



COVINGTON

INDEPENDENT SCHOOL DISTRICT

Home of the Battlin' Blue Owls!

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2016**

PB&H

PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

COVINGTON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2015

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CERTIFICATE OF BOARD

Covington Independent School District
Name of School District

Hill
County

109-903
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved _____ disapproved for the year ended August 31, 2016, at a meeting of the Board of Trustees of such school district on the 9th day of January, 2017.

Eldon Roy Kiblinger
Signature of Board Secretary

Andy Lopez
Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)



PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Covington Independent School District
Covington, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington Independent School District as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Covington Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Covington Independent School District as of August 31, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and pension information on pages 5 – 9 and 37 – 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Covington Independent School District's basic financial statements. The combining nonmajor fund financial statements, required TEA schedules and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements, required TEA schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, required TEA schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2017, on our consideration of the Covington Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Covington Independent School District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Hillsboro, Texas
January 5, 2017

**COVINGTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2016**

Our discussion and analysis of Covington Independent School District's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2016. Please read it in conjunction with the District's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$4,829,198 (*net position*). Of this amount, \$356,562 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$102,127.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,216,310, a decrease of \$245,575 in comparison with the prior year. This decrease is primarily due to decreased local revenues offset slightly by increases in state and federal revenues and by increases in total expenditures primarily due to increases in instruction, school leadership, student transportation, food service, facilities maintenance and operations, and payments related to shared service arrangements.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was, \$695,984 or 17.8% total General Fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. The sections labeled TEA Required Schedules and Compliance Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 10. Its primary objective is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, deferred inflows/outflows of resources, and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The District's revenue is divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U. S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenue), and general revenue provided by the taxpayers or by TEA in equalization funding processes (general revenue). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets, deferred inflows/outflows of resources, and liabilities) provide one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has the following activity:

Governmental Activities – The District's services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The Fund financial statements begin on page 12 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U. S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District incorporates one kind of fund – governmental funds.

Governmental Funds – The District reports its services in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and they report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the governmental fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 18. We exclude these resources from the District's other financial statements because the District cannot use them to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

Net position of the District's governmental activities increased from \$4,727,071 to \$4,829,198. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$356,562 and \$656,765 at August 31, 2016 and 2015, respectively.

TABLE 1
COVINGTON INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities	
	2016	2015
Current and other assets	\$ 1,684,138	\$ 1,783,687
Capital assets	<u>4,875,293</u>	<u>4,473,203</u>
Total Assets	<u>6,559,431</u>	<u>6,256,890</u>
 Total deferred outflows of resources	 <u>1,112,662</u>	 <u>137,472</u>
 Current liabilities	 408,905	 258,879
Long-term liabilities	<u>2,329,843</u>	<u>1,331,693</u>
Total liabilities	<u>2,738,748</u>	<u>1,590,572</u>
 Total deferred inflows of resources	 <u>104,147</u>	 <u>76,719</u>
 Net position:		
Net investment in capital assets	3,946,212	3,392,303
Restricted	526,424	678,003
Unrestricted	<u>356,562</u>	<u>656,765</u>
Total net position	<u>\$ 4,829,198</u>	<u>\$ 4,727,071</u>

TABLE 2
COVINGTON INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental Activities	
	2016	2015
REVENUE:		
Program revenue:		
Charges for services	\$ 1,929,975	\$ 1,850,614
Operating grants and contributions	1,613,952	1,477,142
General revenue:		
Property taxes	1,017,891	1,121,169
Investment earnings	1,177	1,618
Grants and contributions not restricted	2,346,032	1,972,278
Miscellaneous local and intermediate	389,607	741,648
Total Revenue	<u>7,298,634</u>	<u>7,164,469</u>
EXPENSES:		
Instruction	3,454,352	3,009,534
Instructional resources and media services	63,182	56,668
Curriculum and staff development	46,339	41,165
Instructional Leadership	325	-
School leadership	329,612	285,422
Guidance, counseling and evaluation services	786,507	720,136
Health services	31,878	29,674
Student (pupil) transportation	109,670	95,461
Food services	192,938	178,684
Extracurricular activities	164,095	131,302
General administration	825,616	765,141
Facilities Maintenance and operations	593,100	512,807
Data processing services	19,828	16,308
Debt service - interest on long-term debt	20,460	26,888
Payments to fiscal agents/member districts of SSA	<u>558,605</u>	<u>410,395</u>
Total Expenses	<u>7,196,507</u>	<u>6,279,585</u>
INCREASE IN NET POSITION	102,127	884,884
NET POSITION, BEGINNING OF YEAR	4,727,071	4,126,337
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(284,150)</u>
NET POSITION, END OF YEAR	<u>\$ 4,829,198</u>	<u>\$ 4,727,071</u>

Governmental activities increased the District's net position by \$102,127. Revenues increased due to an increase in charges for services (\$79 thousand), operating grants and contributions (\$136 thousand), and unrestricted grants and contributions (\$373 thousand), offset by decreases in property taxes (\$103 thousand) and miscellaneous local and intermediate revenue (\$352 thousand). This increase in revenues was further offset by an increase in expenses (\$916 thousand). For the most part, the increase in expenses was primarily due to increases in instruction, school leadership,

guidance, counseling and evaluation services, general administration, facilities, maintenance and operation, and payments to shared services arrangements expenses.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on pages 12-13) reported a combined fund balance of \$1,216,310, which is less than last year's total of \$1,461,885. Included in this year's total change in fund balance is decrease of \$42,964 in the District's General Fund. The primary reason for the decrease in the General Fund is increased instruction, student transportation, extracurricular activities, facilities maintenance and operations expenditures. The total change in fund balance for the Debt Service fund was an increase of \$33,262 which was primarily due to an increase in state program revenues and decreased expenditures in interest on long-term debt. It also includes a decrease of \$185,841 in the SSA Special Education fund. The primary reason for this decrease is increased expenditures in instruction, general administration, and payments related to shared services arrangements.

Over the course of the year, the Board of Trustees amended the District's General Fund budget several times. The primary budget amendments for the year were to budget for increased expenditures in instruction, student transportation, facilities maintenance and operations, and capital outlay. The difference between the original and final budgeted expenditures was an increase of \$700,090. This was offset by a corresponding increase of \$222,346 in total revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had approximately \$7.5 million invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment. The District's major additions included replacement roofs, 10 passenger van, walk-in freezer, ice machine, John Deere Gator, a Gravely lawn mower, new flooring for the play gym, and remodeling and air conditioning of the Junior High Gym. Other major additions were related to the SSA and consisted of the purchase of a phone system, security system, and replacement of an HVAC system. Additional information on the District's capital assets can be found in Note II, page 26 of this report.

Debt

At year-end, the District had \$862 thousand in bonds and notes outstanding versus \$1 million last year – a decrease of 13.8%. This decrease in debt resulted from the debt service payments of \$142,256. Additional information on the District's long-term debt can be found in Note II, pages 27 – 28 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District is focusing on maximizing revenue and limiting expenditures to increase their fund balances and net assets. The District's elected and appointed officials considered many factors when setting the fiscal year 2017 budget and tax rates. In fiscal year 2017, the District budgets a budget of \$3,766,327 which is a \$235,910 increase over the 2016 budget. This increase reflects an increase in state funding due to a projected increase in student enrollment.

The District's budgetary General Fund balance is expected to decrease due to facility projects implemented summer 2016 of refurbishing the old cafeteria building, adding covered walkways, flooring on the elementary play gym, and adding central air to the junior high gymnasium. The M&O property tax rate set for the 2017 fiscal year will remain the same at \$1.17 for every \$100 of property value. The I & S tax rate will decrease since the district's bond is eligible for EDA funds from the state. The I & S tax rate for 2017 will be decreased from \$0.1654 to \$0.14.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administration office, at 501 N. Main Street, Covington, Texas 76636.

BASIC FINANCIAL STATEMENTS

COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016

Data Control Codes		Governmental Activities
	ASSETS	
1110	Cash and cash equivalents	\$ 1,134,991
1220	Property taxes receivables (delinquent)	64,684
1230	Allowance for uncollectible taxes	(16,171)
1240	Due from other governments	478,004
1290	Other receivables (net)	22,630
	Capital assets:	
1510	Land	153,050
1520	Buildings and improvements, net	4,274,381
1530	Furniture and equipment, net	447,862
1000	Total assets	<u>6,559,431</u>
	DEFERRED OUTFLOWS OF RESOURCES	
1705	Deferred outflow related to TRS	<u>1,112,662</u>
1700	Total deferred outflows of resources	<u>1,112,662</u>
	LIABILITIES	
2110	Accounts payable	182,293
2140	Interest payable	2,453
2160	Accrued wages payable	133,100
2180	Due to other governments	32,002
2190	Due to student groups	36,912
2200	Accrued expenses	22,145
	Noncurrent liabilities:	
2501	Due within one year	148,561
2502	Due in more than one year	2,181,282
2000	Total liabilities	<u>2,738,748</u>
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred inflow related to TRS	<u>104,147</u>
2600	Total deferred inflows of resources	<u>104,147</u>
	NET POSITION	
3200	Net investment in capital assets	3,946,212
	Restricted for:	
3820	Federal and state programs	93
3850	Debt service	90,259
3890	Other	436,072
3900	Unrestricted	<u>356,562</u>
3000	Total net position	<u>\$ 4,829,198</u>

The accompanying notes are an integral part of this financial statement.

COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		6 Primary Government Governmental Activities
			3 Charges for Services	4 Operating Grants and Contributions	
	Primary government:				
	Governmental activities:				
11	Instruction	\$ 3,454,352	\$ 1,881,354	\$ 723,124	\$(849,874)
12	Instructional resources and media services	63,182	-	4,067	(59,115)
13	Curriculum and staff development	46,339	-	14,019	(32,320)
21	Instructional Leadership	325	-	8	(317)
23	School leadership	329,612	-	22,497	(307,115)
31	Guidance, counseling, and evaluation services	786,507	-	566,148	(220,359)
33	Health services	31,878	-	2,050	(29,828)
34	Student transportation	109,670	-	13,400	(96,270)
35	Food service	192,938	39,603	114,432	(38,903)
36	Extracurricular activities	164,095	9,018	3,994	(151,083)
41	General administration	825,616	-	34,384	(791,232)
51	Facilities maintenance and operations	593,100	-	19,579	(573,521)
53	Data processing services	19,828	-	-	(19,828)
72	Interest on long-term debt	20,460	-	34,259	13,799
93	Payments related to shared services arrangements	558,605	-	61,991	(496,614)
	[TP] Total primary government	<u>\$ 7,196,507</u>	<u>\$ 1,929,975</u>	<u>\$ 1,613,952</u>	<u>(3,652,580)</u>
		Data Control Codes			
	General revenues:				
	Taxes:				
MT	Property taxes, levied for general purposes				891,192
DT	Property taxes, levied for debt service				126,699
GC	Grants and contributions not restricted to specific programs				2,346,032
IE	Investment earnings				1,177
MI	Miscellaneous				<u>389,607</u>
TR	Total general revenues and transfers				<u>3,754,707</u>
CN	Change in net position				102,127
NB	Net position, beginning				<u>4,727,071</u>
NE	Net position, ending				<u>\$ 4,829,198</u>

The accompanying notes are an integral part of this financial statement.

COVINGTON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes		10	50	SSA Special Education	Other Governmental
		General	Debt Service		
ASSETS					
1110	Cash and cash equivalents	\$ 561,577	\$ 63,402	\$ 304,641	\$ 205,371
1220	Property taxes, delinquent	55,939	8,745	-	-
1230	Allowance for uncollectible taxes	(13,985)	(2,186)	-	-
1240	Due from other governments	387,484	10,522	-	79,998
1260	Due from other funds	71,650	9,023	25,138	29
1290	Other receivables	19,424	3,206	-	-
1000	Total assets	\$ 1,082,089	\$ 92,712	\$ 329,779	\$ 285,398
LIABILITIES					
2110	Accounts payable	\$ 121,492	\$ -	\$ 54,637	\$ 6,164
2160	Accrued wages payable	127,549	-	-	5,551
2170	Due to other funds	62,353	-	-	43,487
2180	Due to other governments	-	-	-	32,002
2190	Due to student groups	-	-	-	36,912
2200	Accrued expenditures/expenses	21,886	-	-	259
2000	Total liabilities	333,280	-	54,637	124,375
DEFERRED INFLOWS OF RESOURCES					
2600	Unavailable revenue-property taxes	52,825	8,551	-	-
	Total deferred inflows of resources	52,825	8,551	-	-
FUND BALANCES					
Restricted:					
3450	Restricted - grant funds	-	-	-	93
3480	Debt service	-	84,161	-	-
3490	Other	-	-	275,142	160,930
3600	Unassigned	695,984	-	-	-
3000	Total fund balances	695,984	84,161	275,142	161,023
4000	Total liabilities, deferred inflows of resources and fund balances	\$ 1,082,089	\$ 92,712	\$ 329,779	\$ 285,398

The accompanying notes are an integral part of this financial statement.

EXHIBIT C-1

98
Total
Governmental
Funds

\$ 1,134,991
64,684
(16,171)
478,004
105,840
22,630

\$ 1,789,978

\$ 182,293
133,100
105,840
32,002
36,912
22,145
512,292

61,376
61,376

93
84,161
436,072
695,984
1,216,310

\$ 1,789,978

**COVINGTON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2016**

Total Fund Balances - Governmental Funds	\$ 1,216,310
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,875,293
2 Uncollected property taxes are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	61,376
3 Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds.	(929,081)
4 Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(2,453)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability in the amount of \$1,400,762, a deferred resource inflow related to TRS in the amount of \$104,147, and a deferred resource outflow related to TRS in the amount of \$1,112,662.	(392,247)
19 Net position of governmental activities	\$ <u>4,829,198</u>

The accompanying notes are an integral part of this financial statement.

COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		10	50	SSA Special Education	Other Governmental
		General	Debt Service		
REVENUES					
5700	Local and intermediate sources	\$ 1,301,829	\$ 127,095	\$ 1,875,471	\$ 39,629
5800	State program revenues	2,480,706	34,259	45,489	6,585
5900	Federal program revenues	86,163	-	-	1,225,752
5020	Total revenues	<u>3,868,698</u>	<u>161,354</u>	<u>1,920,960</u>	<u>1,271,966</u>
EXPENDITURES					
0011	Instruction	1,651,145	-	1,018,522	506,782
0012	Instructional resources and media services	60,463	-	-	-
0013	Curriculum and staff development	13,387	-	19,764	13,188
0021	Instructional leadership	-	-	325	-
0023	School leadership	310,810	-	-	-
0031	Guidance, counseling, and evaluation services	62,552	-	118,366	542,745
0033	Health services	30,007	-	-	-
0034	Student transportation	101,332	-	-	9,280
0035	Food service	-	-	-	205,941
0036	Extracurricular activities	119,607	-	-	-
0041	General administration	329,201	149	482,528	-
0051	Facilities maintenance and operations	626,186	-	92,431	-
0053	Data processing services	19,828	-	-	-
	Debt service:				
0071	Principal on long-term debt	41,256	101,000	-	-
0072	Interest on long-term debt	4,454	26,943	-	-
	Capital outlay:				
0081	Capital outlay	401,756	-	-	-
	Intergovernmental:				
0093	Payments related to shared services arrangements	135,678	-	374,865	48,062
6030	Total expenditures	<u>3,907,662</u>	<u>128,092</u>	<u>2,106,801</u>	<u>1,325,998</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(38,964)</u>	<u>33,262</u>	<u>(185,841)</u>	<u>(54,032)</u>
OTHER FINANCING SOURCES (USES)					
7915	Transfers in	-	-	-	54,000
8911	Transfers out	(54,000)	-	-	-
7080	Total other financing sources (uses)	<u>(54,000)</u>	<u>-</u>	<u>-</u>	<u>54,000</u>
1200	NET CHANGE IN FUND BALANCES	<u>(92,964)</u>	<u>33,262</u>	<u>(185,841)</u>	<u>(32)</u>
0100	FUND BALANCES, BEGINNING	<u>788,948</u>	<u>50,899</u>	<u>460,983</u>	<u>161,055</u>
3000	FUND BALANCES, ENDING	<u>\$ 695,984</u>	<u>\$ 84,161</u>	<u>\$ 275,142</u>	<u>\$ 161,023</u>

The accompanying notes are an integral part of this financial statement.

EXHIBIT C-3

98
Total
Governmental
Funds

\$ 3,344,024
2,567,039
1,311,915
7,222,978

3,176,449
60,463
46,339
325
310,810
723,663
30,007
110,612
205,941
119,607
811,878
718,617
19,828

142,256
31,397

401,756

558,605
7,468,553

(245,575)

54,000
(54,000)

(245,575)

1,461,885

\$ 1,216,310

COVINGTON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

Net change in fund balances - total governmental funds \$(245,575)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 402,090

Property tax revenues that do not provide current financial resources are not reported as revenues in the funds. (5,374)

Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments. 153,193

Certain pension expenditures are de-expended in the government-wide financial statements and recorded as deferred resource outflows. These contributions made after the measurement date of August 31, 2015, caused the change in the ending net position to increase in the amount of \$117,517. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability for the District. This caused a decrease in the change in net position totaling \$117,291. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the changed in net position by \$202,433. The result is to decrease the change in net position by \$202,207. (202,207)

Change in net position of governmental activities \$ 102,127

The accompanying notes are an integral part of this financial statement.

COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>20,841</u>
Total assets	\$ <u><u>20,841</u></u>
LIABILITIES	
Accounts payable	\$ 729
Due to student groups	<u>20,112</u>
Total liabilities	\$ <u><u>20,841</u></u>

The accompanying notes are an integral part of this financial statement.

COVINGTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Covington Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. There are no component units included within the reporting entity. The District prepares its basic financial statements in conformity with generally accepted accounting principles and it complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

B. Government-wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Covington Independent School District's nonfiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenue.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds appear as "due to/due froms" on the Governmental Fund Balance Sheet and as "other resources and other uses" on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as internal balances on the government-wide Statement of Net Position.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide financial statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenue and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenue in the accounting period in which it becomes both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenue available if it is collectible within 60 days after year-end.

Revenue from local sources consists primarily of property taxes. Property tax revenue and revenue received from the state are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. Miscellaneous revenue is recorded as revenue when received in cash because it is generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenue until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting assets and liabilities.

D. Fund Accounting

The District reports the following major governmental funds:

General Fund – The General Fund is the District’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Debt Service Fund – Accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

SSA Special Education Fund – This SSA fund is a ***Special Revenue Fund***. See the description of ***Special Revenue Funds*** below.

Additionally, the District reports the following fund types:

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a Special Revenue Fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Agency Funds – These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

Deposits and Investments

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value, except for the position in investment pools. The District's investments in Pools are 2a7-like pools and are reported at net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes are levied as of October 1 on property values assessed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the following year in which imposed. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

Tax collections are prorated between the General Fund and Debt Service Fund based on the tax rate approved by the Board. For the year ended August 31, 2016, the rates were \$1.1700 and \$0.1654, respectively, per \$100 of assessed value.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Capital Assets

Capital assets, which include land, buildings, furniture and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Infrastructure	40
Vehicles	5
Furniture and equipment	5-15

Compensated Absences

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated vacation or sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is deferred outflow related to TRS reported in the government-wide statement of net position. This TRS related item represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of inflows that qualify for reporting in this category. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes their share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending net pension liability in the government-wide statement of net position.

Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS 's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted (the total of committed, assigned, and unassigned fund balance) fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by ordinance of the School Board, the District's highest level of decision making authority. These amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board or Superintendent.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

Net Position

Net positions represent the difference between assets, deferred inflows/outflows of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Data Control Codes

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2016, will change.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

As of August 31, 2016, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool Investment Account	\$ 3,602	45

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2016, the bank balance was \$1,189,371. This amount was fully collateralized with securities held by the pledging financial institution in the District's name or FDIC insurance. In addition, the District's highest deposit balance occurred in February and was entirely covered by FDIC insurance or by securities held by the pledging financial institution.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares.

B. Interfund Receivables and Payables and Transfers

The composition of interfund balances as of August 31, 2016, is as follows:

Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non-major funds	\$ 18,349
Debt Service Fund	General Fund	9,023
Non-major funds	General Fund	29
SSA IDEA - Part B Formula	Non-major funds	25,138
General Fund	General Fund (Payroll)	53,301
		<u>\$ 105,840</u>

All amounts due are scheduled to be repaid within one year.

Transfers From/To Other Funds

The District had the following transfers to and from other funds at August 31, 2016.

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Reason</u>
General	Non-major funds	\$ 54,000	Cover expenditures
		<u>\$ 54,000</u>	

C. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2016, are summarized below.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ 387,484	\$ -	\$ 387,484
Debt Service Fund	10,522	-	10,522
Non-major funds	452	79,546	79,998
Total	<u>\$ 398,458</u>	<u>\$ 79,546</u>	<u>\$ 478,004</u>

D. Capital Assets

Capital assets activity for the year ended August 31, 2016, was as follows:

	Beginning Balance 09/01/15	Increases	Decreases	Transfers	Ending Balance 08/31/16
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 153,050	\$ -	\$ -	\$ -	\$ 153,050
Construction in Progress	429,220	538,686	-	(967,906)	-
Total capital assets, not being depreciated	582,270	538,686	-	(967,906)	153,050
Capital assets, being depreciated:					
Buildings and improvements	5,442,593	-	-	874,857	6,317,450
Equipment	515,761	59,719	7,999	93,049	660,530
Vehicles	351,254	27,055	-	-	378,309
Library books and media	80,099	-	-	-	80,099
Total capital assets, being depreciated	6,389,707	86,774	7,999	967,906	7,436,388
Less accumulated depreciation for:					
Buildings and improvements	(1,894,832)	148,237	-	-	(2,043,069)
Equipment	(322,443)	39,244	7,999	-	(353,688)
Vehicles	(201,400)	35,889	-	-	(237,289)
Library books and media	(80,099)	-	-	-	(80,099)
Total accumulated depreciation	(2,498,774)	223,370	7,999	-	(2,714,145)
Total capital assets, being depreciated, net	3,890,933	223,370	7,999	967,906	4,722,243
Governmental activities capital assets, net	\$ 4,473,203	\$ 762,056	\$ 7,999	\$ -	\$ 4,875,293

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Instruction	\$ 131,687
Student (pupil) transportation	23,898
Food Service	1,745
Extracurricular activities	41,050
Plant maintenance and operations	24,990
Total depreciation expense - governmental activities	\$ 223,370

E. Deferred Outflows and Inflows of Resources

At August 31, 2016, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Total net amounts per August 31, 2015, measurement date	\$ 995,145	\$ 104,147
Contributions paid to TRS subsequent to the measurement date	117,517	-
Totals	<u>\$ 1,112,662</u>	<u>\$ 104,147</u>

At year-end the District reported deferred inflows for the following:

	General Fund	Debt Service Fund
Unavailable - property taxes	\$ 52,825	\$ 8,551
Totals	<u>\$ 52,825</u>	<u>\$ 8,551</u>

F. Long-term Obligations

Long-term Obligation Activity

During fiscal year 2014, the District issued \$955,000 of Unlimited Tax School Refunding Bonds for a current refunding of \$955,000 of 2010 Refunding Bonds. The refunding was undertaken to reduce future debt service payments. The reacquisition price did not exceed the net carrying amount of the old debt. The transaction also resulted in an economic gain of \$34,823 and a reduction of \$39,280 in future debt service payments.

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2016, are as follows:

	Interest Rate	Amounts Original Issue	Interest Current Year	Amount Outstanding 09/01/15	Issued	Retired/ Refunded	Amount Outstanding 08/31/16	Amounts Due Within One Year
Unlimited Tax Refunding Bonds,								
Series 2014	2.31% - 4.63%	955,000	26,943	855,000	-	101,000	754,000	106,000
Premium on Series 2014			-	76,508	-	9,563	66,945	-
Net pension liability			-	250,793	1,267,305	117,336	1,400,762	-
Total governmental activities			\$ 26,943	\$ 1,182,301	\$ 1,267,305	\$ 227,899	\$ 2,221,707	\$ 106,000

Debt service requirements are as follows:

Year Ended August 31,	Long Term Obligations		Total Requirements
	Principal	Interest	
2017	106,000	22,266	\$ 128,266
2018	103,000	17,358	120,358
2019	108,000	12,590	120,590
2020	111,000	10,095	121,095
2021	106,000	7,531	113,531
2022-2026	220,000	7,646	227,646
Total	\$ 754,000	\$ 77,486	\$ 831,486

G. Capital Lease

The District entered into a Capital Lease agreement in January 2013 for a Wireless Technology Project. The note has an interest rate of 2.97% and is payable in equal annual installments over 5 years. The District also entered into a Capital Lease agreement in May 2014 to fund the Ag Extension. The note has an interest rate of 2.87% and is payable in equal annual installments over the next 5 years.

Long-term activity for the year ended August 31, 2016, was as follows:

	Amounts Original Issue	Interest Current Year	Amount Outstanding 08/31/15	Issued	Retired	Amount Outstanding 08/31/16	Amounts Due Within One Year
Government Capital - Wireless Technology	\$ 108,000	\$ 2,006	\$ 66,450	\$ -	\$ 21,460	\$ 44,990	\$ 22,132
Government Capital - Ag Extension	102,250	2,448	82,942	-	19,796	63,146	20,429
Total		\$ 4,454	\$ 149,392	\$ -	\$ 41,256	\$ 108,136	\$ 42,561

Capital Lease requirements are as follows:

Year Ended August 31,	Capital Lease		Total Requirements
	Principal	Interest	
2017	\$ 42,561	\$ 3,160	\$ 45,721
2018	43,878	1,911	45,789
2019	21,697	626	22,323
Total	\$ 108,136	\$ 5,697	\$ 113,833

H. Defined Benefit Pension Plan

Plan Description. The Covington Independent School Districts participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position. Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, which uses the three highest annual salaries. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Contributions. Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	Contribution Rates	
	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2015 Employer Contributions		\$ 117,517
2015 Member Contributions		233,434
2015 NECE On-behalf Contributions		133,148

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions. The total pension liability in the August 31, 2015, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	8/31/2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.54%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ 2,194,730	\$ 1,400,762	\$ 739,436

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2015, the District's liability was \$1,400,762 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 1,400,762
State's proportionate share that is associated with the District	1,589,038
Total	\$ 2,989,800

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0039627% which was an increase of 0.0030238% from its proportion measured as of August 31, 2014.

Changes Since the Prior Actuarial Valuation The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions:

- The inflation assumption was decreased from 3.00% to 2.50%.
- The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- In accordance with the observed experience, there were small adjustments in the service- based promotional/longevity component of the salary scale.
- The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions:

- The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions:

- Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies:

- The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2013. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2015, measurement period, the District's pension expense was \$226,412 and revenue of \$226,412 for support provided by the State.

At August 31, 2015, measurement date, the District's proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,226	\$ 53,833
Changes in actuarial assumptions	13,558	49,973
Difference between projected and actual investment earnings	287,486	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	690,875	341
Contributions paid to TRS subsequent to the measurement date	117,517	-
Total	<u>\$ 1,112,662</u>	<u>\$ 104,147</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31,	Pension Expense Amount
2017	\$ 169,873
2018	169,873
2019	169,872
2020	189,037
2021	102,591
Thereafter	89,752

I. Health Care Coverage

During the period ended August 31, 2016, employees of the District were covered by a state-wide health care plan, TRS Active Care. The District's participation in this plan is renewable annually. The District paid into the Plan \$150 per month per employee. Employees, at their option, pay premiums for any coverage above these amounts as well as for dependent coverage.

The Teachers Retirement System (TRS) manages TRS Active Care. The medical plan is administered by Aetna FIRSTCARE, and Scott and White HMO. CAREMark Health administers the prescription drug plan. The latest financial information on the state-wide plan may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

J. Retiree Health Plan

Plan Description. The Covington Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015–2013.

Contribution Rates						
Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2016	0.65%	\$ 21,074	1.0%	\$ 32,421	0.55%	\$ 17,832
2015	0.65%	\$ 19,316	1.0%	\$ 29,717	0.55%	\$ 16,344
2014	0.65%	\$ 11,082	1.0%	\$ 17,049	0.55%	\$ 9,377

Medicare Part D – On-behalf Payments. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$13,147, \$12,199, and \$4,090 were recognized for the years ended August 31, 2016, 2015, and 2014 respectively, as equal revenues and expenditures.

K. Commitments and Contingencies

Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Litigation

No reportable litigation was pending against the District at August 31, 2016.

L. Shared Services Arrangements – Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement (“SSA”) which provides services for special needs students to the member districts below. All services are provided by the fiscal agent. The District has accounted for the activities of the SSA using Model 3 according to the Resource Guide. Expenditures for the fiscal year the District was the fiscal agent for the SSA are summarized below:

<u>Member Districts:</u>	<u>Expenditures</u>
Abbott Independent School District	\$ 113,781
Aquilla Independent School District	72,120
Blum Independent School District	191,301
Bynum Independent School District	153,996
Covington Independent School District	129,679
Gholson Independent School District	50,672
Hubbard Independent School District	128,653
Itasca Independent School District	301,386
Malone Independent School District	49,390
Mt. Calm Independent School District	75,207
Penelope Independent School District	68,044
Whitney Independent School District	586,125
	<u>\$ 1,920,354</u>

M. Unearned Revenue

The District did not have any unearned revenue at August 31, 2016.

N. Disaggregation of Receivables and Payables

Receivables as of year-end for the District’s individual major fund and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due from Other Funds</u>	<u>Other Receivables</u>	<u>Total Receivables</u>
Governmental activities:					
General	\$ 55,939	\$ 387,484	\$ 71,650	\$ 19,424	\$ 534,497
Debt Service Fund	8,745	10,522	9,023	3,206	31,496
SSA Special Education	-	-	25,138	-	25,138
Non-major funds	<u>-</u>	<u>79,998</u>	<u>29</u>	<u>-</u>	<u>80,027</u>
Total Governmental Activities	<u>\$ 64,684</u>	<u>\$ 478,004</u>	<u>\$ 105,840</u>	<u>\$ 22,630</u>	<u>\$ 671,158</u>
Allowance for uncollectibles	<u>\$(16,171)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(16,171)</u>

Payables at August 31, 2016, were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Governments</u>	<u>Due to Other Funds</u>	<u>Due to Student Groups</u>	<u>Total Payables</u>
Governmental activities:						
General	\$ 121,492	\$ 149,435	\$ -	\$ 62,353	\$ -	\$ 333,280
SSA Special Education	54,637	-	-	-	-	54,637
Non-major funds	<u>6,164</u>	<u>5,810</u>	<u>32,002</u>	<u>43,487</u>	<u>36,912</u>	<u>124,375</u>
Totals	<u>\$ 182,293</u>	<u>\$ 155,245</u>	<u>\$ 32,002</u>	<u>\$ 105,840</u>	<u>\$ 36,912</u>	<u>\$ 512,292</u>

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES				
5700	Local and intermediate sources	\$ 1,198,522	\$ 1,349,745	\$ 1,301,829	\$(47,916)
5800	State program revenues	2,051,607	2,122,730	2,480,706	357,976
5900	Federal program revenues	-	-	86,163	86,163
5020	Total revenues	<u>3,250,129</u>	<u>3,472,475</u>	<u>3,868,698</u>	<u>396,223</u>
	EXPENDITURES				
	Current:				
0011	Instruction	1,558,875	1,661,794	1,651,145	10,649
0012	Instructional resources and media services	58,815	60,645	60,463	182
0013	Curriculum and staff development	13,512	13,512	13,387	125
0023	School leadership	313,794	311,294	310,810	484
0031	Guidance, counseling, and evaluation services	68,720	63,108	62,552	556
0033	Health services	30,915	30,215	30,007	208
0034	Student transportation	89,630	106,986	101,332	5,654
0036	Extracurricular activities	108,305	119,785	119,607	178
0041	General administration	329,158	330,358	329,201	1,157
0051	Facilities maintenance and operations	445,045	629,801	626,186	3,615
0053	Data processing services	19,828	19,828	19,828	-
	Debt service:	-	-	-	-
0071	Principal on long-term debt	41,348	41,348	41,256	92
0072	Interest on long-term debt	4,374	4,374	4,454	(80)
	Capital outlay:	-	-	-	-
0081	Capital outlay	-	401,761	401,756	5
	Intergovernmental:	-	-	-	-
0093	Payments related to shared services arrangements	<u>148,080</u>	<u>135,680</u>	<u>135,678</u>	<u>2</u>
6030	Total expenditures	<u>3,230,399</u>	<u>3,930,489</u>	<u>3,907,662</u>	<u>22,827</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>19,730</u>	<u>(458,014)</u>	<u>(38,964)</u>	<u>419,050</u>
	OTHER FINANCING SOURCES (USES)				
8911	Transfers out	-	(34,975)	(54,000)	(19,025)
7080	Total other financing sources (uses)	-	(34,975)	(54,000)	(19,025)
1200	NET CHANGE IN FUND BALANCES	<u>19,730</u>	<u>(492,989)</u>	<u>(92,964)</u>	<u>400,025</u>
0100	FUND BALANCES, BEGINNING	<u>788,948</u>	<u>788,948</u>	<u>788,948</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 808,678</u>	<u>\$ 295,959</u>	<u>\$ 695,984</u>	<u>\$ 400,025</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHER RETIREMENT SYSTEM
 FOR THE YEAR ENDED AUGUST 31, 2016

	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.0039627%	0.0009389%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,400,762	\$ 250,793
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	1,589,038	1,074,351
Total	\$ 2,989,800	\$ 1,325,144
District's Covered Employee Payroll	\$ 2,971,679	\$ 1,704,905
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	47.14%	14.71%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.43%	83.25%

Note: Only two years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

COVINGTON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM
 FOR FISCAL YEAR 2016

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 117,517	\$ 117,291
Contribution in Relation to the Contractually Required Contribution	<u>(117,517)</u>	<u>(117,291)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 3,235,721	\$ 2,971,679
Contributions as a percentage of Covered Employee Payroll	3.63%	3.95%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2014 - August 31, 2015.

Note: Only two years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

AUGUST 31, 2016

Budgetary Information

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service and the Food Service Fund, which is included in the Special Revenue Funds.

The District is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds. The District compares the final amended budget to actual revenue and expenditures. The General Fund Budget is presented at Exhibit G-1 and the Debt Service and the National School Breakfast and Lunch Program Funds are presented at Exhibit J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days' public notice of the meeting must be given.
3. Prior to August 31, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The District had no outstanding end-of-year encumbrances.
6. The District's expenditures exceeded appropriations in interest on long-term debt in the General Fund. The District's expenditures did not exceed appropriations in the Food Service Fund. The District's expenditures exceeded appropriations in general administration and interest on long-term debt in the Debt Service Fund. The excess expenditures were covered by other functions.

COMBINING STATEMENTS

COVINGTON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II, A Training and Recruiting	265 Title VI, Part B Community Learning
ASSETS					
1110	Cash and cash equivalents	\$ -	\$ 6,995	\$ -	\$ -
1240	Due from other governments	2,601	2,698	3,262	13,392
1260	Due from other funds	<u>-</u>	<u>29</u>	<u>-</u>	<u>-</u>
1000	Total assets	<u>\$ 2,601</u>	<u>\$ 9,722</u>	<u>\$ 3,262</u>	<u>\$ 13,392</u>
LIABILITIES					
2110	Accounts payable	\$ -	\$ 5,177	\$ -	\$ -
2160	Accrued wages payable	-	4,288	1,263	-
2170	Due to other funds	2,601	85	1,819	13,392
2180	Due to other governments	-	-	-	-
2190	Due to Student Groups	-	-	-	-
2200	Accrued Expenditures	<u>-</u>	<u>79</u>	<u>180</u>	<u>-</u>
	Total liabilities	<u>2,601</u>	<u>9,629</u>	<u>3,262</u>	<u>13,392</u>
DEFERRED INFLOWS OF RESOURCES					
2600	Unavailable revenue-property taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
	Restricted:				
3450	Federal or State Funds Grant Restriction	-	93	-	-
3490	Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	Total fund balances	<u>-</u>	<u>93</u>	<u>-</u>	<u>-</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,601</u>	<u>\$ 9,722</u>	<u>\$ 3,262</u>	<u>\$ 13,392</u>

EXHIBIT H-1

270 ESEA VI, Pt B Rural & Low Income	313 SSA IDEA - Part B Formula	314 SSA IDEA - Part B Preschool	410 State Instructional Materials	459 SSA SHARS Reimbursement	461 Campus Activity Funds	Total Non Major Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 160,930	\$ 37,446	\$ 205,371
-	57,593	-	452	-	-	79,998
-	-	-	-	-	-	29
<u>\$ -</u>	<u>\$ 57,593</u>	<u>\$ -</u>	<u>\$ 452</u>	<u>\$ 160,930</u>	<u>\$ 37,446</u>	<u>\$ 285,398</u>
\$ -	\$ 453	\$ -	\$ -	\$ -	\$ 534	6,164
-	-	-	-	-	-	5,551
-	25,138	-	452	-	-	43,487
-	32,002	-	-	-	-	32,002
-	-	-	-	-	36,912	36,912
-	-	-	-	-	-	259
-	57,593	-	452	-	37,446	124,375
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	93
-	-	-	-	160,930	-	160,930
-	-	-	-	160,930	-	161,023
<u>\$ -</u>	<u>\$ 57,593</u>	<u>\$ -</u>	<u>\$ 452</u>	<u>\$ 160,930</u>	<u>\$ 37,446</u>	<u>\$ 285,398</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II, A Training and Recruiting	265 Title VI, Part B Community Learning
REVENUES				
5700 Local and intermediate sources	\$ -	\$ 39,629	\$ -	\$ -
5800 State program revenues	-	5,708	-	-
5900 Federal program revenues	<u>62,609</u>	<u>106,572</u>	<u>14,493</u>	<u>63,596</u>
5020 Total revenues	<u>62,609</u>	<u>151,909</u>	<u>14,493</u>	<u>63,596</u>
EXPENDITURES				
Current:				
0011 Instruction	62,609	-	14,493	54,316
0013 Curriculum and instructional staff development	-	-	-	-
0031 Guidance, counseling and evaluation services	-	-	-	-
0034 Student (pupil) transportation	-	-	-	9,280
0035 Food services	-	205,941	-	-
Intergovernmental:				
0093 Payments related to shared services arrangements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
6030 Total expenditures	<u>62,609</u>	<u>205,941</u>	<u>14,493</u>	<u>63,596</u>
1100 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(54,032)	-	-
OTHER FINANCING SOURCES (USES)				
7915 Transfers in	<u>-</u>	<u>54,000</u>	<u>-</u>	<u>-</u>
7080 Total other financing sources (uses)	<u>-</u>	<u>54,000</u>	<u>-</u>	<u>-</u>
1200 NET CHANGE IN FUND BALANCES	-	(32)	-	-
0100 FUND BALANCES, BEGINNING	<u>-</u>	<u>125</u>	<u>-</u>	<u>-</u>
3000 FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ 93</u>	<u>\$ -</u>	<u>\$ -</u>

EXHIBIT H-2

270 ESEA VI, PT B Rural & Low Income	313 SSA IDEA - Part B Formula	314 SSA IDEA - Part B Preschool	410 State Instructional Materials	459 SSA SHARS Reimbursement	461 Campus Activity Funds	Total Non Major Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,629
-	-	-	877	-	-	6,585
<u>12,435</u>	<u>941,137</u>	<u>24,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,225,752</u>
<u>12,435</u>	<u>941,137</u>	<u>24,910</u>	<u>877</u>	<u>-</u>	<u>-</u>	<u>1,271,966</u>
12,435	362,052	-	877	-	-	506,782
-	13,188	-	-	-	-	13,188
-	542,745	-	-	-	-	542,745
-	-	-	-	-	-	9,280
-	-	-	-	-	-	205,941
-	23,152	24,910	-	-	-	48,062
<u>12,435</u>	<u>941,137</u>	<u>24,910</u>	<u>877</u>	<u>-</u>	<u>-</u>	<u>1,325,998</u>
-	-	-	-	-	-	(54,032)
-	-	-	-	-	-	54,000
-	-	-	-	-	-	54,000
-	-	-	-	-	-	(32)
-	-	-	-	160,930	-	161,055
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 160,930</u>	<u>\$ -</u>	<u>\$ 161,023</u>

REQUIRED TEA SCHEDULES

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2016

Last Ten Years Ended August 31,	1	2	3	10	20
	Tax Rates		Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 09/01/15	Current Year's Total Levy
	Maintenance	Debt Service			
2007 and prior years	various	various	various	\$ 6,767	\$ -
2008	1.040000	0.200000	42,746,038	2,124	-
2009	1.040000	0.209500	76,111,715	1,795	-
2010	1.040000	0.172800	103,755,213	3,819	-
2011	1.040000	0.233200	97,471,733	4,158	-
2012	1.170000	0.231300	96,592,869	5,975	-
2013	1.170000	0.231200	85,764,702	5,960	-
2014	1.170000	0.141800	77,387,892	9,619	-
2015	1.170000	0.180000	79,160,667	29,835	-
2016	1.170000	0.165400	77,190,954	-	1,030,808
1000 Totals				\$ 70,052	\$ 1,030,808

EXHIBIT J-1

31	32	40	50
Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 08/31/2016
\$ 91	\$ 9	\$ (3,670)	\$ 2,997
17	3	-	2,104
17	3	-	1,775
17	3	-	3,799
93	21	-	4,044
1,084	214	-	4,677
2,122	419	-	3,419
4,810	583	-	4,226
15,521	2,388	(1,546)	10,380
<u>858,084</u>	<u>121,385</u>	<u>(24,076)</u>	<u>27,263</u>
\$ <u>881,856</u>	\$ <u>125,028</u>	\$ <u>(29,292)</u>	\$ <u>64,684</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES				
5700	Local and intermediate sources	\$ 35,000	\$ 35,000	\$ 39,629	\$ 4,629
5800	State program revenues	6,020	6,020	5,708	(312)
5900	Federal program revenues	97,853	97,853	106,572	8,719
5020	Total revenues	138,873	138,873	151,909	13,036
	EXPENDITURES				
0035	Food Service	172,074	207,049	205,941	1,108
6030	Total expenditures	172,074	207,049	205,941	1,108
	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(33,201)	(68,176)	(54,032)	14,144
	OTHER FINANCING SOURCES (USES)				
7915	Transfers In	-	34,975	54,000	19,025
7080	Total other financing sources (uses)	-	34,975	54,000	19,025
1200	NET CHANGE IN FUND BALANCE	(33,201)	(33,201)	(32)	33,169
0100	FUND BALANCE, BEGINNING	125	125	125	-
3000	FUND BALANCE, ENDING	\$(33,076)	\$(33,076)	\$ 93	\$ 33,169

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES				
5700	Local and intermediate sources	\$ 131,415	\$ 131,415	\$ 127,095	\$ (4,320)
5800	State program revenues	<u>10,000</u>	<u>10,000</u>	<u>34,259</u>	<u>24,259</u>
5020	Total revenues	<u>141,415</u>	<u>141,415</u>	<u>161,354</u>	<u>19,939</u>
	EXPENDITURES				
	Current:				
0041	General administration	-	-	149	(149)
0071	Principal on long-term debt	114,472	114,472	101,000	13,472
0072	Interest on long-term debt	<u>13,472</u>	<u>13,472</u>	<u>26,943</u>	<u>(13,471)</u>
6030	Total expenditures	<u>127,944</u>	<u>127,944</u>	<u>128,092</u>	<u>(148)</u>
1200	NET CHANGE IN FUND BALANCES	13,471	13,471	33,262	19,791
0100	FUND BALANCES, BEGINNING	<u>50,899</u>	<u>50,899</u>	<u>50,899</u>	<u>-</u>
3000	FUND BALANCES, ENDING	\$ 64,370	\$ 64,370	\$ 84,161	\$ 19,791

INTERNAL CONTROL REPORT



PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Board of Trustees
Covington Independent School District
Covington, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington Independent School District (the "District"), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon date January 5, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Pattillo, Brown & Hill, L.L.P.

Hillsboro, Texas
January 5, 2017

FEDERAL AWARDS SECTIONS



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE**

Board of Trustees
Covington Independent School District
Covington, Texas

Report on Compliance for Each Major Federal Program

We have audited Covington Independent School District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Compliance Supplement*) that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2016. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Pattillo, Brown & Hill, L.L.P.

Hillsboro, Texas
January 5, 2017

**COVINGTON IDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016**

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures	Pass-through Expenditures
<u>U. S. DEPARTMENT OF AGRICULTURE</u>				
Passed through the Texas Education Agency:				
School Breakfast Program	10.553	71401501	\$ 21,774	\$ -
National School Lunch Program - Cash assistance	10.555	71301501	66,349	-
Total Passed through the Texas Education Agency			88,123	-
Passed through the Texas Department of Agriculture:				
National School Lunch Program Commodities - Non-cash assistance	10.555	3001501	8,800	-
National School Lunch Program Equipment Assistance	10.579	3001501	9,649	-
Total Passed through the Texas Department of Agriculture			18,449	-
Total Child Nutrition Cluster			106,572	-
TOTAL U. S. DEPARTMENT OF AGRICULTURE			106,572	-
<u>U. S. DEPARTMENT OF EDUCATION</u>				
Passed through the Texas Education Agency:				
ESEA, Title I, Part A - Improving Basic Programs	84.010A	15610101109903	62,609	-
ESEA, Title II, Part A - Teacher/Principal Training	84.367A	15694501109903	14,493	-
ESEA, Title VI, Part B - Rural and Low-Income School Program	84.358B	15696001109903	12,435	-
IDEA - Part B, Formula	84.027A	156600011099036000	941,137	-
IDEA - Part B, Preschool	84.173A	156610011099036000	24,910	-
Total Passed through the Texas Education Agency			1,055,584	-
Passed through Region 12 Education Service Center:				
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287C	156950167110015	63,596	-
Total Title IV, Pt B-21st Cent. Community Learning Cent.			63,596	-
Total Passed through Region 12 Education Service Center			63,596	-
TOTAL U. S. DEPARTMENT OF EDUCATION			1,119,180	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,225,752	\$ -

COVINGTON INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

AUGUST 31, 2016

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of Covington Independent School District. The District's reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the financial statements.

3. RECONCILIATION OF FEDERAL REVENUES AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal revenues per the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (Exhibit C-3)	\$ 1,311,915
School health and related services revenue	(86,163)
Federal expenditures per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	\$ <u>1,225,752</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

Summary of Auditor's Results

Financial Statements:

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	None

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported

Type of auditors' report issued on compliance for major programs	Unqualified
--	-------------

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	None
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Indentification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster:
84.027A; 84173A	Special Education Cluster (IDEA)
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as a low-risk auditee?	The District was not classified as a low-risk auditee in the context of 2 CFR 200.

Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Federal Awards

None

COVINGTON INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

No prior year findings.