



OHIO AUDITOR OF STATE
KEITH FABER



**VILLAGE OF COVINGTON
MIAMI COUNTY
DECEMBER 31, 2018 AND 2017**

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INDEPENDENT AUDITOR'S REPORT

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

To the Members of the 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, 2018 and 2017.

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, 2018 and 2017, 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, 2018 and 2017, 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 January 17, 2020, 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.



Keith Faber
Auditor of State
Columbus, Ohio

January 17, 2020

**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, 2018**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$271,021	\$96,762			\$367,783
Municipal Income Tax	718,305	179,576			897,881
Intergovernmental	87,970	137,187		\$72,771	297,928
Special Assessments		50,341		34,452	84,793
Charges for Services	40,190	702			40,892
Fines, Licenses and Permits	34,029				34,029
Earnings on Investments	183				183
Miscellaneous	58,672				58,672
<i>Total Cash Receipts</i>	<u>1,210,370</u>	<u>464,568</u>	<u>0</u>	<u>107,223</u>	<u>1,782,161</u>
Cash Disbursements					
Current:					
Security of Persons and Property	646,196	96,470			742,666
Transportation		345,275			345,275
General Government	300,779				300,779
Capital Outlay	89,794	83,000		182,540	355,334
Debt Service:					
Principal Retirement			108,333		108,333
Interest and Fiscal Charges			23,156		23,156
<i>Total Cash Disbursements</i>	<u>1,036,769</u>	<u>524,745</u>	<u>131,489</u>	<u>182,540</u>	<u>1,875,543</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>173,601</u>	<u>(60,177)</u>	<u>(131,489)</u>	<u>(75,317)</u>	<u>(93,382)</u>
Other Financing Receipts (Disbursements)					
Transfers In		100,000	103,300	70,000	273,300
Transfers Out	(273,300)				(273,300)
Advances Out	(225,000)				(225,000)
Loan Proceeds	37,206				37,206
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(461,094)</u>	<u>100,000</u>	<u>103,300</u>	<u>70,000</u>	<u>(187,794)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(287,493)</u>	<u>39,823</u>	<u>(28,189)</u>	<u>(5,317)</u>	<u>(281,176)</u>
<i>Fund Cash Balances, January 1</i>	<u>616,149</u>	<u>127,812</u>	<u>28,408</u>	<u>38,699</u>	<u>811,068</u>
Fund Cash Balances, December 31					
Restricted		167,635		33,382	201,017
Assigned	254,673				254,673
Unassigned	73,983		219		74,202
<i>Fund Cash Balances, December 31</i>	<u>\$328,656</u>	<u>\$167,635</u>	<u>\$219</u>	<u>\$33,382</u>	<u>\$529,892</u>

See accompanying notes to the financial statements

**Village of Covington
Miami County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balance (Cash Basis)
All Proprietary Fund Types
For the Year Ended December 31, 2018**

	Enterprise
Operating Cash Receipts	
Charges for Services	\$1,551,282
<i>Total Operating Cash Receipts</i>	1,551,282
Operating Cash Disbursements	
Personal Services	303,844
Employee Fringe Benefits	104,724
Contractual Services	281,643
Supplies and Materials	357,947
<i>Total Operating Cash Disbursements</i>	1,048,158
<i>Operating Income</i>	503,124
Non-Operating Receipts (Disbursements)	
Intergovernmental	375,000
Loan Proceeds	807,273
Capital Outlay	(1,405,709)
Principal Retirement	(332,622)
Other Financing Sources	2,500
<i>Total Non-Operating Receipts (Disbursements)</i>	(553,558)
<i>(Loss) before Advances</i>	(50,434)
Advances In	225,000
<i>Net Change in Fund Cash Balances</i>	174,566
<i>Fund Cash Balance, January 1</i>	828,801
<i>Fund Cash Balance, December 31</i>	\$1,003,367

See accompanying notes to the financial statements

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2018

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 Covington Fire and Rescue to receive fire protection and EMS services. The Village also contracts with the City of St. Marys to provide for income tax collection and administrative services. The Village Administrator serves as the liaison between the Village and St Marys for income tax information and administrative issues.

Public Entity Risk Pool

The Village participates in a public entity risk pool, the Ohio Plan Risk Management, Inc. (OPRM). Note 7 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 balance (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.

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

Fire/EMS Fund - The Fire/EMS fund is funded through a property tax levy, and is restricted to use for Fire and EMS services.

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 is utilized for debt service payments.

Capital Project 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 accounts for its street and sidewalk special assessment projects, Ohio Department of Transportation Safe Routes to School project, and other capital projects funding in the 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 sewer 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 Village 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.

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

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 2018 budgetary activity appears in Note 3.

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.

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2018 follows:

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,174,806	\$1,247,576	\$72,770
Special Revenue	697,053	564,568	(132,485)
Debt Service	120,000	103,300	(16,700)
Capital Projects	194,000	177,223	(16,777)
Enterprise	2,785,000	2,961,055	176,055
Total	\$4,970,859	\$5,053,722	\$82,863

2018 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,727,900	\$1,535,069	\$192,831
Special Revenue	757,400	524,745	232,655
Debt Service	140,000	131,489	8,511
Capital Projects	231,000	182,540	48,460
Enterprise	3,470,451	2,786,489	683,962
Total	\$6,326,751	\$5,160,332	\$1,166,419

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2018

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, 2018 was as follows:

	<u>2018</u>
Demand deposits	<u>1,533,259</u>
Total deposits	<u>1,533,259</u>

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

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.

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 contracts with the City of St. Marys to provide for income tax collection and administrative services.

*Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2018*

Note 6 – Interfund Balances

Advances

During 2018, Village Council approved an advance from the general fund to the trash fund in the amount of \$225,000 and at an interest rate of 4% to be used to purchase a new trash truck. The advance and repayment amortization schedule were approved by Village Ordinance 16-18 on October 10, 2018. The advance is to be repaid in annual payment amounts of \$37,487 for seven years beginning in 2019.

Note 7 - Risk Management

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).

Risk Pool Membership

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. 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. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2018, the OPRM the property retention remained unchanged, however, the Plan assumed 100% of the first \$250,000 casualty treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 members as of December 31, 2018.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2018.

Assets	\$15,065,412
Liabilities	<u>(10,734,623)</u>
Members' Equity	<u>\$ 4,330,789</u>

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

*Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2018*

Note 8- 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, 2018.

Ohio Police and Fire Retirement System

The Village's full-time Police Officers belong to the Ohio 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, 2018.

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, 2018.

Note 9 - 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. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2018. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2018. 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, 2018*

Note 10 – Debt

Debt outstanding at December 31, 2018 was as follows:

	Principal	Interest Rate
Spring Street Improvement Bond	\$665,000	3.25%
Spring Street Reconstruction OPWC Loan	360,000	0.00%
2017 Police Cruiser Bank Loan	24,511	3.00%
2018 Police Cruiser Bank Loan	37,206	3.75%
WTP and New Wells OWDA Loan	1,530,242	2.75%
WWTP Improvements OWDA Loan	529,214	1.00%
WWTP Improvements OPWC Loan	368,750	0.00%
Pump Station Improvements OPWC Loan	12,500	0.00%
2016 Trash Truck Lease	104,527	3.10%
Total	\$3,631,950	

Bonds and Loans

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 was made on this debt in April 2018 and two interest payments were made on this bond in 2018, \$12,350 in April 2018 and \$10,806 in October 2018. The Village will repay the bond in semiannual installments over 10 years. Payments were made from the debt service fund with transfers made from the general fund.

The Spring Street Reconstruction Ohio Public Works Commission (OPWC) Loan for Spring Street was obtained in 2015 in the amount of \$400,000.00. Two payments were made on this debt during 2018, in the amount of \$6,667 each in May 2018 and November 2018. The Village will repay the loan in semiannual installments over 30 years. Payments were made from the debt service fund with transfers made from the General fund.

The 2017 Police Cruiser loan in the amount of \$36,234 was obtained through Covington Savings and Loan in 2017 to pay for the purchase of a 2017 Ford Explorer Police Cruiser. One principal payment of \$11,723 and one interest payment of \$1,087 was made in June of 2018. The Village will repay the loan in annual installments over 3 years. Payments were made from the general fund.

The 2018 Police Cruiser loan in the amount of \$37,206 was obtained through Covington Savings and Loan in 2018 to pay for the purchase of a 2018 Ford Explorer Police Cruiser. No payments were made in 2018. The Village will repay the loan in annual installments over 3 years. Payments will be 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.

*Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2018*

Note 10 – Debt (Continued)

The Wastewater Treatment Plant (WWTP) Improvements OWDA loan is a 1% low interest loan that was originally obtained in 2015 to pay for a portion of the Sewer Plant Phase 1 design. In 2017, the balance of the design loan in the amount \$70,951 was rolled over to the Sewer Plant Construction loan. The loan was approved in the amount of \$697,749. Through December 31, 2018, the Village has drawn down a total of \$ 545,265, including the previously mentioned \$70,951. One payment of principal and interest totaling \$19,290 was made in November of 2018. The payment was made from the sewer fund. No amortization schedule is available for this loan at December 31, 2018; therefore, it is not included in the below amortization table.

The WWTP Improvements OPWC loan was issued in the amount of \$375,000 during 2018. One payment of \$6,250 was made in November of 2018. The payment was made from the sewer fund. The Village will repay the loan in semiannual installments over 30 years.

The OPWC Pump Station Improvements loan was approved in 2017 in the total amount of \$150,000. In 2018, \$12,500 was drawn down as part of this project. No payments were made on this loan in 2018. After the full loan amount is disbursed, semiannual payments of \$2,500 will begin in January of 2020 with a 30-year term. Because the full loan amount has not been disbursed as of December 31, 2018, it is not included in the below amortization table.

The Village adjusted utility rates sufficiently to cover OWDA/OPWC debt service requirements.

Lease

In July 2016, the Village entered into a lease agreement for a new 2017 trash truck. The original amount of the lease was \$169,009 and the term of the lease is for 5 years. An annual principal and interest payment in the total amount of \$37,056 was made in 2018. The payment was made from the trash fund.

Amortization

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

Year ending December 31:			Improvement		
	Lease	OWDA Loan	Bond	Bank Loans	OPWC Loans
2019	\$37,056	\$240,986	\$115,069	\$26,154	\$25,833
2020	\$37,056	\$240,986	\$111,981	\$26,154	\$25,833
2021	\$37,056	\$240,986	\$108,894	\$13,344	\$25,833
2022	\$0	\$240,986	\$105,806	\$0	\$25,833
2023	\$0	\$240,986	\$102,719	\$0	\$25,833
2024-2028	\$0	\$481,972	\$196,175	\$0	\$129,167
2029-2033	\$0	\$0	\$0	\$0	\$129,167
2034-2038	\$0	\$0	\$0	\$0	\$129,167
2039-2043	\$0	\$0	\$0	\$0	\$129,167
2044-2048	\$0	\$0	\$0	\$0	\$82,917
Total	\$111,168	\$1,686,902	\$740,644	\$65,652	\$728,750

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 11 – Subsequent Events

In February 2019, the Village approved to enter into a contract for High Street design for stage one and two design work at a cost of \$97,500. Also in February 2019, the Village approved to award a bid for the waste water treatment plan Phase 2 blower replacement project at a cost of \$229,000. In April 2019, the Village approved to award the 2019 paving project at a cost of \$88,917. In July 2019, the Village Council approved a loan in the amount of \$352,000 from the Ohio Public Works Commission for the State Route 48 waterline and sanitary sewer replacement project. In September 2019, the Village approved to award a contract for the Maple Street basketball court rehabilitation project at a cost of \$144,740.

Note 12 – Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. 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.

**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, 2017**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$267,482	\$95,713			\$363,195
Municipal Income Tax	703,636	175,909			879,545
Intergovernmental	83,977	140,388		\$218,729	443,094
Special Assessments		49,436		36,486	85,922
Charges for Services	39,957				39,957
Fines, Licenses and Permits	26,810				26,810
Earnings on Investments	152				152
Miscellaneous	68,744	7,238			75,982
<i>Total Cash Receipts</i>	<u>1,190,758</u>	<u>468,684</u>	<u>0</u>	<u>255,215</u>	<u>1,914,657</u>
Cash Disbursements					
Current:					
Security of Persons and Property	592,378	95,000			687,378
Transportation		384,268			384,268
General Government	263,332				263,332
Capital Outlay	32,643			246,800	279,443
Debt Service:					
Principal Retirement		11,304	108,333		119,637
Interest and Fiscal Charges			26,244		26,244
<i>Total Cash Disbursements</i>	<u>888,353</u>	<u>490,572</u>	<u>134,577</u>	<u>246,800</u>	<u>1,760,302</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>302,405</u>	<u>(21,888)</u>	<u>(134,577)</u>	<u>8,415</u>	<u>154,355</u>
Other Financing Receipts (Disbursements)					
Transfers In	-		155,000		155,000
Transfers Out	(155,000)				(155,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(155,000)</u>	<u>0</u>	<u>155,000</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	147,405	(21,888)	20,423	8,415	154,355
<i>Fund Cash Balances, January 1</i>	<u>468,744</u>	<u>149,700</u>	<u>7,985</u>	<u>30,284</u>	<u>656,713</u>
Fund Cash Balances, December 31					
Restricted		127,812		38,699	166,511
Assigned	553,094		28,408		581,502
Unassigned	63,055				63,055
<i>Fund Cash Balances, December 31</i>	<u>\$616,149</u>	<u>\$127,812</u>	<u>\$28,408</u>	<u>\$38,699</u>	<u>\$811,068</u>

See accompanying notes to the financial statements

Village of Covington
Miami County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balance (Cash Basis)
All Proprietary Fund Types
For the Year Ended December 31, 2017

	Enterprise
Operating Cash Receipts	
Charges for Services	\$1,541,850
<i>Total Operating Cash Receipts</i>	1,541,850
Operating Cash Disbursements	
Personal Services	281,288
Employee Fringe Benefits	99,163
Contractual Services	407,650
Supplies and Materials	180,212
<i>Total Operating Cash Disbursements</i>	968,313
<i>Operating Income</i>	573,537
Non-Operating Receipts (Disbursements)	
Capital Outlay	(52,517)
Principal Retirement	(328,713)
<i>Total Non-Operating Receipts (Disbursements)</i>	(381,230)
<i>Net Change in Fund Cash Balances</i>	192,307
<i>Fund Cash Balance, January 1</i>	636,494
<i>Fund Cash Balance, December 31</i>	\$828,801

See accompanying notes to the financial statements

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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 Covington Fire and Rescue to receive fire protection and EMS services. The Village also contracts with the City of St. Marys to provide for income tax collection and administrative services. The Village Administrator serves as the liaison between the Village and St. Marys for income tax information and administrative issues.

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 balance (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.

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Fire/EMS Fund - The Fire/EMS fund is funded through a property tax levy and is restricted to use for fire and EMS services.

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 is utilized for debt service payments.

Capital Project 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 accounts for its street and sidewalk special assessment projects and Ohio Department of Transportation Safe Routes to School project funding in the 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 sewer 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 Village 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.

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

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 2017 budgetary activity appears in Note 3.

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.

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,070,341	\$1,190,758	\$120,417
Special Revenue	437,252	468,684	31,432
Debt Service	155,000	155,000	0
Capital Projects	319,000	255,215	(63,785)
Enterprise	2,960,000	1,541,850	(1,418,150)
Total	\$4,941,593	\$3,611,507	(\$1,330,086)

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 3 - Budgetary Activity (Continued)

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,308,100	\$1,043,353	\$264,747
Special Revenue	519,204	490,572	28,632
Debt Service	153,000	134,577	18,423
Capital Projects	345,000	246,800	98,200
Enterprise	3,333,437	1,349,543	1,983,894
Total	\$5,658,741	\$3,264,845	\$2,393,896

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, 2017 was as follows:

	2017
Demand deposits	1,639,869
Total deposits	1,639,869

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

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.

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.

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 5 – Taxes (Continued)

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 contracts with the City of St. Marys to provide for income tax collection and administrative services.

Note 6 - Risk Management

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).

Risk Pool Membership

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. 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. Effective November 1, 2017, the OPRM retained 47% 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 764 members as of December 31, 2017.

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.

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 6 - Risk Management (Continued)

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

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2017.

Assets	\$14,853,620
Liabilities	<u>(9,561,108)</u>
Members' Equity	<u>\$5,292,512</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, 2017.

Ohio Police and Fire Retirement System

The Village's full-time Police Officers belong to the Ohio 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, 2017.

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, 2017.

*Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2017*

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. In 2017, OPERS contributed 1 percent of the employer contribution to fund these benefits, and OP&F contributed 0.5 percent to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2017 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Spring Street Improvement Bond	\$760,000	3.25%
Spring Street Reconstruction OPWC Loan	\$373,333	0.00%
2017 Police Cruiser Bank Loan	\$36,234	3.00%
WTP and New Wells OWDA Loan	\$1,720,006	2.75%
WWTP Improvements OWDA Loan	\$125,242	1.00%
2014 Trash Truck Lease	\$23,233	2.92%
2016 Toter Lease	\$4,964	3.10%
2016 Trash Truck Lease	\$137,267	3.10%
Total	<u>\$3,180,279</u>	

Bonds and Loans

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 was made on this debt in April 2017 and two interest payments were made on this bond in 2017, \$13,894 in April 2017 and \$12,350 in October 2017. The Village will repay the bond in semiannual installments over 10 years. Payments were made from the debt service fund with transfers made from the general fund.

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 2017, in the amount of \$6,667 each in May 2017 and November 2017. The Village will repay the loan in semiannual installments over 30 years. Payments were made from the debt service fund with transfers made from the general fund.

The 2017 Police Cruiser loan in the amount of \$36,234 was obtained through Covington Savings and Loan in 2017 to pay for the purchase of a 2017 Ford Explorer Police Cruiser. No payments were made in 2017. The Village will repay the loan in annual installments over 3 years. Payments will be 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 are made from the water fund.

Village of Covington
Miami County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 9 – Debt (Continued)

The Wastewater Treatment Plant (WWTP) Improvements OWDA loan is a 1% low interest loan that was originally obtained in 2015 to pay for a portion of the Sewer Plan Phase 1 design. In 2017, the balance of the design loan in the amount \$70,951 was rolled over to the Sewer Plant Construction loan. The loan was approved in the amount of \$697,749. Through December 31, 2017, the Village has drawn down a total of \$125,492, including the previously mentioned \$70,951. During 2017, the Village paid \$12,116 in principal, interest and loan fees on this loan. Payments were made from the sewer fund. No amortization schedule is available for this loan at December 31, 2017; therefore, it is not included in the below amortization table.

The Village adjusted utility rates sufficiently to cover OWDA/OPWC debt service requirements.

Leases

The Village entered into three lease agreements for trash/recycling collection as follows: 1) A trash truck lease in 2014 with annual principal and interest payments in the total amount of \$23,920 was made in 2017. 2) A toter lease in 2016 with annual principal and interest payment in the total amount of \$5,120 was made in 2017. 3) In 2016, the Village entered into a lease agreement for a new 2017 trash truck. The original amount of the lease was \$169,009 and the term of the lease is for 5 years. An annual principal and interest payment in the total amount of \$37,056 was made in 2017. All three leases were paid from the trash fund.

Amortization

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

Year ending December 31:	Improvement				
	Leases	OWDA Loan	Bond	Bank Loan	OPWC Loan
2018	\$66,096	\$240,986	\$118,156	\$12,810	\$13,333
2019	\$37,056	\$240,986	\$115,069	\$12,810	\$13,333
2020	\$37,056	\$240,986	\$111,981	\$12,810	\$13,333
2021	\$37,056	\$240,986	\$108,894	\$0	\$13,333
2022	\$0	\$240,986	\$105,806	\$0	\$13,333
2023-2027	\$0	\$722,958	\$298,894	\$0	\$66,667
2028-2032	\$0	\$0	\$0	\$0	\$66,667
2033-2037	\$0	\$0	\$0	\$0	\$66,667
2038-2042	\$0	\$0	\$0	\$0	\$66,667
2043-2045	\$0	\$0	\$0	\$0	\$40,000
Total	\$177,264	\$1,927,888	\$858,800	\$38,430	\$373,333

Note 10 – Subsequent Events

In February 2019, the Village approved to enter into a contract for High Street design for stage one and two design work at a cost of \$97,500. Also in February 2019, the Village approved to award a bid for the waste water treatment plan Phase 2 blower replacement project at a cost of \$229,000. In April 2019, the Village approved to award the 2019 paving project at a cost of \$88,917. In July 2019, Village Council approved a loan in the amount of \$352,000 from OPWC for the St. 48 waterline and sanitary sewer replacement project. In September 2019, the Village approved to award a contract for the Maple Street basketball court rehabilitation project at a cost of \$144,740.

Note 11 – Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. 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.

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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 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, 2018 and 2017, and the related notes to the financial statements and have issued our report thereon dated January 17, 2020 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 2018-001 and 2018-002 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 report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

January 17, 2020

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2018 AND 2017**

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

FINDING NUMBER 2018-001

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 2018:

- The Village incorrectly reported a long-term loan from the general fund to the trash fund (an enterprise fund) as other financing sources rather than advances in for the amount of \$225,000 in the enterprise fund.
- The Village recorded special revenue fund (fire & ems fund) homestead and rollback intergovernmental revenue as general fund property tax revenue in the amount of \$3,830. This resulted in an understatement of the special revenue intergovernmental revenue and fund balance and an overstatement of general fund property tax revenue and fund balance. This error has been corrected on the Village's accounting system.
- The Village received grant funds from the Ohio Public Works Commission for wastewater treatment plant improvements. The Village incorrectly recorded the grant funds resulting in an overstatement of other financing sources and an understatement of intergovernmental revenue in the enterprise fund in the amount of \$375,000.
- The Village incorrectly reported loan proceeds received from the Ohio Public Works Commission and the Ohio Water Development Authority for wastewater treatment plant improvements. As a result, other financing sources was overstated and loan proceeds was understated in the amount of \$807,273 in the enterprise fund.
- The Village incorrectly recorded police cruiser loan proceeds as financing origination revenue in the general fund in the amount of \$37,206. This should have been recorded as loan proceeds.

The following errors were identified and adjusted on the Village's financial statements for 2017:

- The Village recorded special revenue fund (fire & ems fund) homestead and rollback intergovernmental revenue as general fund property tax revenue in the amount of \$3,808. This resulted in an understatement of special revenue intergovernmental revenue and fund balance and an overstatement of general fund property tax revenue and fund balance. This error has been corrected on the Village's accounting system.
- The Village reported on-behalf receipts/payments from the Ohio Department of Transportation twice on the financial statements, which resulted in other financing sources and other financing uses to be overstated in the amount of \$218,729 in the capital projects fund.
- The Village overstated other operating cash disbursements and understated ending fund cash balance by \$623,408 in the enterprise fund.
- The Village overstated other operating cash disbursements by \$344,905 and understated contractual services disbursements by \$334,633 and supplies and materials by \$10,272.

The above errors occurred when posting transactions to the accounting system and in creating the annual financial statements.

**FINDING NUMBER 2018-001
(Continued)**

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

The Village should establish and implement policies and procedures to verify that all financial activity is recorded correctly and properly reported.

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

FINDING NUMBER 2018-002

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 2018 and 2017 in the amounts of \$254,673 and \$553,094, respectively. These amounts should have been classified as assigned fund balance rather than unassigned fund balance in the general fund.

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 was property tax, income tax, intergovernmental revenue, and special assessments. Therefore, the fund balance of these funds should be classified as restricted. In 2017, a portion of the fund balance was incorrectly classified as unassigned rather than restricted in the amount of \$34,489. In 2018, the unadjusted special revenue fund balance was incorrectly classified as unassigned rather than restricted in the amount of \$159,997. Additionally, the primary revenue source for the capital projects fund during the audit period was special assessments and intergovernmental revenue. 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 \$33,382 and \$38,699 for 2018 and 2017, respectively.

GASB Statement 54, paragraph 13 (GASB Codification 1800.173) states, 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. During 2017, the Village's debt service fund was funded primarily by transfers and the related transfers were not tied to specific debt obligations. This amount does 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 2017, this amount was incorrectly classified as unassigned in the amount of \$28,408.

**FINDING NUMBER 2018-002
(Continued)**

A lack of understanding of GASB Statement 54 led to these errors.

Failure to properly classify fund balances 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.



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2018 AND 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	Material Weakness – Financial Statement Errors	Not corrected	Various financial statement errors were noted in the current audit period and will be repeated in finding number 2018-001 and in the management letter.
2016-002	Material Weakness – Debt Service Accountability	Partially corrected	Debt service is being paid from the correct fund. However, financial statement errors related to debt occurred during the current audit period and are included in finding number 2018-001 and in the management letter.
2016-003	Material Weakness – Fund Balance Classifications	Not corrected	Fund balance classification errors were noted in the current audit period and will be repeated in finding number 2018-002.

OHIO AUDITOR OF STATE KEITH FABER



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
FEBRUARY 11, 2020**