



Dave Yost • Auditor of State

**VILLAGE OF COVINGTON
MIAMI COUNTY
DECEMBER 31, 2016 AND 2015**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Covington
Miami County
1 South High Street
Covington, Ohio 45318

To the Members of Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Covington, Miami County, Ohio (the Village) as of and for the years ended December 31, 2016 and 2015.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2016 and 2015, and the respective changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of Covington, Miami County as of December 31, 2016 and 2015, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2018, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

April 5, 2018

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Totals (Memorandum Only)</u> |
|---|------------------|----------------------------|-------------------------|-----------------------------|---|
| Cash Receipts | | | | | |
| Property and Other Local Taxes | \$265,263 | | | | \$265,263 |
| Municipal Income Tax | 810,637 | \$202,659 | | | 1,013,296 |
| Intergovernmental | 68,355 | 133,771 | | | 202,126 |
| Special Assessments | | 47,638 | | \$24,384 | 72,022 |
| Charges for Services | 46,584 | | | | 46,584 |
| Fines, Licenses and Permits | 24,628 | | | | 24,628 |
| Earnings on Investments | 126 | | | | 126 |
| Miscellaneous | 38,766 | 2,768 | | | 41,534 |
| <i>Total Cash Receipts</i> | <u>1,254,359</u> | <u>386,836</u> | <u>0</u> | <u>24,384</u> | <u>1,665,579</u> |
| Cash Disbursements | | | | | |
| Current: | | | | | |
| Security of Persons and Property | 655,374 | | | | 655,374 |
| Transportation | | 305,402 | | | 305,402 |
| General Government | 249,312 | | | | 249,312 |
| Capital Outlay | 24,425 | | | 201,803 | 226,228 |
| Debt Service: | | | | | |
| Principal Retirement | | 11,304 | \$153,333 | | 164,637 |
| Interest and Fiscal Charges | | | 30,831 | | 30,831 |
| <i>Total Cash Disbursements</i> | <u>929,111</u> | <u>316,706</u> | <u>184,164</u> | <u>201,803</u> | <u>1,631,784</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>325,248</u> | <u>70,130</u> | <u>(184,164)</u> | <u>(177,419)</u> | <u>33,795</u> |
| Other Financing Receipts (Disbursements) | | | | | |
| Transfers In | | | 190,000 | 82,000 | 272,000 |
| Transfers Out | (272,000) | | | | (272,000) |
| <i>Total Other Financing Receipts (Disbursements)</i> | <u>(272,000)</u> | <u>0</u> | <u>190,000</u> | <u>82,000</u> | <u>0</u> |
| <i>Net Change in Fund Cash Balances</i> | 53,248 | 70,130 | 5,836 | (95,419) | 33,795 |
| <i>Fund Cash Balances, January 1</i> | <u>415,496</u> | <u>79,570</u> | <u>2,150</u> | <u>125,703</u> | <u>622,919</u> |
| Fund Cash Balances, December 31 | | | | | |
| Restricted | | 149,700 | | 30,284 | 179,984 |
| Assigned | 237,759 | | 7,986 | | 245,745 |
| Unassigned | 230,985 | | | | 230,985 |
| <i>Fund Cash Balances, December 31</i> | <u>\$468,744</u> | <u>\$149,700</u> | <u>\$7,986</u> | <u>\$30,284</u> | <u>\$656,714</u> |

See accompanying notes to the financial statements

VILLAGE OF COVINGTON
MIAMI COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | <u>Enterprise</u> |
|---|-------------------------|
| Operating Cash Receipts | |
| Charges for Services | \$1,408,281 |
| <i>Total Operating Cash Receipts</i> | <u>1,408,281</u> |
| Operating Cash Disbursements | |
| Personal Services | 280,128 |
| Employee Fringe Benefits | 93,880 |
| Contractual Services | 247,655 |
| Supplies and Materials | 214,897 |
| Other | 3,253 |
| <i>Total Operating Cash Disbursements</i> | <u>839,813</u> |
| <i>Operating Income</i> | <u>568,468</u> |
| Non-Operating Receipts (Disbursements) | |
| Capital Outlay | (186,644) |
| Principal Retirement | (300,900) |
| Interest and Other Fiscal Charges | (59,923) |
| <i>Total Non-Operating Receipts (Disbursements)</i> | <u>(547,467)</u> |
| <i>Net Change in Fund Cash Balances</i> | 21,001 |
| <i>Fund Cash Balances, January 1</i> | <u>615,491</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$636,492</u></u> |

See accompanying notes to the basic financial statements

VILLAGE OF COVINGTON
MIAMI COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 - REPORTING ENTITY

The Village of Covington (the Village), Miami County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, trash collection, and police services. The Village contracts with the Covington Fire Department to receive fire protection services and the Covington Rescue Squad to provide EMS services. The Village also contracts with the City of St. Marys to provide for income tax administration and collection services.

Public Entity Risk Pool

The Village participates in a public entity risk pool, the Ohio Plan Risk Management, Inc. (OPRM). Note 6 to the financial statements provides additional information for this entity. The Village's management believes these financial statements present all activities for which the Village is financially accountable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all proprietary fund types which are organized on a fund type basis.

Fund Accounting

The Village 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. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction Maintenance and Repair The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

State Highway Maintenance and Repair The state highway maintenance and repair fund is funded through revenue from 7.5% of gasoline, motor tax and license fees. This fund is restricted for the construction, maintenance, and repair of state highways within the Village.

Debt Service Fund This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village has only one debt service fund that was utilized for debt service payments.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Capital Projects Fund This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village runs its special assessment projects and Ohio Public Works Commission street project funding through the capital projects fund.

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

Water Fund The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village. Revenues are utilized to cover the cost of providing operation and maintenance of the water system as well as water system debt service repayment.

Sewer Fund The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village. Revenues are utilized to cover the cost of providing operation and maintenance of the water system as well as sewer system debt service repayment.

Trash Fund The trash fund accounts for the provision of trash, recycling and debris collection services to the residents and commercial users within the Village. Revenues are utilized to cover the cost of providing operation and maintenance of the trash, recycling and debris, collection equipment as well as equipment debt service repayment.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, object and department level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

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

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

A summary of 2016 budgetary activity appears in Note 3.

VILLAGE OF COVINGTON
MIAMI COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Deposits

The Village only has depository bank accounts.

Capital Assets

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2016 follows:

| 2016 Budgeted vs. Actual Receipts | | | |
|--|------------------------------|----------------------------|-----------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$1,040,957 | \$1,254,359 | \$213,402 |
| Special Revenue | 340,200 | 386,836 | 46,636 |
| Debt Service | 245,000 | 190,000 | (55,000) |
| Capital Projects | 344,000 | 106,384 | (237,616) |
| Enterprise | 2,765,000 | 1,408,281 | (1,356,719) |
| Total | \$4,735,157 | \$3,345,860 | (\$1,389,297) |

| 2016 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|--|------------------------------------|-----------------------------------|-----------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$1,261,000 | \$1,201,111 | \$59,889 |
| Special Revenue | 379,704 | 316,706 | 62,998 |
| Debt Service | 243,000 | 184,164 | 58,836 |
| Capital Projects | 406,000 | 201,803 | 204,197 |
| Enterprise | 2,964,700 | 1,387,280 | 1,577,420 |
| Total | \$5,254,404 | \$3,291,064 | \$1,963,340 |

NOTE 4 – DEPOSITS

The Village maintains a deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31, 2016 was as follows:

| | 2016 |
|-----------------|-------------|
| Demand deposits | \$1,293,206 |
| Total deposits | \$1,293,206 |

Deposits

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village; or collateralized by the financial institution's public entity deposit pool.

NOTE 5 – TAXES

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

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

Income Taxes

The Village levies a municipal income tax of 1.5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

The Village also contracts with the City of St. Marys to provide for income tax administration and collection services.

NOTE 6 - RISK MANAGEMENT

Risk Pool Membership

Workers' Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs (if material).

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2016.

| | 2016 |
|-----------------|--------------------|
| Assets | \$14,765,712 |
| Liabilities | (9,531,506) |
| Members' Equity | <u>\$5,234,206</u> |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

Most Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Ohio Police and Fire Retirement System

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 12.25 % of their gross salaries and the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2016.

Social Security

Several Village council members contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Council Members contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

NOTE 8 - POSTEMPLOYMENT BENEFITS

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits, and OP&F contributes 0.5 percent to fund these benefits.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 9 – DEBT

Debt outstanding at December 31, 2016 was as follows:

| | Principal | Interest Rate |
|--|------------------|----------------------|
| Spring Street Improvement Bond | \$855,000 | 3.25% |
| Spring Street Reconstruction OPWC Loan | \$386,666 | 0.00% |
| Police Cruiser Bank Loan | \$9,967 | 3.56% |
| WTP and New Wells OWDA Loan | \$1,909,769 | 2.75% |
| WWTP Improvements OWDA Loan | \$79,976 | 1.00% |
| Dura Patcher Lease | \$12,663 | 3.84% |
| Trash Truck Lease | \$45,797 | 2.92% |
| Toter Lease | \$9,214 | 3.22% |
| Toter Lease | \$9,777 | 3.10% |
| Trash Truck Lease | \$169,009 | 3.10% |
| Total | \$3,487,838 | |

The Spring Street Improvement Bond was issued in the amount of \$950,000 and was obtained through Covington Savings and Loan in 2015 to pay for the reconstruction of Spring Street. One principal payment of \$95,000 and two semiannual interest payments totaling \$29,331 were made in 2016. The interest rate on this loan is 3.25%. The Village will repay the loan in semiannual installments over 10 years. Payments were made from the debt service fund with transfers made from other applicable funds.

The Spring Street Reconstruction Ohio Public Works Commission (OPWC) Loan for Spring Street was obtained in 2015 in the amount of \$400,000. Two payments were made on this debt during 2016 totaling \$13,333. The Village will repay the loan in semiannual installments over 30 years. Payments were made from the debt service fund with transfers made from other applicable funds.

The Police Cruiser Loan in the amount of \$30,000 was obtained through Covington Savings and Loan in 2014 to pay for the purchase of a 2014 Ford Explorer Police Cruiser. One payment was made in 2016 with a principal payment of \$10,000 and an interest payment \$703. The interest rate on this loan is 3.56%. The final payment for this loan will be due in 2017. Payments were made from the general fund.

The Water Treatment Plant (WTP) and New Wells Ohio Water Development Authority (OWDA) Loan was obtained to construct a new water treatment plant for the Village that was mandated by the Ohio Environmental Protection Agency (Ohio EPA). The OWDA approved a loan of \$3,688,265 in 2006 to the Village for this project. The Village repays the loan in semiannual installments of \$120,493, including interest, over 20 years. Payments were made from the water fund.

The Wastewater Treatment Plant (WWTP) OWDA Loan is a 1% low interest loan in the amount of \$100,387 was obtained in 2015 to pay for a portion of the Sewer Plan Phase 1 design. There is currently no amortization schedule for this debt and it is not included in the amortization schedules below. However, two semiannual principal payments totaling \$20,411 and two semiannual interest payments totaling \$990 were made in 2016. The balance of this loan will be rolled over to the Sewer Plan Construction loan when this loan has been obtained. Payments were made from the sewer fund.

The Village entered into a lease agreement in 2012 for a Dura Patcher at an interest rate of 3.84%. An annual principal and interest payment in the total amount of \$11,304 was made in 2016. The final payment will be due in 2017. Payment was made from the street construction, maintenance and repair fund.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The Village entered into three lease agreements for trash/recycling collection. 1) A trash truck lease in 2014 at an interest rate of 2.92%. An annual principal and interest payment in the total amount of \$23,920 was made in 2016. 2) A totter lease in 2015 at an interest rate of 3.22%. An annual principal and interest payment in the total amount of \$9,515 was made in 2016. The final payment will be due in 2017. 3) A totter lease in 2016 at an interest rate of 3.10%. An annual principal and interest payment in the total amount of \$10,000 was made in 2016. All three leases were paid from the trash fund.

In July 2016, the Village entered into a lease agreement for a new 2017 Freightliner trash truck. The original amount of the lease is \$169,009 and the term of the lease is for 5 years at an interest rate of 3.10%. No payments were made on this lease in 2016.

The Walnut Street Phase 2 and 3 Bonds in the amount of \$450,000 were obtained through Covington Savings and Loan in June 2011 to pay for the reconstruction of the east end of Walnut Street. The annual principal payment was repaid over a 5-year loan period. The interest rate was 3.00%. One principal payment of \$100,000 and one interest payment of \$1,500 was made in 2016. The loan was paid off in 2016.

Amortization

Amortization of the above debt, including interest, is scheduled as follows:

| Year ending December 31: | Leases | OWDA Loan | Improvement Bond | Bank Loan | OPWC Loan |
|-----------------------------|------------------|--------------------|---------------------|-----------------|------------------|
| 2017 | \$86,915 | \$240,986 | \$121,243 | \$10,703 | \$13,333 |
| 2018 | \$66,096 | \$240,986 | \$118,156 | \$0 | \$13,333 |
| 2019 | \$37,056 | \$240,986 | \$115,069 | \$0 | \$13,333 |
| 2020 | \$37,056 | \$240,986 | \$111,981 | \$0 | \$13,333 |
| 2021 | \$37,056 | \$240,986 | \$108,894 | \$0 | \$13,333 |
| 2022-2026 | \$0 | \$963,944 | \$404,700 | \$0 | \$66,667 |
| 2027-2031 | \$0 | \$0 | \$0 | \$0 | \$66,667 |
| 2032-2036 | \$0 | \$0 | \$0 | \$0 | \$66,667 |
| 2037-2041 | \$0 | \$0 | \$0 | \$0 | \$66,667 |
| 2042-2046 | \$0 | \$0 | \$0 | \$0 | \$53,333 |
| Total | <u>\$264,179</u> | <u>\$2,168,874</u> | <u>\$980,043</u> | <u>\$10,703</u> | <u>\$386,666</u> |

NOTE10 – SUBSEQUENT EVENTS

A contract for the Waste Water Treatment Plant Phase 1 improvement project was approved in March 2017 for the amount of \$1,108,892. The project costs will be paid through an OPWC grant of \$375,000, an OPWC loan of \$375,000, and a low interest loan to cover the remaining portion. Additionally, the Village Council approved a contract in June 2017 in the amount of \$101,407 for the 2017 Street Resurfacing Program. Also, in February 2018, the Village Council authorized to purchase a 2018 F550 dump truck at a purchase price of \$83,000 to be financed at a rate of 3.75% for 5 years with a loan amount of \$65,000.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Totals (Memorandum Only)</u> |
|---|------------------|----------------------------|-------------------------|-----------------------------|---|
| Cash Receipts | | | | | |
| Property and Other Local Taxes | \$261,966 | | | | \$261,966 |
| Municipal Income Tax | 637,229 | \$159,307 | | | 796,536 |
| Intergovernmental | 113,130 | 133,102 | | \$543,571 | 789,803 |
| Special Assessments | | 48,774 | | 72,083 | 120,857 |
| Charges for Services | 22,437 | | | | 22,437 |
| Fines, Licenses and Permits | 38,796 | | | | 38,796 |
| Earnings on Investments | 155 | | | | 155 |
| Miscellaneous | 13,653 | 1,740 | | | 15,393 |
| <i>Total Cash Receipts</i> | <u>1,087,366</u> | <u>342,923</u> | <u>0</u> | <u>615,654</u> | <u>2,045,943</u> |
| Cash Disbursements | | | | | |
| Current: | | | | | |
| Security of Persons and Property | 650,510 | | | | 650,510 |
| Leisure Time Activities | 4,343 | | | | 4,343 |
| Transportation | | 253,381 | | 8,508 | 261,889 |
| General Government | 281,715 | | | | 281,715 |
| Capital Outlay | 16,108 | | | 1,986,096 | 2,002,204 |
| Debt Service: | | | | | |
| Principal Retirement | 90,000 | 11,304 | \$95,000 | | 196,304 |
| Interest and Fiscal Charges | 1,913 | | 22,875 | | 24,788 |
| <i>Total Cash Disbursements</i> | <u>1,044,589</u> | <u>264,685</u> | <u>117,875</u> | <u>1,994,604</u> | <u>3,421,753</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>42,777</u> | <u>78,238</u> | <u>(117,875)</u> | <u>(1,378,950)</u> | <u>(1,375,810)</u> |
| Other Financing Receipts (Disbursements) | | | | | |
| Sale of Bonds | | | | 950,000 | 950,000 |
| Other Debt Proceeds | | | | 400,000 | 400,000 |
| Transfers In | | | 105,000 | | 105,000 |
| Transfers Out | | (105,000) | | | (105,000) |
| <i>Total Other Financing Receipts (Disbursements)</i> | <u>0</u> | <u>(105,000)</u> | <u>105,000</u> | <u>1,350,000</u> | <u>1,350,000</u> |
| <i>Net Change in Fund Cash Balances</i> | 42,777 | (26,762) | (12,875) | (28,950) | (25,810) |
| <i>Fund Cash Balances, January 1</i> | <u>372,719</u> | <u>106,332</u> | <u>15,025</u> | <u>154,653</u> | <u>648,729</u> |
| Fund Cash Balances, December 31 | | | | | |
| Restricted | | 79,570 | | 125,703 | 205,273 |
| Assigned | 220,043 | | 2,150 | | 222,193 |
| Unassigned | 195,453 | | | | 195,453 |
| <i>Fund Cash Balances, December 31</i> | <u>\$415,496</u> | <u>\$79,570</u> | <u>\$2,150</u> | <u>\$125,703</u> | <u>\$622,919</u> |

See accompanying notes to the basic financial statements

VILLAGE OF COVINGTON
MIAMI COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>Enterprise</u> |
|---|-------------------------|
| Operating Cash Receipts | |
| Charges for Services | \$1,348,825 |
| <i>Total Operating Cash Receipts</i> | <u>1,348,825</u> |
| Operating Cash Disbursements | |
| Personal Services | 256,739 |
| Employee Fringe Benefits | 88,606 |
| Contractual Services | 259,632 |
| Supplies and Materials | 115,063 |
| Other | 238 |
| <i>Total Operating Cash Disbursements</i> | <u>720,278</u> |
| <i>Operating Income</i> | <u>628,547</u> |
| Non-Operating Receipts (Disbursements) | |
| Other Debt Proceeds | 100,387 |
| Capital Outlay | (314,666) |
| Principal Retirement | (311,332) |
| Interest and Other Fiscal Charges | (66,073) |
| <i>Total Non-Operating Receipts (Disbursements)</i> | <u>(591,684)</u> |
| <i>Net Change in Fund Cash Balances</i> | 36,863 |
| <i>Fund Cash Balances, January 1</i> | <u>578,628</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$615,491</u></u> |

See accompanying notes to the basic financial statements

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

NOTE 1 - REPORTING ENTITY

The Village of Covington (the Village), Miami County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, trash collection, and police services. The Village contracts with the Covington Fire Department to receive fire protection services and the Covington Rescue Squad to provide EMS services. The Village also contracts with the City of St. Marys to provide for income tax administration and collection services.

Public Entity Risk Pool

The Village participates in a public entity risk pool, the Ohio Plan Risk Management, Inc. (OPRM). Note 6 to the financial statements provides additional information for this entity. The Village's management believes these financial statements present all activities for which the Village is financially accountable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all proprietary fund types which are organized on a fund type basis.

Fund Accounting

The Village 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. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction Maintenance and Repair The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

State Highway Maintenance and Repair The state highway maintenance and repair fund is funded through revenue from 7.5% of gasoline, motor tax and license fees. This fund is restricted for the construction, maintenance, and repair of state highways within the Village.

Debt Service Fund This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village has only one debt service fund that was utilized for debt service payments.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Capital Projects Fund This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village runs its special assessment projects and Ohio Public Works Commission street project funding through the capital projects fund.

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

Water Fund The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village. Revenues are utilized to cover the cost of providing operation and maintenance of the water system as well as water system debt service repayment.

Sewer Fund The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village. Revenues are utilized to cover the cost of providing operation and maintenance of the water system as well as sewer system debt service repayment.

Trash Fund The trash fund accounts for the provision of trash, recycling and debris collection services to the residents and commercial users within the Village. Revenues are utilized to cover the cost of providing operation and maintenance of the trash, recycling and debris, collection equipment as well as equipment debt service repayment.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, object and department level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

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

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

A summary of 2015 budgetary activity appears in Note 3.

VILLAGE OF COVINGTON
MIAMI COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Deposits

The Village only has depository bank accounts.

Capital Assets

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2015 follows:

| 2015 Budgeted vs. Actual Receipts | | | |
|--|------------------------------|----------------------------|-----------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$1,032,519 | \$1,087,366 | \$54,847 |
| Special Revenue | 317,000 | 342,923 | 25,923 |
| Debt Service | 160,000 | 105,000 | (55,000) |
| Capital Projects | 1,974,034 | 1,965,654 | (8,380) |
| Enterprise | 1,355,000 | 1,449,212 | 94,212 |
| Total | \$4,838,553 | \$4,950,155 | \$111,602 |

| 2015 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|--|------------------------------------|-----------------------------------|-----------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$1,170,288 | \$1,044,589 | \$125,699 |
| Special Revenue | 405,404 | 369,685 | 35,719 |
| Debt Service | 174,000 | 117,875 | 56,125 |
| Capital Projects | 2,081,710 | 1,994,604 | 87,106 |
| Enterprise | 1,613,265 | 1,412,349 | 200,916 |
| Total | \$5,444,667 | \$4,939,102 | \$505,565 |

NOTE 4 – DEPOSITS

The Village maintains a deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31, 2015 was as follows:

| | |
|-----------------|-------------|
| | 2015 |
| Demand deposits | \$1,238,410 |
| Total deposits | \$1,238,410 |

Deposits

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village; or collateralized by the financial institution's public entity deposit pool.

NOTE 5 – TAXES

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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

Income Taxes

The Village levies a municipal income tax of 1.5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

The Village also contracts with the City of St. Marys to provide for income tax administration and collection services.

NOTE 6 - RISK MANAGEMENT

Risk Pool Membership

Workers' Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs (if material).

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 772 members as of December 31, 2015.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2015.

| | 2015 |
|-----------------|---------------------------|
| Assets | \$14,643,667 |
| Liabilities | <u>(9,112,030)</u> |
| Members' Equity | <u><u>\$5,531,637</u></u> |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

Most Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Ohio Police and Fire Retirement System

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 11.5% of their wages from January through June of 2015 and 12.25% of their wages from July through December 2015. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2015.

Social Security

Several Village council members contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Council Members contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

NOTE 8 - POSTEMPLOYMENT BENEFITS

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits, and OP&F contributes 0.5 percent to fund these benefits.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

NOTE 9 – DEBT

Debt outstanding at December 31, 2015 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|--|--------------------|----------------------|
| Walnut Street Phase 2 and 3 Bonds | \$100,000 | 3.00% |
| Spring Street Improvement Bond | \$950,000 | 3.25% |
| Spring Street Reconstruction OPWC Loan | \$400,000 | 0.00% |
| Police Cruiser Bank Loan | \$19,950 | 3.56% |
| WTP and New Wells OWDA Loan | \$2,094,419 | 2.75% |
| WWTP Improvements OWDA Loan | \$100,387 | 1.00% |
| Dura Patcher Lease | \$23,118 | 3.84% |
| Trash Truck Lease | \$67,714 | 2.92% |
| Toter Lease | \$18,136 | 3.22% |
| Total | <u>\$3,773,724</u> | |

The Walnut Street Phase 2 and 3 Bonds in the amount of \$450,000 was obtained through Covington Savings and Loan in June 2011 to pay for the reconstruction of the east end of Walnut Street. The annual principal payment will be repaid over the 5-year loan period. Interest payments are made semi-annually. The interest rate is 3.00%. One principal payment of \$95,000 and two semiannual interest payments totaling \$4,425 were made in 2015. The final payment for this loan will be due in 2016. Payments were made from the debt service fund with transfers made from other applicable funds.

The Spring Street Improvement Bond was issued in the amount of \$950,000 and was obtained through Covington Savings and Loan in 2015 to pay for the reconstruction of Spring Street. No principal payments were made on this loan during 2015. An interest payment of \$15,438 was made in 2015. The interest rate on this loan is 3.25%. The Village will repay the loan in semiannual installments over 10 years. Payments were made from the debt service fund with transfers made from other applicable funds.

The Spring Street Reconstruction Ohio Public Works Commission (OPWC) Loan for Spring Street was obtained in 2015 in the amount of \$400,000. No payments were made on this debt during 2015. The Village will repay the loan in semiannual installments over 30 years. Payments will be made from the debt service fund with transfers made from other applicable funds.

The Police Cruiser Loan in the amount of \$30,000 was obtained through Covington Savings and Loan in 2014 to pay for the purchase of a 2014 Ford Explorer Police Cruiser. One payment was made in 2015 with a principal payment of \$10,000 and an interest payment \$703. The interest rate on this loan is 3.56%. Payments were made from the general fund.

The Water Treatment Plant (WTP) and New Wells Ohio Water Development Authority (OWDA) Loan was obtained to construct a new water treatment plant for the Village that was mandated by the Ohio Environmental Protection Agency (Ohio EPA). The OWDA approved a loan of \$3,688,265 in 2006 to the Village for this project. The Village repays the loan in semiannual installments of \$120,493, including interest, over 20 years. Payments were made from the water fund.

The Wastewater Treatment Plant (WWTP) OWDA Loan is a 1% low interest loan in the amount of \$100,387 was obtained in 2015 to pay for a portion of the Sewer Plan Phase 1 design. There is currently no amortization schedule for this debt and it is not included in the amortization schedules below. The balance of this loan will be rolled over to the Sewer Plan Construction loan when this loan has been obtained. No payments were made on this debt during 2015.

The Village entered into a lease agreement in 2012 for a Dura Patcher at an interest rate of 3.84%. An annual principal and interest payment in the total amount of \$11,304 was made in 2015. Payment was made from the street construction, maintenance and repair fund.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

The Village entered into three lease agreements for trash/recycling collection. 1) A trash truck lease in 2014 at an interest rate of 2.92%. An annual principal and interest payment in the total amount of \$23,920 was made in 2015. 2) A totter lease in 2015 at an interest rate of 3.22%. No payments were made on this lease in 2015. 3) A trash truck lease in 2010 at an interest rate of 4.04%. An annual principal and interest payment in the total amount of \$53,844 was made in 2015. This lease was paid off in 2015. All three leases were paid from the trash fund.

Village Hall Renovation Bonds in the amount of \$900,000 were issued in 2005. The interest rate was 4.25%. One principal payment of \$90,000 and two interest payments totaling \$3,825 were made in 2015. The loan was paid off in 2015. Payments were made from the general fund and debt service fund via transfers from applicable funds.

The Walnut Street Improvement Notes in the amount of \$255,000 were obtained in 2010. The annual principal payment was repaid over a 5-year loan period. The interest rate was 4.00%. One principal payment of \$55,000 and one interest payment of \$1,100 was made in 2015. The loan was paid off in 2015.

Amortization

Amortization of the above debt, including interest, is scheduled as follows:

| Year ending December 31: | General | | | | |
|-----------------------------|------------------|--------------------|---------------------|-----------------|------------------|
| | Leases | OWDA Loan | Obligation Bonds | Bank Loan | OPWC Loan |
| 2016 | \$44,739 | \$240,986 | \$225,832 | \$10,703 | \$13,333 |
| 2017 | \$44,739 | \$240,986 | \$121,243 | \$10,703 | \$13,333 |
| 2018 | \$23,920 | \$240,986 | \$118,156 | \$0 | \$13,333 |
| 2019 | \$0 | \$240,986 | \$115,069 | \$0 | \$13,333 |
| 2020 | \$0 | \$240,986 | \$111,981 | \$0 | \$13,333 |
| 2021-2025 | \$0 | \$1,204,930 | \$513,594 | \$0 | \$66,667 |
| 2026-2030 | \$0 | \$0 | \$0 | \$0 | \$66,667 |
| 2031-2035 | \$0 | \$0 | \$0 | \$0 | \$66,667 |
| 2036-2040 | \$0 | \$0 | \$0 | \$0 | \$66,667 |
| 2041-2045 | \$0 | \$0 | \$0 | \$0 | \$66,667 |
| Total | <u>\$113,398</u> | <u>\$2,409,860</u> | <u>\$1,205,875</u> | <u>\$21,406</u> | <u>\$400,000</u> |

NOTE 10 – CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

NOTE 11 – SUBSEQUENT EVENTS

A contract for the Waste Water Treatment Plant Phase 1 improvement project was approved in March 2017 for the amount of \$1,108,892. The project costs will be paid through an OPWC grant of \$375,000, an OPWC loan of \$375,000, and a low interest loan to cover the remaining portion. Additionally, the Village Council approved a contract in June 2017 in the amount of \$101,407 for the 2017 Street Resurfacing Program. Also, in February 2018, the Village Council authorized to purchase a 2018 F550 dump truck at a purchase price of \$83,000 to be financed at a rate of 3.75% for 5 years with a loan amount of \$65,000.



Dave Yost • Auditor of State

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

Village of Covington
Miami County
1 South High Street
Covington, Ohio 45318

To the Members of the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Covington, Miami County, (the Village) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated April 5, 2018, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 to 2016-003 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

April 5, 2018

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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FINDING NUMBER 2016-001

Material Weakness – Financial Statement Errors

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The following errors were identified and adjusted on the Village's financial statements for 2016 and 2015:

- In 2015, the Village recorded \$40,000 of intergovernmental revenue as other financing sources in the general fund.
- In 2015, the Village recorded \$543,571 of intergovernmental revenue as other financing sources in the capital projects fund.
- In 2015, the Village recorded \$256,739 of personal services expenditures, \$88,606 of employee fringe benefits expenditures, \$259,632 of contractual services expenditures, \$115,063 of supplies and materials expenditures, \$3,655 of principal retirement expenditures, and \$198,331 of capital outlay expenditures to the other operating cash disbursements line item in the enterprise fund. This resulted in an overstatement of the other operating cash disbursements line item and corresponding understatements as noted for each line item above.
- In 2016, the Village recorded \$280,128 of personal services expenditures, \$93,880 of employee fringe benefits expenditures, \$247,655 of contractual services expenditures, \$214,897 of supplies and materials expenditures, and \$129,804 of capital outlay expenditures to the other operating cash disbursements line item in the enterprise fund. This resulted in an overstatement of the other operating cash disbursements line item and corresponding understatements as noted for each line item above.
- In 2015, the Village transferred \$63,463 from the sewer fund to the capital projects fund for a capital project that included related sewer expenditures. However, sewer-related expenditures should be paid directly from the applicable fund so that the enterprise capital outlay expenditures are properly reported within enterprise funds rather than governmental funds. Because of this transfer and subsequent payment from the capital projects fund, capital projects fund transfers in and capital outlay were overstated by \$63,463 and sewer fund capital outlay was understated and transfers out were overstated by \$63,463.

Failure to properly record financial activity could lead to material financial statement errors and misleading financial statement information.

Policies and procedures should be developed and implemented to verify that all financial activity is recorded correctly.

Officials' Response: We did not receive a response from Officials to this finding.

FINDING NUMBER 2016-002

Material Weakness – Debt Service Accountability

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The Village's financial statements included the following errors related to debt transactions:

2015

- A \$10,000 principal payment in the general fund for a loan was incorrectly classified as capital outlay. The financial statements were not adjusted for this error.
- A \$1,249 interest payment in the special revenue fund for a lease was incorrectly classified as principal retirement. The financial statements were not adjusted for this error.
- All capital projects fund expenditures in the amount of \$1,939,233 were incorrectly classified as principal retirement. The amounts should have been \$1,930,725 for capital outlay and \$8,508 transportation expense. The financial statements were adjusted for this error.
- Debt issuances in the capital projects fund in the amount of \$1,350,000 were incorrectly classified as other financing sources. The amounts should have been \$950,000 for sale of bonds and \$400,000 other debt proceeds. The financial statements were adjusted for this error.
- Interest payments on enterprise debt in the amount of \$66,073 were incorrectly classified as principal retirement in the enterprise fund. The financial statements were adjusted for this error.
- The Village transferred \$30,000 from the water fund and \$25,000 from the sewer fund to the debt service fund for payment of applicable debt expenditures. Enterprise fund debt payments should be paid directly from the applicable fund so that the enterprise debt payments are reported properly within enterprise funds rather than governmental funds. Because of the transfer and subsequent payment from the Debt Service Fund, the governmental debt service fund transfers in and principal retirement were overstated by \$55,000. The financial statements were adjusted for this error.

2016

- A \$9,983 principal payment in the general fund and \$720 interest payment for a loan was incorrectly classified as capital outlay. The financial statements were not adjusted for this error.
- A \$849 interest payment in the special revenue fund for a lease was incorrectly classified as principal retirement. The financial statements were not adjusted for this error.
- Interest payments on enterprise debt in the amount of \$59,923 were incorrectly classified as principal retirement in the enterprise fund. The financial statements were adjusted for this error.
- A \$10,000 principal payment on an enterprise lease was incorrectly classified as other operating disbursements in the enterprise fund. The financial statements were adjusted for this error.
- The Village transferred \$30,000 from the water fund and \$25,000 from the sewer fund to the debt service fund for payment of applicable debt expenditures. Enterprise fund debt payments should be paid directly from the applicable fund so that the enterprise debt payments are reported properly within enterprise funds rather than governmental funds. Because of the transfer and subsequent payment from the Debt Service Fund, the governmental debt service fund transfers in and principal retirement were overstated by \$55,000. The financial statements were adjusted for this error.

**FINDING NUMBER 2016-002
(Continued)**

We also identified these additional issues related to debt service accountability:

- For the water and sewer fund transfers that occurred during 2015 and 2016 above, the related debt was for a project that occurred in a previous year and included both governmental and enterprise fund components; however, no support could be provided by the Village to explain the allocation of the funds used to pay the debt.
- The source of the Village's debt service fund balance was transfers from other funds; however, the Village has not transferred amounts that equal the applicable debt payments that were paid from the debt service fund. Therefore, there was a fund balance in the debt service fund of \$15,025 at the beginning of the audit period and a fund balance of \$7,986 at the end of the audit period. The Village did not designate the fund balance in the debt service fund for the repayment of any specific debt.

Failure to properly account for debt transactions could make it difficult for the Village to determine amounts owed on each type of outstanding debt. Also, this could lead to material financial statement errors and unreliable financial statement information. Failure to maintain support for the allocation of debt payments related to a project could lead to restricted funds being used for unallowable purposes.

The Village should implement procedures to verify that debt payments are charged to the proper expenditure line item (principal and interest) and proper fund based on the nature of the project. The Village should maintain supporting documentation for the allocation of debt payments to funds. The Village should not account for enterprise debt expenditures in a governmental debt service fund or vice versa. Additionally, if the Village chooses to pay governmental debt from the debt service fund, the Village should either 1) transfer only enough money to make the applicable debt payments or 2) determine that any funds transferred to the debt service fund for payment of debt should be designated and tracked to pay for specific debt in an effort to verify that all debt is paid with proper sources.

Officials' Response: We did not receive a response from Officials to this finding.

FINDING NUMBER 2016-003

Material Weakness – Fund Balance Classifications

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The following errors were identified and adjusted on the Village's financial statements:

Governmental Accounting Standards Board (GASB) Statement 54, paragraph 16 (GASB Codification 1800.176) states, in part, that an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance. The Village failed to properly classify the amount by which appropriations exceeded estimated receipts for the subsequent year at year-end 2016 and 2015 in the amounts of \$237,759 and \$220,043, respectively. This amount should have been classified as assigned fund balance rather than unassigned fund balance in the general fund.

FINDING NUMBER 2016-003
(Continued)

GASB Statement 54, paragraph 8 (GASB Codification 1800.168) states, in part, that fund balance should be reported as restricted when constraints placed on the use of resources are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. During the audit period, the Village's primary revenue sources in the special revenue funds were income tax, intergovernmental revenue, and special assessments. Therefore, the fund balance of these funds should be classified as restricted. However, a portion of the fund balance was incorrectly classified as unassigned fund balance in the amounts of \$25,412 and \$15,379 for 2016 and 2015, respectively. Additionally, the primary revenue source for the capital projects fund during the audit period was special assessments, intergovernmental revenue, and debt proceeds. Therefore, the fund balance of these funds should be classified as restricted. However, the fund balance was incorrectly classified as unassigned fund balance in the amounts of \$30,284 and \$125,703 for 2016 and 2015, respectively.

GASB Statement 54, paragraph 13 states (GASB Codification 1800.173), in part, that amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. GASB Statement 54, paragraph 15 (GASB Codification 1800.175) continues, in part, that by reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, the government has assigned those amounts to the purposes of the respective funds. The Village's debt service fund has been funded by transfers and the related transfers have not been tied to specific debt obligations. These amounts do not meet the restricted or committed designation, but the related activity is reported in the debt service fund and therefore should be reported as assigned fund balance; however, at year-end 2016 and 2015, these amounts were incorrectly classified as unassigned in the amounts of \$7,986 and \$2,150, respectively.

Failure to properly classify fund balances and activity could lead to misstated financial statements and misleading financial statement information.

The Village should perform a review of all Village funds and determine proper reporting of fund balances in accordance with GASB Statement 54 requirements and also review Auditor of State Bulletin 2011-004 for additional guidance.

Officials' Response: We did not receive a response from Officials to this finding.



Dave Yost • Auditor of State

VILLAGE OF COVINGTON

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 10, 2018