 of assessed valuation	\$40.14		\$40.64	

**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. 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.

**8. RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<b>Governmental Activities:</b>	
Taxes	\$2,283,853
Accounts	1,031
Intergovernmental	<u>59,657</u>
<b>Total</b>	<b><u><u>\$2,344,541</u></u></b>

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

**9. CAPITAL ASSETS**

**A.** The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy (See Note 2.H.), a reappraisal, fund reclassifications, and the depreciation of capital assets in accordance with GASB Statement No. 34.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**9. CAPITAL ASSETS (Continued)**

<b>Governmental Activities</b>	<b>Balance June 30, 2003</b>	<b>Adjustments</b>	<b>Restated Balance July 1, 2003</b>
Capital assets, not being depreciated:			
Land	\$ -	\$ 352,453	\$ 352,453
Total capital assets, not being depreciated	<u>-</u>	<u>352,453</u>	<u>352,453</u>
Capital assets, being depreciated:			
Land improvements	647,011	87,723	734,734
Buildings and improvements	3,409,493	(357,922)	3,051,571
Furniture and equipment	1,131,411	(298,219)	833,192
Vehicles	395,103	(701)	394,402
Total capital assets, being depreciated	<u>5,583,018</u>	<u>(569,119)</u>	<u>5,013,899</u>
Less: accumulated depreciation:	-	(3,839,895)	(3,839,895)
Governmental activities capital assets, net	<u>\$ 5,583,018</u>	<u>\$ (4,056,561)</u>	<u>\$ 1,526,457</u>

**B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:**

<b>Governmental Activities</b>	<b>Restated Balance July 1, 2003</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2004</b>
Capital assets, not being depreciated:				
Land	\$ 352,453	\$ -	\$ -	\$ 352,453
Total capital assets, not being depreciated	<u>352,453</u>	<u>-</u>	<u>-</u>	<u>352,453</u>
Capital assets, being depreciated:				
Land improvements	734,734	23,243	-	757,977
Buildings and improvements	3,051,571	-	-	3,051,571
Furniture and equipment	833,192	41,723	-	874,915
Vehicles	394,402	-	-	394,402
Total capital assets, being depreciated	<u>5,013,899</u>	<u>64,966</u>	<u>-</u>	<u>5,078,865</u>
Less: accumulated depreciation				
Land improvements	(369,499)	(22,470)	-	(391,969)
Buildings and improvements	(2,611,845)	(27,274)	-	(2,639,119)
Furniture and equipment	(566,926)	(61,086)	-	(628,012)
Vehicles	(291,625)	(22,593)	-	(314,218)
Total accumulated depreciation	<u>(3,839,895)</u>	<u>(133,423)</u>	<u>-</u>	<u>(3,973,318)</u>
Governmental activities capital assets, net	<u>\$ 1,526,457</u>	<u>\$ (68,457)</u>	<u>\$ -</u>	<u>\$ 1,458,000</u>

Depreciation expense was charged to governmental functions as follows:

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**9. CAPITAL ASSETS (Continued)**

<b>Instruction:</b>	
Regular	\$53,791
Special	2,165
<b>Support Services:</b>	
Pupil	1,175
Instructional staff	2,574
Board of education	637
Administration	4,765
Fiscal	580
Operations and maintenance	2,355
Pupil transportation	22,593
Central	6,785
Extracurricular activities	30,179
Food service operations	<u>5,824</u>
Total depreciation expense	<u>\$133,423</u>

**10. LONG-TERM OBLIGATIONS**

A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased from \$452,592 to \$457,771 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$50,646 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$45,466 from \$503,237 to \$457,771. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	<b>Restated Balance Outstanding</b>			<b>Balance Outstanding</b>	<b>Amounts Due in</b>
<b>Governmental Activities:</b>	<b><u>July 1, 2003</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>June 30, 2004</u></b>	<b><u>One Year</u></b>
Compensated absences	\$457,771	\$55,017	(\$17,700)	\$495,088	\$61,986
Total long-term obligations, governmental activities	<u>\$457,771</u>	<u>\$55,017</u>	<u>(\$17,700)</u>	<u>\$495,088</u>	<u>\$61,986</u>

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$7,393,470 and an unvoted debt margin of \$82,150.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**11. RISK MANAGEMENT**

**A. Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2004, the District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Purchasing Council Insurance Program, a public entity self insurance program. The District contracted with Marsh Insurance Company, and coverage is provided by Selective Insurance Company. Insurance coverage provided includes the following:

Building – Replacement Cost	\$ 16,314,420
Contents (\$2,500 deductible)	5,928,837
Automobile:	
Liability	\$ 1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate	3,000,000
Excess Liability Umbrella	5,000,000
Excess Property	200,000,000
Boiler and Machinery	50,000,000
School Board Legal Liability	1,000,000

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

**B. Workers' Compensation**

For fiscal year 2004, the district participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Totals savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

**C. Medical Benefits**

For fiscal year 2004, the District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 2.A.). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**12. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$117,272, \$75,957, and \$50,125, respectively; 46% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$63,744, represents the unpaid contribution for fiscal year 2004.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations.

Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$412,351, \$378,516, and \$264,187, respectively; 83% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$70,236 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$361 made by the District and \$434 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

**13. POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$29,454 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**13. POSTEMPLOYMENT BENEFITS (Continued)**

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$49,466 during the 2004 fiscal year.

**14. BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**14. BUDGETARY BASIS OF ACCOUNTING (Continued)**

	<b>General Fund</b>
Budget basis	(\$669,304)
Net adjustment for revenue accruals	(13,016)
Net adjustment for expenditure accruals	(66,851)
Net adjustment for other sources/uses	7,981
Adjustment for encumbrances	162,583
GAAP basis	(\$578,607)

**15. STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<b>Textbooks</b>	<b>Capital Acquisition</b>	<b>Budget Reserve</b>
Set-aside cash balance as of June 30, 2003	\$ (65,103)	\$(65,107)	\$18,363
Current year set-aside requirement	116,767	116,767	
Qualifying disbursements	(137,178)	(152,082)	
Total	(85,514)	(100,422)	18,363
Cash balance carried forward to FY 2005	(85,514)	(100,422)	18,363
A schedule of the restricted assets at June 30, 2004 follows:			
Amounts restricted for budget stabilization	18,363		
Amounts restricted for school bus purchase	16,752		
Total restricted assets	\$ 35,115		

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts for the textbook and capital acquisition reserves to below zero, these extra amounts may be used to reduce the set-aside requirements of future years.

**16. CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**16. CONTINGENCIES (Continued)**

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES  
FOR YEAR ENDED JUNE 30, 2004**

Federal Grantor / Pass Through Grantor Program Title	Pass Through Entity Number	CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	Not Available	10.550		\$34,839		\$34,839
National School Lunch Program	LLP4-03 & 04	10.555	\$57,364		\$57,364	
Total U.S. Department of Agriculture - Nutrition Cluster			57,364	34,839	57,364	34,839
<b>OFFICE OF LIBRARY SERVICES, INSTITUTE OF MUSEUM AND LIBRARY SERVICES, NATIONAL FOUNDATION OF THE ARTS AND THE HUMANITIES</b>						
<i>Passed through State Library of Ohio</i>						
Library Services and Technology Act	I-1-03	45.310	12,906		12,652	
Total Office of Library Services			12,906		12,652	
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>(Passed through the Ohio Department of Mental Retardation &amp; Developmental Disabilities)</i>						
Medicaid		93.778	659		659	
Total U.S. Department of Health and Human Services			659		659	
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Title V-Part A Innovative Programs	C2-S1-02	84.298			3,807	
	C2-S1-03		3,996		4,873	
	C2-S1-04		866			
Total Title V-Part A Innovative Program			4,862		8,680	
Title I	C1-S1-03	84.010	13,871		12,935	
	C1-S1-04		65,883		62,513	
Total Title I			79,754		75,448	
Title VI-B	6BSF-03-P	84.027	11,354		14,792	
	6BSF-04-P		80,143		88,632	
			91,497		103,424	
Drug Free Schools	DR-S1-03	84.186	(1,071)			
	DR-S1-04		6,786		6,786	
			5,715		6,786	
Title II-D Technology Grant	TJS1-03	84.318	1,084		1,432	
	TJS1-04		1,777		1,549	
Total Title II-D Technology Grant			2,861		2,981	
Title II-A	TRS1-03	84.367	(1,276)		10,871	
	TRS1-04		38,785		23,025	
Total Title II-A			37,509		33,896	
<i>Passed Through Ohio School Facilities Commission</i>						
Federal Emergency Repair Program	PL-03	84.352	350,000		492,584	
Total U.S. Department of Education			572,198		723,799	
Total Federal Assistance			\$643,127	\$34,839	\$794,474	\$34,839

*The accompanying notes to this schedule are an integral part of this schedule.*

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - NUTRITION CLUSTER**

Nonmonetary 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, 2004, the District had a significant amount of food commodities in inventory.

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE D - TRANSFER OF FUNDS BETWEEN SPECIAL COST CENTERS**

The following transfers between fund cost centers were approved by the Ohio Department of Education.

<b>Grant, CFDA #, Fund, and Cost Center</b>	<b>Transfer out</b>	<b>Transfer in</b>
Title 1 - # 84.010		
572-9203	\$(1,587)	
572-9204		\$1,587
Title V- Part A Innovative Program - # 84.298		
584-9202 & 9203	\$(1,071)	
584-9204		\$1,071
Title II A - # 84.367		
590-9203	\$(1,276)	
590-9204		\$1,276



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Covington Exempted Village School District  
Miami County  
25 Grant Street  
Covington, Ohio 45318

To the Members of the Board:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Covington Exempted Village School District, Miami County, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 22, 2005, wherein we noted the District implemented a new financial reporting model, as required by Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated February 22, 2005.

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

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated February 22, 2005.

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Covington Exempted Village School District  
Miami County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

February 22, 2005



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Covington Exempted Village School District  
Miami County  
25 Grant Street  
Covington, Ohio 45318

To the Members of the Board:

**Compliance**

We have audited the compliance of Covington Exempted Village School District, Miami County, (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

February 22, 2005



**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT  
MIAMI COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 and 2003**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Federal Emergency Repair Grant (CFDA #84.318)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

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**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  
MARCH 22, 2005**