



**COVINGTON**

INDEPENDENT SCHOOL DISTRICT

# Home of the Battlin' Blue Owls!

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
AUGUST 31, 2017



COVINGTON INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2017

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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) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 2017, at a meeting of the Board of Trustees of such school district on the 8th day of January, 2018.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
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)

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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, 2017, 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, 2017, 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 – 11 and 41 – 45 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 8, 2018, 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.*

Waco, Texas  
January 8, 2018

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**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AUGUST 31, 2017**

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, 2017. Please read it in conjunction with the District's financial statements, which begin on page 12.

**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 \$4,493,639 (*net position*). Of this amount, \$123,436 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position decreased by \$335,559.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,010,716, a decrease of \$205,594 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, \$643,609 or 18.45% 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 12 and 13). 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 14) 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 21) 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 12. 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 14 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 20. 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 decreased from \$4,829,198 to \$4,493,639. 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 \$123,436 and \$356,562 at August 31, 2017 and 2016, respectively.

**TABLE 1**  
**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**NET POSITION**

	Governmental Activities	
	2017	2016
Current and other assets	\$ 1,342,352	\$ 1,684,138
Capital assets	<u>4,769,364</u>	<u>4,875,293</u>
Total Assets	<u>6,111,716</u>	<u>6,559,431</u>
 Total deferred outflows of resources	 <u>917,554</u>	 <u>1,112,662</u>
 Current liabilities	 286,460	 408,905
Long-term liabilities	<u>2,168,651</u>	<u>2,329,843</u>
Total liabilities	<u>2,455,111</u>	<u>2,738,748</u>
 Total deferred inflows of resources	 <u>80,520</u>	 <u>104,147</u>
 Net position:		
Net investment in capital assets	3,998,396	3,946,212
Restricted	371,807	526,424
Unrestricted	<u>123,436</u>	<u>356,562</u>
Total net position	<u>\$ 4,493,639</u>	<u>\$ 4,829,198</u>

**TABLE 2**  
**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**CHANGES IN NET POSITION**

	Governmental Activities	
	2017	2016
<b>REVENUE:</b>		
Program revenue:		
Charges for services	\$ 1,944,573	\$ 1,929,975
Operating grants and contributions	1,567,939	1,613,952
General revenue:		
Property taxes	1,002,962	1,017,891
Investment earnings	1,207	1,177
Grants and contributions not restricted	2,076,270	2,346,032
Miscellaneous local and intermediate	244,263	389,607
Total Revenue	<u>6,837,214</u>	<u>7,298,634</u>
<b>EXPENSES:</b>		
Instruction	3,392,526	3,454,352
Instructional resources and media services	63,200	63,182
Curriculum and staff development	43,178	46,339
Instructional Leadership	355	325
School leadership	349,519	329,612
Guidance, counseling and evaluation services	789,527	786,507
Health services	31,289	31,878
Student (pupil) transportation	124,741	109,670
Food services	191,911	192,938
Extracurricular activities	169,200	164,095
General administration	860,493	825,616
Facilities Maintenance and operations	637,362	593,100
Data processing services	23,876	19,828
Debt service - interest on long-term debt	15,122	20,460
Payments to fiscal agents/member districts of SSA	<u>480,474</u>	<u>558,605</u>
Total Expenses	<u>7,172,773</u>	<u>7,196,507</u>
<b>INCREASE IN NET POSITION</b>	( 335,559)	102,127
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>4,829,198</u>	<u>4,727,071</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 4,493,639</u>	<u>\$ 4,829,198</u>

Governmental activities decreased the District's net position by \$335,559. Revenues decreased due to a decrease of \$269,762 in unrestricted grants and contributions and a \$145,344 decrease in miscellaneous local and intermediate revenue. Total expenses experienced a \$23,734 decrease compared to the prior year.

## **THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented in the balance sheet on pages 14 – 15) reported a combined fund balance of \$1,010,716, which is less than last year's total of \$1,216,310. Included in this year's total change in fund balance is decrease of \$52,375 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 \$5,728 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 \$158,953 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 \$44,003.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2017, the District had approximately \$7.6 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 30 of this report.

### **Debt**

At year-end, the District had \$669,707 in bonds and capital leases outstanding versus \$862,136 last year – a decrease of 22%. This decrease in debt resulted from the debt service payments of \$148,550. Additional information on the District's long-term debt can be found in Note II, pages 31 – 32 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 2018 budget and tax rates. In fiscal year 2018, the District budgets a budget of \$3,910,664 which is a \$176,812 increase over the 2017 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 2017 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 2018 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 2018 will be decreased from \$0.14 to \$0.1279.

## **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.

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## BASIC FINANCIAL STATEMENTS

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**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**AUGUST 31, 2017**

Data Control Codes		Governmental Activities
	<b>ASSETS</b>	
1110	Cash and cash equivalents	\$ 1,060,380
1220	Property taxes receivables (delinquent)	70,607
1230	Allowance for uncollectible taxes	( 22,979)
1240	Due from other governments	211,714
1290	Other receivables (net)	22,630
	Capital assets:	
1510	Land	153,050
1520	Buildings and improvements, net	4,190,313
1530	Furniture and equipment, net	426,001
1000	Total assets	<u>6,111,716</u>
	<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1705	Deferred outflow related to TRS	<u>917,554</u>
1700	Total deferred outflows of resources	<u>917,554</u>
	<b>LIABILITIES</b>	
2110	Accounts payable	65,754
2140	Interest payable	1,712
2160	Accrued wages payable	124,831
2180	Due to other governments	32,002
2190	Due to student groups	41,506
2200	Accrued expenses	20,655
	Noncurrent liabilities:	
2501	Due within one year	146,879
2502	Due in more than one year	624,089
2540	Net pension liability	<u>1,397,683</u>
2000	Total liabilities	<u>2,455,111</u>
	<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605	Deferred inflow related to TRS	<u>80,520</u>
2600	Total deferred inflows of resources	<u>80,520</u>
	<b>NET POSITION</b>	
3200	Net investment in capital assets	3,998,396
	Restricted for:	
3820	Federal and state programs	99
3850	Debt service	94,589
3890	Other	277,119
3900	Unrestricted	<u>123,436</u>
3000	Total net position	<u>\$ 4,493,639</u>

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

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

**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**AUGUST 31, 2017**

Data Control Codes		10	313 SSA IDEA - Part B Formula	437 SSA Special Education
		<u>General</u>	<u>Formula</u>	<u>Education</u>
<b>ASSETS</b>				
1110	Cash and cash equivalents	\$ 627,617	\$ 2,657	\$ 144,367
1220	Property taxes, delinquent	60,960	-	-
1230	Allowance for uncollectible taxes	( 19,839)	-	-
1240	Due from other governments	102,926	54,483	-
1260	Due from other funds	50,994	-	25,138
1290	Other receivables	<u>19,424</u>	<u>-</u>	<u>-</u>
1000	Total assets	<u>842,082</u>	<u>57,140</u>	<u>169,505</u>
<b>LIABILITIES</b>				
2110	Accounts payable	9,649	-	53,316
2160	Accrued wages payable	118,941	-	-
2170	Due to other funds	9,052	25,138	-
2180	Due to other governments	-	32,002	-
2190	Due to student groups	-	-	-
2200	Accrued expenditures/expenses	<u>20,355</u>	<u>-</u>	<u>-</u>
2000	Total liabilities	<u>157,997</u>	<u>57,140</u>	<u>53,316</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2600	Unavailable revenue-property taxes	<u>40,476</u>	<u>-</u>	<u>-</u>
	Total deferred inflows of resources	<u>40,476</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Restricted:				
3450	Federal and state programs	-	-	-
3480	Debt service	-	-	-
3490	Other	-	-	116,189
3600	Unassigned	<u>643,609</u>	<u>-</u>	<u>-</u>
3000	Total fund balances	<u>643,609</u>	<u>-</u>	<u>116,189</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 842,082</u>	<u>\$ 57,140</u>	<u>\$ 169,505</u>

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



EXHIBIT C-1

459 SSA SHARS Reimbursement	Other Governmental	98 Total Governmental Funds
\$ 160,930	\$ 124,809	\$ 1,060,380
-	9,647	70,607
-	( 3,140)	( 22,979)
-	54,305	211,714
-	9,052	85,184
-	3,206	22,630
<u>160,930</u>	<u>197,879</u>	<u>1,427,536</u>
-	2,789	65,754
-	5,890	124,831
-	50,994	85,184
-	-	32,002
-	41,506	41,506
-	300	20,655
<u>-</u>	<u>101,479</u>	<u>369,932</u>
<u>-</u>	<u>6,412</u>	<u>46,888</u>
<u>-</u>	<u>6,412</u>	<u>46,888</u>
-	99	99
-	89,889	89,889
160,930	-	277,119
-	-	643,609
<u>160,930</u>	<u>89,988</u>	<u>1,010,716</u>
<u>\$ 160,930</u>	<u>\$ 197,879</u>	<u>\$ 1,427,536</u>

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**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION**  
**AUGUST 31, 2017**

<b>Total Fund Balances - Governmental Funds</b>	\$ 1,010,716
<b>1</b> Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,769,364
<b>2</b> 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.	46,888
<b>3</b> 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.	( 770,968)
<b>4</b> Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	( 1,712)
<b>5</b> 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 \$1,397,683, a deferred resource inflow related to TRS in the amount of \$80,520, and a deferred resource outflow related to TRS in the amount of \$917,554. This resulted in a decrease in net position by \$560,649.	( <u>560,649</u> )
<b>19 Net position of governmental activities</b>	\$ <u><u>4,493,639</u></u>

**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

Data Control Codes	10	313 SSA IDEA - Part B Formula	437 SSA Special Education
	General		Education
<b>REVENUES</b>			
5700 Local and intermediate sources	\$ 1,169,090	\$ -	\$ 1,884,458
5800 State program revenues	2,226,339	-	54,132
5900 Federal program revenues	<u>68,567</u>	<u>924,234</u>	<u>-</u>
5020 Total revenues	<u>3,463,996</u>	<u>924,234</u>	<u>1,938,590</u>
<b>EXPENDITURES</b>			
0011 Instruction	1,675,995	322,674	1,093,737
0012 Instructional resources and media services	61,552	-	-
0013 Curriculum and staff development	17,152	13,800	12,226
0021 Instructional leadership	-	-	355
0023 School leadership	337,606	-	-
0031 Guidance, counseling, and evaluation services	54,003	543,843	145,043
0033 Health services	30,515	-	-
0034 Student transportation	88,614	-	-
0035 Food service	-	-	-
0036 Extracurricular activities	126,758	-	-
0041 General administration	347,298	-	497,744
0051 Facilities maintenance and operations	515,958	-	87,105
0053 Data processing services	23,876	-	-
Debt service:			
0071 Principal on long-term debt	42,550	-	-
0072 Interest on long-term debt	3,160	-	-
Intergovernmental:			
0093 Payments related to shared services arrangements	<u>163,834</u>	<u>43,917</u>	<u>261,333</u>
6030 Total expenditures	<u>3,488,871</u>	<u>924,234</u>	<u>2,097,543</u>
1100 <b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 24,875)</u>	<u>-</u>	<u>( 158,953)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
7915 Transfers in	-	-	-
8911 Transfers out	<u>( 27,500)</u>	<u>-</u>	<u>-</u>
7080 Total other financing sources (uses)	<u>( 27,500)</u>	<u>-</u>	<u>-</u>
1200 <b>NET CHANGE IN FUND BALANCES</b>	<u>( 52,375)</u>	<u>-</u>	<u>( 158,953)</u>
0100 <b>FUND BALANCES, BEGINNING</b>	<u>695,984</u>	<u>-</u>	<u>275,142</u>
3000 <b>FUND BALANCES, ENDING</b>	<u>\$ 643,609</u>	<u>\$ -</u>	<u>\$ 116,189</u>

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

459 SSA SHARS Reimbursement	Other Governmental	98 Total Governmental Funds
\$ -	\$ 153,947	\$ 3,207,495
-	55,466	2,335,937
-	294,877	1,287,678
-	504,290	6,831,110
-	187,173	3,279,579
-	-	61,552
-	-	43,178
-	-	355
-	-	337,606
-	-	742,889
-	-	30,515
-	11,305	99,919
-	187,922	187,922
-	-	126,758
-	-	845,042
-	-	603,063
-	-	23,876
-	106,000	148,550
-	22,266	25,426
-	11,390	480,474
-	526,056	7,036,704
-	( 21,766)	( 205,594)
-	27,500	27,500
-	-	( 27,500)
-	27,500	-
-	5,734	( 205,594)
160,930	84,254	1,216,310
\$ 160,930	\$ 89,988	\$ 1,010,716

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**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, 2017**

Net change in fund balances - total governmental funds \$( 205,594)

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. ( 105,929)

Property tax revenues that do not provide current financial resources are not reported as revenues in the funds. ( 14,488)

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. 158,854

The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of August 31, 2016 caused the change in the ending net position to increase in the amount of \$124,179. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability for the District. This caused a decrease in the change in net position totaling \$117,517. 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 change in net position by \$175,064. The net result is to decrease the change in net position by \$168,402. ( 168,402)

Change in net position of governmental activities \$( 335,559)

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**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**AUGUST 31, 2017**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>21,549</u>
Total assets	\$ <u><u>21,549</u></u>
<b>LIABILITIES</b>	
Due to student groups	<u>21,549</u>
Total liabilities	\$ <u><u>21,549</u></u>

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

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# COVINGTON INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2017

### 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.

***SSA IDEA – Part B Formula***– This SSA fund is a ***Special Revenue Fund***. See the description of ***Special Revenue Funds*** below.

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

***SSA SHARS Reimbursement*** – 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.

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

***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, 2017, the rates were \$1.1700 and \$0.1400, 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, 2017, 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, 2017, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool Investment Account	\$ 3,626	32

### ***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, 2017, the bank balance was \$1,107,933. This amount was fully collateralized with securities held by the pledging financial institution in the District's name or FDIC insurance.

### ***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, 2017, is as follows:

### **Due From/To Other Funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non-major funds	\$ 25,138
General Fund	Non-major funds	25,856
SSA Special Education	SSA IDEA - Part B Formula	25,138
Non-major funds	General Fund	<u>9,052</u>
		<u>\$ 85,184</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, 2017.

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Reason</u>
General	Non-major funds	\$ <u>27,500</u>	Cover expenditures
		<u>\$ 27,500</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, 2017, are summarized below.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ 102,926	\$ -	\$ 102,926
SSA IDEA - Part B Formula	-	54,483	54,483
Non-major funds	<u>2,266</u>	<u>52,039</u>	<u>54,305</u>
Total	<u>\$ 105,192</u>	<u>\$ 106,522</u>	<u>\$ 211,714</u>

### D. Capital Assets

Capital assets activity for the year ended August 31, 2017, was as follows:

	<u>Beginning Balance 09/01/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 08/31/17</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 153,050	\$ -	\$ -	\$ 153,050
Total capital assets, not being depreciated	<u>153,050</u>	<u>-</u>	<u>-</u>	<u>153,050</u>
Capital assets, being depreciated:				
Buildings and improvements	6,317,450	68,000	-	6,385,450
Equipment	660,530	77,723	83,692	654,561
Vehicles	378,309	-	18,640	359,669
Library books and media	<u>80,099</u>	<u>-</u>	<u>-</u>	<u>80,099</u>
Total capital assets, being depreciated	<u>7,436,388</u>	<u>145,723</u>	<u>102,332</u>	<u>7,479,779</u>
Less accumulated depreciation for:				
Buildings and improvements	( 2,043,069)	152,068	-	( 2,195,137)
Equipment	( 353,688)	55,138	71,540	( 337,286)
Vehicles	( 237,289)	32,294	18,640	( 250,943)
Library books and media	<u>( 80,099)</u>	<u>-</u>	<u>-</u>	<u>( 80,099)</u>
Total accumulated depreciation	<u>( 2,714,145)</u>	<u>239,500</u>	<u>90,180</u>	<u>( 2,863,465)</u>
Total capital assets, being depreciated, net	<u>4,722,243</u>	<u>239,500</u>	<u>90,180</u>	<u>4,616,314</u>
Governmental activities capital assets, net	<u>\$ 4,875,293</u>	<u>\$ 239,500</u>	<u>\$ 90,180</u>	<u>\$ 4,769,364</u>

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

**Governmental activities:**

Instruction	\$	146,866
Student (pupil) transportation		23,900
Food Service		1,745
Extracurricular activities		40,305
Plant maintenance and operations		<u>26,684</u>

Total depreciation expense - governmental activities	\$	<u><u>239,500</u></u>
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**E. 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, 2017, are as follows:

	Amount Outstanding 09/01/16	Issued	Retired/ Refunded	Amount Outstanding 08/31/17	Amounts Due Within One Year
Unlimited Tax Refunding Bonds, Series 2014	\$ 754,000	\$ -	\$ 106,000	\$ 648,000	\$ 103,000
Premium on Series 2014	66,945	-	9,563	57,382	-
Net pension liability	<u>1,400,762</u>	<u>114,438</u>	<u>117,517</u>	<u>1,397,683</u>	<u>-</u>
Total governmental activities	<u>\$ 2,221,707</u>	<u>\$ 114,438</u>	<u>\$ 233,080</u>	<u>\$ 2,103,065</u>	<u>\$ 103,000</u>

Debt service requirements are as follows:

Year Ended August 31,	Long Term Obligations		Total Requirements
	Principal	Interest	
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	109,000	5,082	114,082
2023	<u>111,000</u>	<u>2,564</u>	<u>113,564</u>
Total	<u>\$ 648,000</u>	<u>\$ 55,220</u>	<u>\$ 703,220</u>

## **F. 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, 2017, was as follows:

	Amounts Original Issue	Interest Current Year	Amount Outstanding 08/31/16	Issued	Retired	Amount Outstanding 08/31/17	Amounts Due Within One Year
Government Capital - Wireless Technology	\$ 108,000	\$ 1,334	\$ 44,990	\$ -	\$ 22,131	\$ 22,859	\$ 22,859
Government Capital - Ag Extension	102,250	1,826	63,146	-	20,419	42,727	21,020
Total		\$ 3,160	\$ 108,136	\$ -	\$ 42,550	\$ 65,586	\$ 43,879

Capital Lease requirements are as follows:

Year Ended August 31,	Capital Lease		Total Requirements
	Principal	Interest	
2018	\$ 43,879	\$ 1,911	\$ 45,790
2019	21,707	626	22,333
Total	\$ 65,586	\$ 2,537	\$ 68,123

## **G. 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 [https://www.trs.texas.gov/TRS%20Documents/cafr\\_2016.pdf](https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf); 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 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<b>Contribution Rates</b>	
	<b>2016</b>	<b>2017</b>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year employer contributions		\$ 124,179
Current fiscal year member contributions		271,971
2016 measurement year NECE on-behalf contributions		148,193

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, 2016, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	8/31/2016
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%
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, 2016 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 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:	\$ 2,163,142	\$ 1,397,683	\$ 748,419

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2017, the District reported a liability of \$1,397,683 for its proportionate share of the TRS's net pension liability. The 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	\$ 1,397,683
State's proportionate share that is associated with the District	<u>1,759,029</u>
Total	<u><u>\$ 3,156,712</u></u>

The net pension liability was measured as of August 31, 2016 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, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0036987% which was a decrease of 0.0002640% from its proportion measured as of August 31, 2015.

**Changes Since the Prior Actuarial Valuation** There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

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

For the year ended August 31, 2017, the District recognized pension expense of \$182,545 and revenue of \$182,545 for support provided by the State.

At August 31, 2017, 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
Differences between expected and actual economic experience	\$ 21,915	\$ 41,734
Changes in actuarial assumptions	42,599	38,742
Difference between projected and actual investment earnings	118,352	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	610,509	44
Contributions paid to TRS subsequent to the measurement date	124,179	-
Total	<u>\$ 917,554</u>	<u>\$ 80,520</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
2018	\$ 134,351
2019	134,351
2020	209,843
2021	128,549
2022	99,250
Thereafter	6,511

#### **H. Health Care Coverage**

During the period ended August 31, 2017, 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 \$225 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](http://www.trs.state.tx.us), under the TRS Publications heading.

## **I. 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](http://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 2017–2015.

Year	Contribution Rates					
	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$ 22,959	1.0%	\$ 35,321	0.55%	\$ 19,427
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

**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 \$17,391, \$13,147, and \$12,199 were recognized for the years ended August 31, 2017, 2016, and 2015 respectively, as equal revenues and expenditures.

## **J. 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, 2017.

## **K. 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	\$ 91,423
Aquilla Independent School District	75,340
Blum Independent School District	172,364
Bynum Independent School District	86,210
Covington Independent School District	154,831
Gholson Independent School District	91,345
Hubbard Independent School District	112,458
Itasca Independent School District	205,996
Malone Independent School District	48,135
Mt. Calm Independent School District	71,350
Penelope Independent School District	64,354
Whitney Independent School District	664,670
	<u>\$ 1,838,476</u>

## REQUIRED SUPPLEMENTARY INFORMATION

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**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	<b>REVENUES</b>				
5700	Local and intermediate sources	\$ 1,209,292	\$ 1,209,292	\$ 1,169,090	\$( 40,202)
5800	State program revenues	2,285,580	2,285,580	2,226,339	( 59,241)
5900	Federal program revenues	-	-	68,567	68,567
5020	Total revenues	<u>3,494,872</u>	<u>3,494,872</u>	<u>3,463,996</u>	<u>( 30,876)</u>
	<b>EXPENDITURES</b>				
	Current:				
0011	Instruction	1,728,259	1,708,260	1,675,995	32,265
0012	Instructional resources and media services	62,604	62,604	61,552	1,052
0013	Curriculum and staff development	16,811	17,212	17,152	60
0023	School leadership	333,001	342,002	337,606	4,396
0031	Guidance, counseling, and evaluation services	55,933	55,933	54,003	1,930
0033	Health services	31,244	31,244	30,515	729
0034	Student transportation	82,356	90,356	88,614	1,742
0036	Extracurricular activities	131,548	129,548	126,758	2,790
0041	General administration	346,055	354,055	347,298	6,757
0051	Facilities maintenance and operations	476,322	517,322	515,958	1,364
0053	Data processing services	23,876	23,876	23,876	-
	Debt service:				
0071	Principal on long-term debt	42,561	42,431	42,550	( 119)
0072	Interest on long-term debt	3,161	3,291	3,160	131
	Intergovernmental:				
0093	Payments related to shared services arrangements	<u>164,831</u>	<u>164,431</u>	<u>163,834</u>	<u>597</u>
6030	Total expenditures	<u>3,498,562</u>	<u>3,542,565</u>	<u>3,488,871</u>	<u>53,694</u>
1100	<b>EXCESS (DEFICIENCY) OF</b>				
	<b>REVENUES OVER EXPENDITURES</b>	<u>( 3,690)</u>	<u>( 47,693)</u>	<u>( 24,875)</u>	<u>22,818</u>
	<b>OTHER FINANCING SOURCES (USES)</b>				
8911	Transfers out	-	( 16,500)	( 27,500)	( 11,000)
7080	Total other financing sources (uses)	<u>-</u>	<u>( 16,500)</u>	<u>( 27,500)</u>	<u>( 11,000)</u>
1200	<b>NET CHANGE IN FUND BALANCES</b>	<u>( 3,690)</u>	<u>( 64,193)</u>	<u>( 52,375)</u>	<u>11,818</u>
0100	<b>FUND BALANCES, BEGINNING</b>	<u>695,984</u>	<u>695,984</u>	<u>695,984</u>	<u>-</u>
3000	<b>FUND BALANCES, ENDING</b>	<u>\$ 692,294</u>	<u>\$ 631,791</u>	<u>\$ 643,609</u>	<u>\$ 11,818</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, 2017**

	Measurement Year Ended August 31,		
	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0036987%	0.0039627%	0.0009389%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,397,683	\$ 1,400,762	\$ 250,793
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	<u>1,759,029</u>	<u>1,589,038</u>	<u>1,074,351</u>
Total	<u>\$ 3,156,712</u>	<u>\$ 2,989,800</u>	<u>\$ 1,325,144</u>
District's Covered Employee Payroll	\$ 3,235,721	\$ 2,971,679	\$ 1,704,905
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	43.20%	47.14%	14.71%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.00%	78.43%	83.25%

Note: Only three 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 DISTRICT CONTRIBUTIONS

## TEACHER RETIREMENT SYSTEM

## FOR THE YEAR ENDED AUGUST 31, 2017

	Fiscal Year Ended August 31,		
	2017	2016	2015
Contractually Required Contribution	\$ 124,179	\$ 117,517	\$ 117,291
Contribution in Relation to the Contractually Required Contribution	( 124,179)	( 117,517)	( 117,291)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Employee Payroll	\$ 3,532,092	\$ 3,235,721	\$ 2,971,679
Contributions as a percentage of Covered Employee Payroll	3.52%	3.63%	3.95%

Note: Only three 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, 2017**

### **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.

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## COMBINING STATEMENTS

**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**AUGUST 31, 2017**

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
<b>ASSETS</b>					
1110	Cash and cash equivalents	\$ -	\$ 5,658	\$ 1,735	\$ -
1220	Property taxes - delinquent	-	-	-	-
1230	Allowance for uncollectible taxes	-	-	-	-
1240	Due from other governments	4,243	1,702	762	19,558
1260	Due from other funds	-	29	-	-
1290	Other receivables	-	-	-	-
1000	Total assets	<u>4,243</u>	<u>7,389</u>	<u>2,497</u>	<u>19,558</u>
<b>LIABILITIES</b>					
2110	Accounts payable	-	2,789	-	-
2160	Accrued wages payable	-	4,330	565	-
2170	Due to other funds	4,243	85	1,819	19,558
2190	Due to Student Groups	-	-	-	-
2200	Accrued Expenditures	-	86	113	-
	Total liabilities	<u>4,243</u>	<u>7,290</u>	<u>2,497</u>	<u>19,558</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
2600	Unavailable revenue-property taxes	-	-	-	-
	Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
	Restricted:				
3450	Federal and state programs	-	99	-	-
3480	Debt service	-	-	-	-
3000	Total fund balances	<u>-</u>	<u>99</u>	<u>-</u>	<u>-</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,243</u>	<u>\$ 7,389</u>	<u>\$ 2,497</u>	<u>\$ 19,558</u>



**EXHIBIT H-1**

270 ESEA VI, Pt B Rural & Low Income	289 REAP	314 SSA IDEA - Part B Preschool	410 State Instructional Materials	461 Campus Activity Funds	599 Debt Service	Total Non Major Special Revenue Funds
\$ -	\$ -	-	\$ -	\$ 41,506	\$ 75,910	\$ 124,809
-	-	-	-	-	9,647	9,647
-	-	-	-	-	( 3,140)	( 3,140)
13,288	1,096	11,390	611	-	1,655	54,305
-	-	-	-	-	9,023	9,052
-	-	-	-	-	3,206	3,206
<u>13,288</u>	<u>1,096</u>	<u>11,390</u>	<u>611</u>	<u>41,506</u>	<u>96,301</u>	<u>197,879</u>
-	-	-	-	-	-	2,789
-	995	-	-	-	-	5,890
13,288	-	11,390	611	-	-	50,994
-	-	-	-	41,506	-	41,506
-	101	-	-	-	-	300
<u>13,288</u>	<u>1,096</u>	<u>11,390</u>	<u>611</u>	<u>41,506</u>	<u>-</u>	<u>101,479</u>
-	-	-	-	-	6,412	6,412
-	-	-	-	-	6,412	6,412
-	-	-	-	-	-	99
-	-	-	-	-	89,889	89,889
-	-	-	-	-	89,889	89,988
<u>\$ 13,288</u>	<u>\$ 1,096</u>	<u>\$ 11,390</u>	<u>\$ 611</u>	<u>\$ 41,506</u>	<u>\$ 96,301</u>	<u>\$ 197,879</u>

**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

<u>Data Control Codes</u>		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
<b>REVENUES</b>					
5700	Local and intermediate sources	\$ -	\$ 42,786	\$ -	\$ -
5800	State program revenues	-	5,174	-	-
5900	Federal program revenues	<u>54,725</u>	<u>112,468</u>	<u>14,369</u>	<u>64,515</u>
5020	Total revenues	<u>54,725</u>	<u>160,428</u>	<u>14,369</u>	<u>64,515</u>
<b>EXPENDITURES</b>					
	Current:				
0011	Instruction	54,725	-	14,369	53,210
0034	Student (pupil) transportation	-	-	-	11,305
0035	Food services	-	187,922	-	-
	Debt service:				
0071	Principal on long-term debt	-	-	-	-
0072	Interest on long-term debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Intergovernmental:				
0093	Payments related to shared services arrangements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
6030	Total expenditures	<u>54,725</u>	<u>187,922</u>	<u>14,369</u>	<u>64,515</u>
1100	<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	-	( 27,494)	-	-
<b>OTHER FINANCING SOURCES (USES)</b>					
7915	Transfers in	<u>-</u>	<u>27,500</u>	<u>-</u>	<u>-</u>
7080	Total other financing sources (uses)	<u>-</u>	<u>27,500</u>	<u>-</u>	<u>-</u>
1200	<b>NET CHANGE IN FUND BALANCES</b>	-	6	-	-
0100	<b>FUND BALANCES, BEGINNING</b>	<u>-</u>	<u>93</u>	<u>-</u>	<u>-</u>
3000	<b>FUND BALANCES, ENDING</b>	<u>\$ -</u>	<u>\$ 99</u>	<u>\$ -</u>	<u>\$ -</u>

EXHIBIT H-2

270 ESEA VI, PT B Rural & Low Income	289 REAP	314 SSA IDEA - Part B Preschool	410 State Instructional Materials	461 Campus Activity Funds	599 Debt Service	Total Non Major Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,161	\$ 153,947
-	1,096	-	26,363	-	22,833	55,466
<u>37,410</u>	<u>-</u>	<u>11,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>294,877</u>
<u>37,410</u>	<u>1,096</u>	<u>11,390</u>	<u>26,363</u>	<u>-</u>	<u>133,994</u>	<u>504,290</u>
37,410	1,096	-	26,363	-	-	187,173
-	-	-	-	-	-	11,305
-	-	-	-	-	-	187,922
-	-	-	-	-	106,000	106,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,266</u>	<u>22,266</u>
-	-	11,390	-	-	-	11,390
<u>37,410</u>	<u>1,096</u>	<u>11,390</u>	<u>26,363</u>	<u>-</u>	<u>128,266</u>	<u>526,056</u>
-	-	-	-	-	5,728	( 21,766)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,500</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,500</u>
-	-	-	-	-	5,728	5,734
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,161</u>	<u>84,254</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,889</u>	<u>\$ 89,988</u>

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## REQUIRED TEA SCHEDULES

**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**  
**FISCAL YEAR ENDED AUGUST 31, 2017**

Last Ten Years Ended August 31,	1	2	3	10	20
	Tax Rates		Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 09/01/16	Current Year's Total Levy
	Maintenance	Debt Service			
2008 and prior years	various	various	various	\$ 5,101	\$ -
2009	1.040000	0.209500	76,111,715	1,775	-
2010	1.040000	0.172800	103,755,213	3,799	-
2011	1.040000	0.233200	97,471,733	4,044	-
2012	1.170000	0.231300	96,592,869	4,677	-
2013	1.170000	0.231200	85,764,702	3,419	-
2014	1.170000	0.141800	77,387,892	4,226	-
2015	1.170000	0.180000	79,160,667	10,380	-
2016	1.170000	0.165400	77,190,954	27,263	-
2017	1.170000	0.140000	76,916,183	-	1,007,602
1000 Totals				\$ 64,684	\$ 1,007,602

**EXHIBIT J-1**

31	32	40	50
Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 08/31/2017
\$ 72	\$ 14	\$ ( 1,013)	\$ 4,002
270	54	-	1,451
602	100	-	3,097
504	113	-	3,427
760	150	-	3,767
158	31	( 105)	3,125
723	88	( 98)	3,317
2,560	394	( 101)	7,325
13,334	1,885	152	12,196
<u>868,846</u>	<u>103,965</u>	<u>( 5,891)</u>	<u>28,900</u>
\$ <u>887,829</u>	\$ <u>106,794</u>	\$ <u>( 7,056)</u>	\$ <u>70,607</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, 2017**

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	<b>REVENUES</b>				
5700	Local and intermediate sources	\$ 38,000	\$ 38,000	\$ 42,786	\$ 4,786
5800	State program revenues	4,737	4,737	5,174	437
5900	Federal program revenues	95,850	95,850	112,468	16,618
5020	Total revenues	138,587	138,587	160,428	21,841
	<b>EXPENDITURES</b>				
0035	Food Service	173,997	190,497	187,922	2,575
6030	Total expenditures	173,997	190,497	187,922	2,575
	<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	( 35,410)	( 51,910)	( 27,494)	24,416
	<b>OTHER FINANCING SOURCES (USES)</b>				
7915	Transfers In	-	16,500	27,500	11,000
7080	Total other financing sources (uses)	-	16,500	27,500	11,000
1200	<b>NET CHANGE IN FUND BALANCE</b>	( 35,410)	( 35,410)	6	35,416
0100	<b>FUND BALANCE, BEGINNING</b>	93	93	93	-
3000	<b>FUND BALANCE, ENDING</b>	<u>\$( 35,317)</u>	<u>\$( 35,317)</u>	<u>\$ 99</u>	<u>\$ 35,416</u>



**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, 2017**

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 101,868	\$ 101,868	\$ 111,161	\$ 9,293
5800	State program revenues	31,000	31,000	22,833	( 8,167)
5020	Total revenues	132,868	132,868	133,994	1,126
EXPENDITURES					
Current:					
0071	Principal on long-term debt	117,134	117,134	106,000	11,134
0072	Interest on long-term debt	11,134	11,134	22,266	( 11,132)
6030	Total expenditures	128,268	128,268	128,266	2
1200	NET CHANGE IN FUND BALANCES	4,600	4,600	5,728	1,128
0100	FUND BALANCES, BEGINNING	84,161	84,161	84,161	-
3000	FUND BALANCES, ENDING	\$ 88,761	\$ 88,761	\$ 89,889	\$ 1,128

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## FEDERAL AWARDS SECTION

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P A T T I L L O , B R O W N & H I L L , 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, 2017, 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 8, 2018.

**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.*

Waco, Texas  
January 8, 2018



PATILLO, 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, 2017. 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, 2017.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-1. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-1. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response."

### **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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.*

Waco, Texas  
January 8, 2018

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**COVINGTON IDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

(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
<b><u>U. S. DEPARTMENT OF AGRICULTURE</u></b>				
Passed through the Texas Education Agency:				
School Breakfast Program	10.553	71401501	\$ 17,484	\$ -
National School Lunch Program - Cash assistance	10.555	71301501	61,461	-
Total Passed through the Texas Education Agency			78,945	-
Passed through the Texas Department of Agriculture:				
National School Lunch Program Commodities - Non-cash assistance	10.555	3001701	11,244	-
Total Child Nutrition Cluster			90,189	-
Summer Feeding	10.558	-	16,862	-
Supper Program	10.558	-	5,417	-
Total Passed through the Texas Department of Agriculture			112,468	-
<b>TOTAL U. S. DEPARTMENT OF AGRICULTURE</b>			112,468	-
<b><u>U. S. DEPARTMENT OF EDUCATION</u></b>				
Passed through the Texas Education Agency:				
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17610101109903	54,725	-
ESEA, Title II, Part A - Teacher/Principal Training	84.367A	17694501109903	14,369	-
ESEA, Title VI, Part B - Rural and Low-Income School Program	84.358B	17696001109903	37,410	-
IDEA - Part B, Formula	84.027A	176600011099036000	924,234	-
IDEA - Part B, Preschool	84.173A	176610011099036000	11,390	-
Total Special Education Cluster (IDEA)			935,624	-
Total Passed through the Texas Education Agency			1,042,128	-
Passed through Region 12 Education Service Center:				
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287C	18680101109903	64,515	-
Total Title IV, Pt B-21st Cent. Community Learning Cent.			64,515	-
Total Passed through Region 12 Education Service Center			64,515	-
<b>TOTAL U. S. DEPARTMENT OF EDUCATION</b>			1,106,643	-
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 1,219,111	\$ -

# COVINGTON INDEPENDENT SCHOOL DISTRICT

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

AUGUST 31, 2017

### 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. Awards are presented using the modified accrual basis of accounting. The District's significant account policies, including the modified accrual basis of accounting, are presented in Note I of the basic financial statements. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the financial statements.

### 3. PASS-THROUGH EXPENDITURES

None of the federal programs expended by the District were provided to subrecipients.

### 4. INDIRECT COSTS

The District did not elect to apply the 10% de minimis indirect cost rate.

### 5. RECONCILIATION OF FEDERAL REVENUES

The following is the reconciliation of federal revenues and the Schedule of Expenditures of Federal Awards for the year ended August 31, 2017:

Federal revenues per the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (Exhibit C-3)	\$ 1,287,678
School health and related services revenue	( 68,567)
Federal expenditures per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	\$ <u>1,219,111</u>

**COVINGTON IDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2017**

**Summary of Auditors' Results**

Financial Statements:

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

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	2017-1
--	--------

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster:
84.027A and 84.173A	Special Education Cluster (IDEA)
Dollar threshold used to distinguish between type A and type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

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

None

**COVINGTON IDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

**Findings and Questioned Costs for Federal Awards**

**Item 2017-1**

Federal Program:

Special Education Cluster (IDEA)  
Pass through Texas Education Agency

Compliance Requirement:

Suspension and debarment

Criteria:

Recipients of federal and state awards are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. The District should have control procedures in place to verify that each entity it contracts with under covered transactions or makes subawards to is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Condition:

We identified certain instances in which no documentation could be provided by the District for verification of subrecipient or vendor suspension or debarment status.

Effect:

The District does not have controls in place to prevent it from contracting or making subawards to parties that are suspended or debarred.

Recommendation:

Implement a policy to verify that each entity it contracts with or makes subawards to is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the System for Award Management (SAM) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Additionally, management or representatives of management should periodically conduct independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.

COVINGTON IDEPENDENT SCHOOL DISTRICT

501 N. Main St.

Covington, Tx 76636

Phone (254) 854-2215

Fax (254) 854-2276

Dr. Christopher M. Heskett, Superintendent

Management's Response:

Management agrees with this finding. As a result, plans are being made to remedy this by adding a clause to our contracts that will require all vendors to certify that they are not on the General Services Administration's suspension and debarment listing.

Contact Person Responsible for Corrective Plan:

Pam Frazier, Business Manager

Anticipated Completion Date:

January, 2018

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