

COVINGTON INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2019

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COVINGTON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2019

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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 auditor's reports of the above named school district were reviewed and ___approved
- ___disapproved for the year ended August 31, 2019, at a meeting of the board of school trustees of such school district on the
____ day of _____, 2020.

Signature of Board Secretary

Signature of Board President

If the auditor's reports were checked above as disapproved, the reason(s) therefore is/are (attach list if necessary):

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Independent Auditor's Report

UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

Board of Trustees
Covington Independent School District
501 N. Main Street
Covington, Texas 76636

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for Covington Independent School District (the "District") as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Covington Independent School District as of August 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with account 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, the Budgetary Comparison Schedule for the General Fund, Schedule of District's Proportionate Share of the Net Pension Liability (TRS), Schedule of District Pension Contributions to TRS, Schedule of District's Proportionate Share of the Net OPEB Liability (TRS) and Schedule of District OPEB Contributions to TRS as listed in the table of contents 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. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, the TEA required schedules and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, the TEA required 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 my opinion, the combining and individual nonmajor fund financial statements, the TEA required 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. The combining and individual nonmajor fund financial statements, the TEA required schedules and the schedule of expenditures of federal awards have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 16, 2020, on my consideration of the District's internal control over financial reporting and on my 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 my 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 the District's internal control over financial reporting and compliance.

Cameron L. Gulley
Certified Public Accountant

January 16, 2020

COVINGTON INDEPENDENT SCHOOL DISTRICT

501 N. MAIN STREET
COVINGTON, TEXAS 76636
Phone: (254) 854-2215 • Fax: (254) 854-2272

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Covington Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2019. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

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

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. 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 District.

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

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards 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 5. Its primary purpose 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 and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). 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 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 one activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 13 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 the No Child Left Behind Act 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's fund type - governmental - use the following accounting approaches.

Governmental funds - All of the District's basic services are reported in governmental funds. These use the 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 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 fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. . All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 18. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance 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 analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Total net position of the District's governmental activities decreased from \$1,435,139 to \$1,371,206. 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 - decreased from (\$2,963,519) to (\$3,114,376). Current and other assets increased by \$276,000 due to net increases in cash and receivables. Capital assets decreased by \$262,000 due to depreciation expense. Long-term liabilities increased by \$1.1 million due to the effects of net pension (NPL) and other post-employment benefit (OPEB) liabilities offset by principal retired on outstanding debt. Other liabilities decreased by \$31,000 due to changes in ending accounts payable. Deferred resource outflows related to NPL and OPEB liabilities increased by \$806,000 and deferred resource inflows related to NPL and OPEB liabilities decreased by \$1767,000.

Changes in revenues and expenses for the year are not comparable to prior year due to the overall effects of GASB 68 and 75 related to NPL and OPEB on current year and prior year activity. GASB 68 and 75 effects on current year revenue relative to last year were higher by approximately \$1.04 million. GASB 68 and 75 effects on current year expenses relative to last year were higher by approximately \$1.97 million

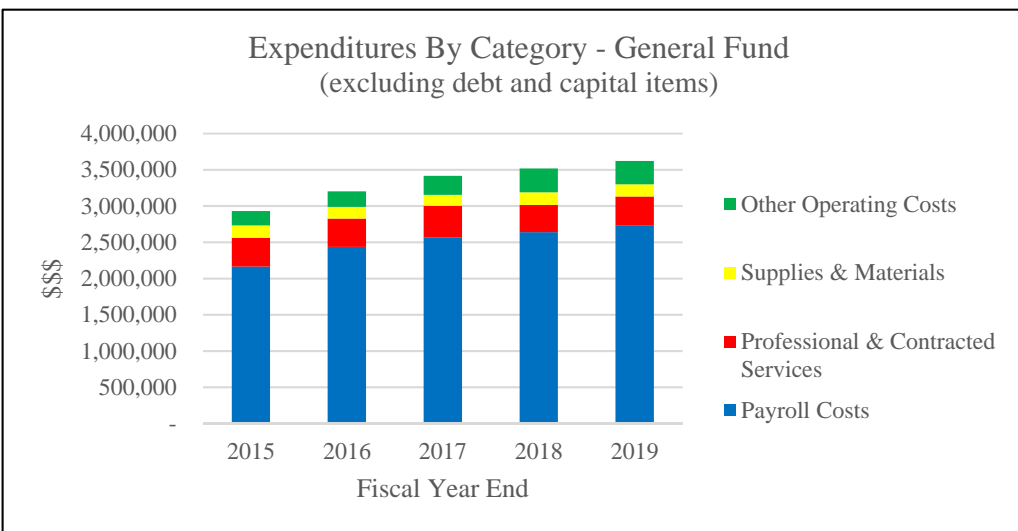
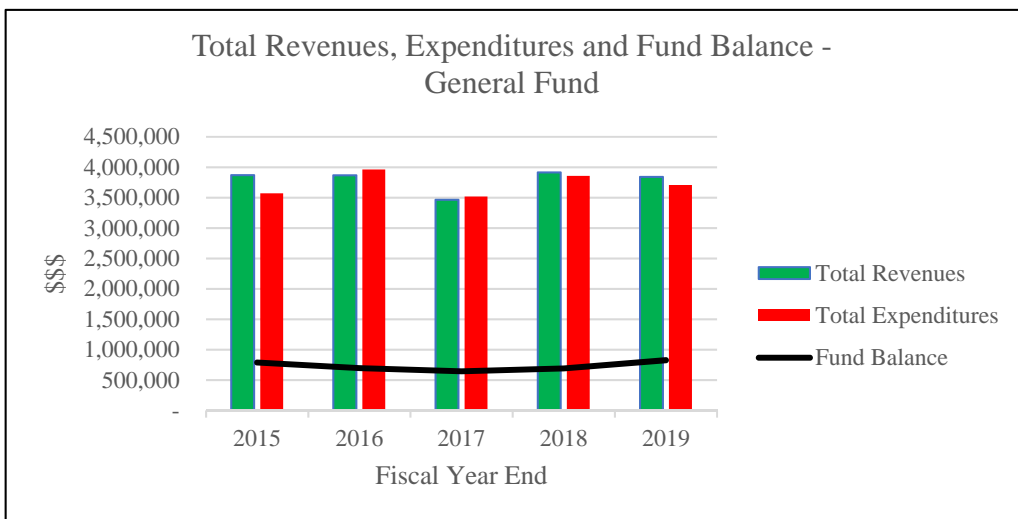
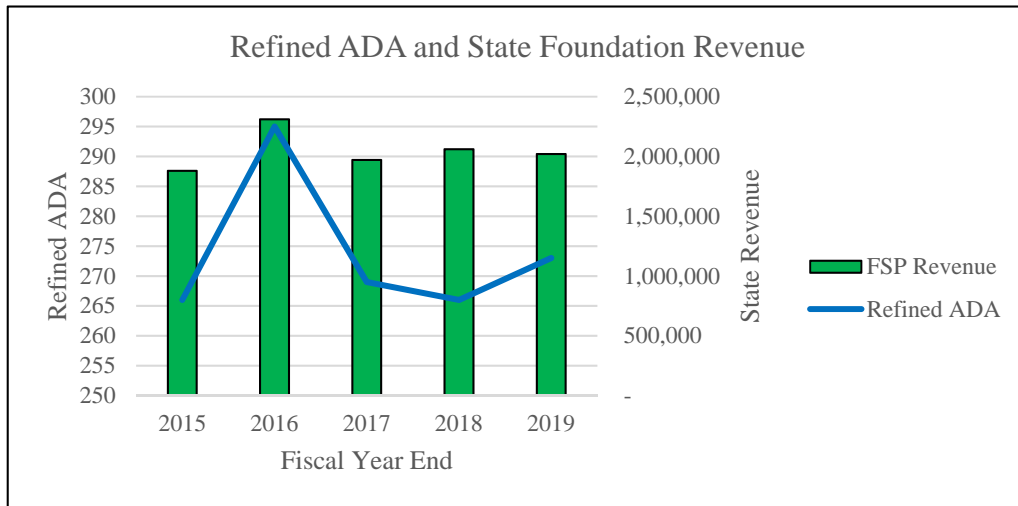
Excluding the effects of GASB 68 and 75 on revenues, total revenues decreased by \$37,000 for the year. Charges for services increased \$81,000 due to shared service fees from other districts. Operating grants and contributions decreased \$184,000 due to IDEA revenues lost due to one school district withdrawing from the shared services cooperative at the beginning of the year. Property tax revenues increased \$89,000 due to valuation increases. Other revenues were comparable to last year.

Excluding the effects on of GASB 68 and 75 on expenses, total expenses decreased by \$137,000 for the year. Most of the expense decrease was in general administration due to reductions in SHARS administrator fees. Instructional and school leadership expenses increased \$59,000 due to payroll costs. Reductions in student support services by \$53,000 were due to payroll and contracted services fees. Other functional expenses were comparable to last year.

Table I Net Position			
	Governmental Activities 2019	Governmental Activities 2018	Variance Increase/ (Decrease)
Current and other assets	\$ 1,813,619	\$ 1,538,095	\$ 275,524
Capital assets	4,442,225	4,704,718	(262,493)
Deferred resource outflows for TRS	1,559,214	753,501	805,713
Total assets and deferred resource outflows	7,815,058	6,996,314	818,744
Long-term liabilities	5,261,653	4,171,416	1,090,237
Other liabilities	269,307	300,112	(30,805)
Deferred resource inflows for TRS	912,892	1,089,647	(176,755)
Total liabilities and deferred resource inflows	6,443,852	5,561,175	882,677
Net position:			
Net investment in capital assets	3,818,624	3,907,981	(89,357)
Restricted for debt service	125,354	108,060	17,294
Restricted for other purposes	541,604	382,617	158,987
Unrestricted	(3,114,376)	(2,963,519)	(150,857)
Total net position	\$ 1,371,206	\$ 1,435,139	\$ (63,933)

Table II Changes in Net Position			
	Governmental Activities 2019	Governmental Activities 2018	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 2,611,349	\$ 2,530,079	\$ 81,270
Operating grants and contributions	1,565,671	708,993	856,678
General Revenues:			
Property taxes	1,199,747	1,110,434	89,313
State aid - formula grants	2,197,957	2,222,558	(24,601)
Other	5,355	4,797	558
Total Revenues	7,580,079	6,576,861	1,003,218
Expenses:			
Instruction, curriculum and media services	3,802,349	2,719,585	(1,082,764)
Instructional and school leadership	394,745	219,872	(174,873)
Student support services	913,388	690,701	(222,687)
Child nutrition	266,823	194,984	(71,839)
Extracurricular activities	173,592	146,021	(27,571)
General administration	864,221	739,121	(125,100)
Plant maintenance, security & data processing	673,718	524,917	(148,801)
Debt service	8,697	15,295	6,598
Payments to fiscal agent/member districts of SSA	511,081	526,951	15,870
Other intergovernmental charges	35,398	32,067	(3,331)
Total Expenses	7,644,012	5,809,517	(1,834,498)
Increase (Decrease) in Net Position	(63,933)	767,347	(831,280)
Net Position - beginning of year	1,435,139	4,493,639	(3,058,500)
Prior period adjustment	0	(3,825,847)	3,825,847
Net Position - end of year	\$ 1,371,206	\$ 1,435,139	\$ (63,933)

The following charts depict trend information for the past five years.



THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$1,487,669, an increase of \$312,303 in the District's Governmental Funds from last year's fund balance of \$1,175,366. The primary reasons for the net increase are similar to the narrative related to the tables above. The major exceptions are depreciation expense which is not charged to the governmental funds and the net effect relative to GASB 68 and 75 whose impacts are only at the government-wide level financial statements. The specific variances in the changes in fund balance versus the change in net position are detailed out on Exhibit C-4 on the accompanying general purpose financial statements.

The Board of Trustees revised the District's budget three times during the year. The only significant budget amendments were for additional payroll costs in school leadership and fuel in student (pupil) transportation. Other amendments were to mainly re-allocate existing budgetary balances across functions.

The District's General Fund balance of \$827,217 reported on pages 15 and 42 differs from the General Fund's budgetary fund balance of \$575,098 reported in the budgetary comparison schedule on page 42 due to both revenues and expenditures being more favorable than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2019, the District had \$7,650,069 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. There were no asset additions for the year.

Debt

The District had two long-term debt instruments outstanding at year-end in the form of bonds and notes payable. During the year, the District paid off one long-term loan and entered into another for the purchase of two school buses. Following is a summary of outstanding debt balances for the past two years:

	2019	2018
Bonds payable	\$ 437,000	\$ 545,000
Notes payable	148,345	203,918
Total outstanding debt	<u>\$ 585,345</u>	<u>\$ 748,918</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District should continue to maintain its financial health. A budget adopted for 2019-20 reflected tax rates at \$1.0683 for maintenance and operations and \$0.2103 for debt service. Property valuations continued to increase by approximately 8% from 2018-19. General fund revenues were budgeted at approximately \$4.2 million and expenditures at approximately \$4.2 million for break-even budget. Therefore, the District expects that its general fund balance will be approximately \$0.83 million at August 31, 2020.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's business office at: Covington Independent School District, 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, 2019

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,417,847
1220 Property Taxes - Delinquent	80,580
1230 Allowance for Uncollectible Taxes	(18,294)
1240 Due from Other Governments	333,486
Capital Assets:	
1510 Land	153,050
1520 Buildings, Net	3,861,591
1530 Furniture and Equipment, Net	364,495
1560 Library Books and Media, Net	22,293
1590 Infrastructure, Net	40,796
1000 Total Assets	6,255,844
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	1,307,120
1706 Deferred Outflow Related to TRS OPEB	252,094
1700 Total Deferred Outflows of Resources	1,559,214
LIABILITIES	
2110 Accounts Payable	65,898
2140 Interest Payable	5,643
2160 Accrued Wages Payable	120,143
2190 Due to Student Groups	56,883
2200 Accrued Expenses	20,740
Noncurrent Liabilities:	
2501 Due Within One Year	146,149
2502 Due in More Than One Year	477,452
2540 Net Pension Liability (District's Share)	2,118,190
2545 Net OPEB Liability (District's Share)	2,519,862
2000 Total Liabilities	5,530,960
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	116,051
2606 Deferred Inflow Related to TRS OPEB	796,841
2600 Total Deferred Inflows of Resources	912,892
NET POSITION	
3200 Net Investment in Capital Assets	3,818,624
3850 Restricted for Debt Service	125,354
3890 Restricted for Other Purposes	541,604
3900 Unrestricted	(3,114,376)
3000 Total Net Position	\$ 1,371,206

The notes to the financial statements are an integral part of this statement.

COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6 Primary Gov. Governmental Activities
		3	4	
		Charges for Services	Operating Grants and Contributions	
	Expenses			
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 3,694,762	\$ 1,216,877	\$ 772,348	\$ (1,705,537)
12 Instructional Resources and Media Services	69,623	-	5,487	(64,136)
13 Curriculum and Instructional Staff Development	37,964	25,352	4,642	(7,970)
21 Instructional Leadership	165	-	-	(165)
23 School Leadership	394,580	-	25,224	(369,356)
31 Guidance, Counseling and Evaluation Services	741,623	557,735	470,399	286,511
33 Health Services	34,409	-	2,403	(32,006)
34 Student (Pupil) Transportation	137,356	-	2,823	(134,533)
35 Food Services	266,823	66,106	167,124	(33,593)
36 Extracurricular Activities	173,592	10,083	5,128	(158,381)
41 General Administration	864,221	430,977	62,883	(370,361)
51 Facilities Maintenance and Operations	652,676	50,703	27,989	(573,984)
52 Security and Monitoring Services	778	-	-	(778)
53 Data Processing Services	20,264	-	-	(20,264)
72 Debt Service - Interest on Long-Term Debt	8,697	-	-	(8,697)
93 Payments Related to Shared Services Arrangements	511,081	253,516	19,221	(238,344)
99 Other Intergovernmental Charges	35,398	-	-	(35,398)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 7,644,012</u>	<u>\$ 2,611,349</u>	<u>\$ 1,565,671</u>	<u>(3,466,992)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			1,079,039
DT	Property Taxes, Levied for Debt Service			120,708
SF	State Aid - Formula Grants			2,197,957
IE	Investment Earnings			3,655
MI	Miscellaneous Local and Intermediate Revenue			1,700
TR	Total General Revenues			<u>3,403,059</u>
CN	Change in Net Position			(63,933)
NB	Net Position - Beginning			<u>1,435,139</u>
NE	Net Position--Ending			<u>\$ 1,371,206</u>

The notes to the financial statements are an integral part of this statement.

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COVINGTON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2019

Data Control Codes		10 General Fund	Major Special Revenue Fund	Major Special Revenue Fund
ASSETS				
1110	Cash and Cash Equivalents	\$ 716,184	\$ 534,939	\$ 56,883
1220	Property Taxes - Delinquent	71,553	-	-
1230	Allowance for Uncollectible Taxes	(15,773)	-	-
1240	Due from Other Governments	184,213	16,874	-
1260	Due from Other Funds	99,858	20,244	-
1000	Total Assets	<u>\$ 1,056,035</u>	<u>\$ 572,057</u>	<u>\$ 56,883</u>
LIABILITIES				
2110	Accounts Payable	\$ 33,580	\$ 27,467	\$ -
2160	Accrued Wages Payable	110,030	-	-
2170	Due to Other Funds	9,023	2,986	-
2190	Due to Student Groups	-	-	56,883
2200	Accrued Expenditures	20,405	-	-
2000	Total Liabilities	<u>173,038</u>	<u>30,453</u>	<u>56,883</u>
DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable Revenue - Property Taxes	55,780	-	-
2600	Total Deferred Inflows of Resources	<u>55,780</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
3480	Retirement of Long-Term Debt	-	-	-
3490	Other Restricted Fund Balance	-	541,604	-
3600	Unassigned Fund Balance	827,217	-	-
3000	Total Fund Balances	<u>827,217</u>	<u>541,604</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,056,035</u>	<u>\$ 572,057</u>	<u>\$ 56,883</u>

The notes to the financial statements are an integral part of this statement.

		Total	
Other		Governmental	
Funds		Funds	
<hr/>		<hr/>	
\$	109,841	\$	1,417,847
	9,027		80,580
	(2,521)		(18,294)
	132,399		333,486
	9,023		129,125
<hr/>		<hr/>	
\$	257,769	\$	1,942,744
<hr/>		<hr/>	
\$	4,851	\$	65,898
	10,113		120,143
	117,116		129,125
	-		56,883
	335		20,740
<hr/>		<hr/>	
	132,415		392,789
<hr/>		<hr/>	
	6,506		62,286
<hr/>		<hr/>	
	6,506		62,286
<hr/>		<hr/>	
	118,848		118,848
	-		541,604
	-		827,217
<hr/>		<hr/>	
	118,848		1,487,669
<hr/>		<hr/>	
\$	257,769	\$	1,942,744
<hr/>		<hr/>	

COVINGTON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2019

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 1,487,669
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$7,650,069 and the accumulated depreciation was (\$2,945,351). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	3,955,800
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the capital outlays and debt principal payments is to increase net position.	163,573
3 Included in the items related to debt is the recognition of the District' proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$1,307,120, a deferred resource inflow in the amount of \$116,051, and a net pension liability in the amount of \$2,118,190. This resulted in a decrease in net position.	(927,121)
4 Included in the items related to debt is the recognition of the District' proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$252,094, a deferred resource inflow in the amount of \$796,841, and a net OPEB liability in the amount of \$2,519,862. This resulted in a decrease in net position.	(3,064,609)
5 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(262,493)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	18,387
19 Net Position of Governmental Activities	<u>\$ 1,371,206</u>

The notes to the financial statements are an integral part of this statement.

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COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	10 General Fund	Major Special Revenue Fund	Major Special Revenue Fund
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 1,357,393	\$ 2,288,356	\$ -
5800 State Program Revenues	2,390,209	-	-
5900 Federal Program Revenues	93,900	-	-
5020 Total Revenues	3,841,502	2,288,356	-
EXPENDITURES:			
Current:			
0011 Instruction	1,727,212	1,137,640	-
0012 Instructional Resources and Media Services	64,147	-	-
0013 Curriculum and Instructional Staff Development	7,024	26,298	-
0021 Instructional Leadership	-	165	-
0023 School Leadership	369,871	-	-
0031 Guidance, Counseling and Evaluation Services	77,447	127,593	-
0033 Health Services	31,857	-	-
0034 Student (Pupil) Transportation	89,541	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	130,325	-	-
0041 General Administration	399,316	408,976	-
0051 Facilities Maintenance and Operations	479,166	126,523	-
0052 Security and Monitoring Services	778	-	-
0053 Data Processing Services	20,264	-	-
Debt Service:			
0071 Principal on Long-Term Debt	55,573	-	-
0072 Interest on Long-Term Debt	7,285	-	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	189,686	302,174	-
0099 Other Intergovernmental Charges	35,398	-	-
6030 Total Expenditures	3,684,890	2,129,369	-
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	156,612	158,987	-
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	-	-
8911 Transfers Out (Use)	(21,658)	-	-
7080 Total Other Financing Sources (Uses)	(21,658)	-	-
1200 Net Change in Fund Balances	134,954	158,987	-
0100 Fund Balance - September 1 (Beginning)	692,263	382,617	-
3000 Fund Balance - August 31 (Ending)	\$ 827,217	\$ 541,604	\$ -

The notes to the financial statements are an integral part of this statement.

		Total	
Other		Governmental	
Funds		Funds	
\$ 188,290		\$ 3,834,039	
135,081		2,525,290	
978,845		1,072,745	
1,302,216		7,432,074	
448,315		3,313,167	
-		64,147	
4,642		37,964	
-		165	
-		369,871	
462,597		667,637	
-		31,857	
-		89,541	
250,148		250,148	
-		130,325	
-		808,292	
-		605,689	
-		778	
-		20,264	
108,000		163,573	
12,589		19,874	
19,221		511,081	
-		35,398	
1,305,512		7,119,771	
(3,296)		312,303	
21,658		21,658	
-		(21,658)	
21,658		-	
18,362		312,303	
100,486		1,175,366	
\$ 118,848		\$ 1,487,669	

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, 2019

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 312,303
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the capital outlays and debt principal payments is to increase net position.	163,573
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(262,493)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	3,589
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$127,897. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling \$130,083. Finally, the 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 \$244,449. The net result is a decrease in the change in net position.	(246,635)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$34,092. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in the change in net position totaling \$34,878. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense decreased the change in net position by \$33,484. The net result is a decrease in the change in net position.	(34,270)
Change in Net Position of Governmental Activities	\$ (63,933)

The notes to the financial statements are an integral part of this statement.

COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2019

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 44,046
Total Assets	<u>\$ 44,046</u>
LIABILITIES	
Due to Student Groups	\$ 44,046
Total Liabilities	<u>\$ 44,046</u>

The notes to the financial statements are an integral part of this statement.

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COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED AUGUST 31, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, 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.

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.

Other Post-Employment Benefits (OPEB). The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan 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 OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

The District applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

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. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

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 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 revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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 a revenue is not a program revenue, it is a 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 statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues 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., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become 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.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. Miscellaneous revenues are recorded as revenue when received in cash because they are 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 revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the District to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund.** The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **SSA Special Education Special Revenue Fund.** 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.
3. **Campus Activity Special Revenue Fund.** 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.

Additionally, the District reports the following fund type(s):

Governmental Funds:

4. **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.
5. **Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

6. **Agency Funds.** The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the "Covington Student Activity Fund."

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. 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, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. 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 sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. All vacation pay is accrued when

incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

5. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns 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 estimated fair market value at the date of donation.

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>Asset:</u>	<u>Years</u>
Buildings	20-40
Building Improvements	20-40
Infrastructure	20-40
Vehicles	5-10
Equipment	3-15
Library Books	20

6. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's board. Assignments of fund balance are amounts set aside by the District's superintendent or his designee with the intent they be used for specific purposes.
7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. In general governments are required to report investments at fair value. These methods are disclosed in section III.A. below.
9. 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. Items reported as deferred outflows of resources are as follows:

Deferred charges related to TRS retirement	\$ 1,307,120
Deferred charges related to TRS OPEB	\$ 252,094

10. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement 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 one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. Items reported as deferred inflows of resources are as follows:

Deferred charges related to TRS retirement	\$ 116,051
Deferred charges related to TRS OPEB	\$ 796,841

11. 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 data base for policy development and funding plans.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund 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 revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other reports are in Exhibits J4 and J5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose 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 ten days' public notice of the meeting must be given.
3. Prior to September 1, 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 are 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.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year, the District had the following functional categories that exceeded its final amended budget by more than \$2,500 for the General fund:

Functional Category	Amount Over Budget	Explanation
0041 - General administration	\$ 2,871	Ending accrued liabilities.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits. State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits. The District was not exposed to custodial credit risk.

Foreign Currency Risk. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by having no deposits denominated in a foreign currency. Therefore, the District was not exposed to foreign currency risk.

As of August 31, 2019, the following are the District's cash and cash equivalents (including it's student fund) with respective maturities and credit rating:

Type of Deposit	Fair Value	Percent	Maturity < 1 Yr	Maturity 1-10 Yrs	Maturity > 10 Yrs	Credit Rating
Cash						
Money market and FDIC insured accounts	\$ 1,458,129	100%	\$ 1,458,129			N/A
Investment pools	3,764	0%	3,764			AAA
Total Cash and Cash Equivalents	<u>\$ 1,461,893</u>	<u>100%</u>	<u>\$ 1,461,893</u>			

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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 a governmental entity 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, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is not in substantial compliance with the requirements of the Act and with local policies. See continuation Finding 2018-1 on the accompanying Schedule of Findings and Questioned Costs.

Additional policies and contractual provisions governing investments for the District are specified below:

Credit Risk. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in commercial paper, corporate bonds and mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2019, all of the District's investments were rated AAA by Standard & Poor's rating agency. Therefore, the District was not exposed to credit risk.

Custodial Credit Risk for Investments. To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent. The District was not exposed to custodial credit risk.

Concentration of Credit Risk. To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%. The District was not exposed to concentration of credit risk.

Interest Rate Risk. To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires a review of its investment portfolio at least annually to determine whether market conditions pose an inherent risk of future interest rates either rising or falling which could significantly affect investment performance. The District was not exposed to interest rate risk.

Foreign Currency Risk for Investments. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in any foreign currency. Therefore, the District was not exposed to foreign currency risk.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. the hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

At August 31, 2019, the District had no investments other than public funds investment pools.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed 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 year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period.

C. DELINQUENT TAXES RECEIVABLE

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 Fund is 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.

D. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of August 31, 2019 is as follows:

Fund	Receivable	Payable	Purpose	Current?
General fund	\$ 99,858	\$ 9,023	Temporary advances	Yes
SSA special education fund	20,244	2,986	Temporary advances	Yes
Nonmajor governmental funds	9,023	117,116	Temporary advances	Yes
Total	<u>\$ 129,125</u>	<u>\$ 129,125</u>		

Interfund transfers for the year ended August 31, 2019 consisted of the following individual amounts:

Fund	Transfers In	Transfers Out	Purpose
Nonmajor governmental funds	\$ 21,658		Food service deficit transfer
General fund		21,658	Food service deficit transfer
Total	<u>\$ 21,658</u>	<u>\$ 21,658</u>	

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2019 were as follows:

	Property Taxes (net)	Other Government	Total Receivables
Governmental Activities:			
General fund	\$ 55,780	\$ 184,213	\$ 239,993
SSA special education fund		16,874	16,874
Nonmajor governmental funds	6,506	132,399	138,905
Total Governmental Activities	<u>\$ 62,286</u>	<u>\$ 333,486</u>	<u>\$ 395,772</u>

Payables at August 31, 2019 were as follows:

	Accounts	Salaries and Benefits	Total Payables
Governmental Activities:			
General fund	\$ 33,580	\$ 130,435	\$ 164,015
SSA special education fund	27,467		27,467
Nonmajor governmental funds	4,851	10,448	15,299
Total Governmental Activities	<u>\$ 65,898</u>	<u>\$ 140,883</u>	<u>\$ 206,781</u>

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended August 31, 2019, was as follows:

	Balance 8/31/18	Additions	Disposals	Balance 8/31/19
Governmental activities:				
Land and improvements	\$ 153,050			\$ 153,050
Buildings and improvements	6,341,727			6,341,727
Vehicles and equipment	1,020,923			1,020,923
Library books	38,383			38,383
Infrastructure	95,986			95,986
Totals	7,650,069			7,650,069
Less accumulated depreciation for:				
Buildings and improvements	2,318,351	161,785		2,480,136
Vehicles and equipment	560,206	96,222		656,428
Library books	14,170	1,920		16,090
Infrastructure	52,624	2,566		55,190
Total accumulated depreciation	2,945,351	262,493		3,207,844
Governmental activities capital assets, net	<u>\$ 4,704,718</u>	<u>\$ (262,493)</u>		<u>\$ 4,442,225</u>

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

Governmental activities:	
11 - Instruction	\$ 146,715
12 - Instructional resources and media services	658
34 - Student (pupil) transportation	45,797
35 - Food services	3,803
36 - Extracurricular activities	38,483
51 - Facilities maintenance and operations	27,037
Total depreciation expense - governmental activities	<u>\$ 262,493</u>

G. BONDS AND LONG-TERM NOTES PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the General and Debt Service Funds.

A summary of changes in general long-term debt for the year ended August 31, 2019 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/18	Issued	Retired	Amounts Outstanding 8/31/19
Bonds and Notes Payable:						
Unlimited tax refunding bonds, series 2014	2.31% - 4.63%	\$ 955,000	\$ 545,000		\$ 108,000	\$ 437,000
Time warrants, series 2014	2.895%	\$ 102,250	21,748		21,748	0
Public property finance contract #7894	3.59%	\$ 182,170	182,170		33,825	148,345
Subtotal - bonds and notes payable			748,918		163,573	585,345
Premium - bond, series 2014	N/A	N/A	47,819		9,563	38,256
Total Long-Term Debt			\$ 796,737	\$ 0	\$ 173,136	\$ 623,601

Covington ISD Unlimited Tax Refunding Bonds, Series 2014 -

On August 15, 2014, the District issued \$955,000 in unlimited tax refunding bonds to provide the resources to place in an escrow account for the purpose of generating resources for future debt service payments of \$955,000 of unlimited tax school tax building bonds originally issued in 2010. Interest rates on the debt range from 2.31% - 4.63% and mature on August 15, 2023. Bonds due on or after August 15, 2019 are subject to optional redemption prior to maturity in whole or in part at par plus accrued interest to the date of redemption. The refunded bonds are considered defeased and the liability has been removed from the government-wide financial statements. The economic gain on the refunding represented gross savings of \$39,280 and a net present value savings of \$34,823.

Covington ISD Public Property Finance Contract #7894 -

On September 1, 2017, the District executed a public property finance contract for the purpose of financing buses pursuant to the authority conferred by and in conformity with the laws of the State of Texas, Public Property Finance Act, Chapter 271, Subchapter A, Texas Local Government Code, as amended. The original issue was for \$182,170 maturing in various amounts, with a stated interest rate of 3.59% and payable in annual installments of \$40,470 beginning September 7, 2018 and maturing on September 7, 2022.

H. DEBT SERVICE REQUIREMENTS - BONDS AND LONG-TERM NOTES PAYABLE

Future debt service requirements are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2020	\$ 146,149	\$ 15,420	\$ 161,569
2021	142,411	11,594	154,005
2022	146,718	7,839	154,557
2023	150,067	3,967	154,034
Totals	\$ 585,345	\$ 38,820	\$ 624,165

I. DEFINED BENEFIT PENSION PLAN

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

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 209,611,328,793
Less: Plan Fiduciary Net Position	(154,568,901,833)
Net Pension Liability	<u>\$ 55,042,426,960</u>

Net Position as a percentage of Total Pension Liability 73.74%

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, the three highest annual salaries are used. 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. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

Contribution Rates		
	2018	2019
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Current fiscal year District contributions	\$ 127,897
Current fiscal year Member contributions	\$ 276,770
2018 measurement year NECE contributions	\$ 159,514

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. 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, 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 including public 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.

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 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, 2018 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.3%
Salary Increases	3.05% to 9.05% including inflation
Benefit Changes During the Year	None
Ad hoc Post-Employment Benefit Changes	None

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

Discount Rate. The single discount rate used to measure the total pension liability was 6.907%. This was a change in the discount rate from the previous year of (1.093%). 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 7.25%. 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, 2018 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	5.70%	1.04%
Non-U.S. Developed	13%	6.90%	0.90%
Emerging Markets	9%	8.95%	0.80%
Directional Hedge Funds	4%	3.53%	0.14%
Private Equity	13%	10.18%	1.32%
Stable Value			
U.S. Treasuries	11%	1.11%	0.12%
Absolute Return	0%	0.00%	0.00%
Hedge Funds (Stable Value)	4%	3.09%	0.12%
Cash	1%	(0.30)%	0.00%
Real Return			
Global Inflation Linked Bonds	3%	0.70%	0.02%
Real Assets	16%	5.21%	0.73%
Energy and Natural Resources	3%	7.48%	0.37%
Commodities	0%	0.00%	0.00%
Risk Parity			
Risk Parity	5%	3.70%	0.18%
Inflation Expectations			2.30%
Alpha			(0.79)%
Total	100%		7.25%

* 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 2018 Net Pension Liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability	\$ 3,196,856	\$ 2,118,190	\$ 1,244,945

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2019, the District reported a liability of \$2,118,190 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:.

District's proportionate share of the collective net pension liability	\$ 2,118,190
State's proportionate share that is associated with the District	2,607,945
Total	<u>\$ 4,726,135</u>

The net pension liability was measured as of August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 thru August 31, 2018.

At August 31, 2018 the District's proportion of the collective net pension liability was 0.0038482854% which was an increase of 0.0000538637% from its proportion measured as of August 31, 2017.

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

1. The total pension liability as of August 31, 2018 was developed using the roll-forward method of the August 31, 2017 valuation.
2. Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
3. Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
4. The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
5. The long term assumed rate of return changed from 8.0 to 7.25 percent.
6. The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

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, 2019, the District recognized pension expense of \$632,649 and revenue of \$258,117 for support provided by the Sate in the Government-Wide Statement of Activities.

At August 31, 2019, 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
Difference between expected and actual economic experiences	\$ 13,203	\$ 51,972
Changes in actuarial assumptions	763,709	23,866
Differences between projected and actual investment earnings		40,191
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	402,311	22
Total as of August 31, 2018 measurement date	\$ 1,179,223	\$ 116,051
Contributions paid to TRS subsequent to the measurement date	127,897	
Total as of August 31, 2019 fiscal year end	<u>\$ 1,307,120</u>	<u>\$ 116,051</u>

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

Fiscal year ended August 31,	Amount
2020	\$ 300,107
2021	\$ 215,526
2022	\$ 185,500
2023	\$ 143,434
2024	\$ 133,052
Thereafter	\$ 85,553

J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined benefit Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2018 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 50,729,490,103
Less: plan fiduciary net position	(798,574,633)
Net OPEB liability	<u>\$ 49,930,915,470</u>
Net position as a percentage of total OPEB liability	1.57%

Benefits Provided. TRS-Care provides a basic health insurance coverage at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. Eligible Medicare retirees and dependents may pay premiums to participate in the Medicare Advantage health plans. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the standard plan with Medicare Part A and Part B.

TRS-Care Plan Premium Rates Effective September 1, 2016 - December 31, 2017			
	TRS-Care 1	TRS-Care 2	TRS-Care 3
Retiree or surviving spouse	\$ 0	\$ 70	\$ 100
Retiree and spouse	20	175	255
Retiree or surviving spouse and children	41	132	182
Retiree and family	61	237	337
Surviving children only	28	62	82

The new premium rates for retirees with Medicare Part A and Part B became effective January 1, 2018 and are reflected in the following table.

TRS-Care Plan Premium Rates Effective January 1, 2018 - December 31, 2018		
	Medicare	Non-Medicare
Retiree or surviving spouse	\$ 135	\$ 200
Retiree and spouse	529	689
Retiree or surviving spouse and children	468	408
Retiree and family	1,020	999

Contributions. Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for the plan is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates		
	2018	2019
Active employee	0.65%	0.65%
Non-employer contributing entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private funding remitted by employers	1.00%	1.25%

Current fiscal year District contributions	\$	34,092
Current fiscal year member contributions	\$	23,364
2018 measurement year NECE contributions	\$	37,416

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether or not they participate in the TRS-Care OPEB program). When employers hire a TRS retiree, they are required to pay to TRS-Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$212.0 million in fiscal year 2018.

Actuarial Assumptions. The total OPEB liability in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females with full generational mortality using Scale BB. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2018 TRS pension actuarial valuation:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate *	3.69% *
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases **	3.50% to 9.50% **
Healthcare Trend Rates ***	4.50% to 12.00% ***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

* Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018.

** Includes inflation at 2.50%

*** Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.

Discount Rate. A single discount rate of 3.69% was used to measure the total OPEB liability. There was a change of 0.27% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active 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 OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2018.

Sensitivity of the Net OPEB Liability:

Discount Rate Sensitivity Analysis - The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of net OPEB liability	\$ 2,999,502	\$ 2,519,862	\$ 2,140,436

Healthcare Cost Trend Rates Sensitivity Analysis - The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 2,092,787	\$ 2,519,862	\$ 3,082,330

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

Related to OPEBs. At August 31, 2019, the District reported a liability of \$2,519,862 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 2,519,862
State's proportionate share that is associated with the District	2,711,967
Total	<u>\$ 5,231,829</u>

The net OPEB liability was measured as of August 31, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2017 thru August 31, 2018.

At August 31, 2018 the District's proportion of the collective net OPEB liability was 0.0050466976% which was an increase of 0.0000763294% from its proportion measured as of August 31, 2017.

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

1. The total OPEB liability as of August 31, 2018 was developed using the roll-forward method of the August 31, 2017 valuation.
2. Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the total OPEB liability.
3. The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the total OPEB liability.
4. Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the total OPEB liability.
5. The discount rate changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered total OPEB liability.

In this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annual by 2.50%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis-point addition to the long term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provision or applicable law.

Changes of benefit terms that affected measurement of the total OPEB liability during the measurement period are listed below:

The 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976 which became effective on September 1, 2017:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
- Allowed the System to provide other appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

For the year ended August 31, 2019, the District recognized OPEB expense of \$167,007 and revenue of \$98,645 for support provided by the State.

At August 31, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual actuarial experience	\$ 133,720	\$ 39,767
Changes in actuarial assumptions	42,050	757,074
Differences between projected and actual investment earnings	441	
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	41,791	
Total as of August 31, 2018 measurement date	\$ 218,002	\$ 796,841
Contributions paid to TRS subsequent to the measurement date	34,092	
Total as of August 31, 2019 fiscal year end	<u>\$ 252,094</u>	<u>\$ 796,841</u>

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

Year ended August 31,	Amount
2020	\$ (93,976)
2021	\$ (93,976)
2022	\$ (93,976)
2023	\$ (94,059)
2024	\$ (94,109)
Thereafter	\$ (108,743)

K. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES

Retiree Health Care Coverage

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

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. The Contribution Rate for the State was 1.00% for 2017 and 1.25% for 2018 and 2019. The contribution rate for the district was 0.55% for 2017 and 0.75% for 2018 and 2019. The contribution rate for active employees was 0.65% of the district payroll for each of the three years. 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. For staff members funded by federal programs, the federal programs are required to contribution 1.0 % for 2017 and 1.25% for 2018 and 2019.

Contributions. Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf to the District's employees as well as the District's required contributions and federal grant program contributions for the years ended August 31, 2019, 2018 and 2017 are as follows:

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2019	0.65%	\$ 23,364	1.25%	\$ 44,930	0.75%	\$ 26,958
2018	0.65%	\$ 23,523	1.25%	\$ 45,237	0.75%	\$ 27,142
2017	0.65%	\$ 22,959	1.00%	\$ 35,321	0.55%	\$ 19,427

Medicare Part D. 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 TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2019, 2018 and 2017 were \$13,977, \$11,052 and \$11,219, respectively.

Active Employee Health Care Coverage

Plan Description. The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

L. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2019, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds payable	\$ 545,000		\$ 108,000	\$ 437,000	\$ 111,000
Bond premium	47,819		9,563	38,256	0
Notes payable	203,918		55,573	148,345	35,149
Net pension liability	1,213,252	1,034,577	129,639	2,118,190	0
Net OPEB liability	2,161,427	393,250	34,815	2,519,862	0
Total	<u>\$ 4,171,416</u>	<u>\$ 1,427,827</u>	<u>\$ 337,590</u>	<u>\$ 5,261,653</u>	<u>\$ 146,149</u>

M. UNAVAILABLE/UNEARNED REVENUE

Unavailable and unearned revenue at year-end consisted of the following:

	Unavailable Revenue (levied but uncollected property taxes)
General fund	\$ 55,780
Nonmajor governmental funds	6,506
Total	<u>\$ 62,286</u>

N. DUE FROM STATE AND FEDERAL AGENCIES

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, 2019, are summarized below. They are reported on the combined financial statements as Due from Other Governments.

	State Grants	Federal Grants	Total
General fund	\$ 170,214		\$ 170,214
Nonmajor governmental funds	65,078	65,767	130,845
Total	<u>\$ 235,292</u>	<u>\$ 65,767</u>	<u>\$ 301,059</u>

O. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

Description	General Fund	SSA Special Revenue Fund	Other Governmental Funds	Total
Property taxes	\$ 1,063,760		\$ 119,157	\$ 1,182,917
Penalties, interest and other tax related income	21,800		2,618	24,418
Food sales			66,106	66,106
Investment income	2,285	961	409	3,655
Extracurricular student activities	10,083			10,083
Shared service arrangement administration fee	257,765			257,765
Shared service arrangement fees		2,277,395		2,277,395
Donations and local grants		10,000		10,000
Other income	1,700			1,700
Total	<u>\$ 1,357,393</u>	<u>\$ 2,288,356</u>	<u>\$ 188,290</u>	<u>\$ 3,834,039</u>

P. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND 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 collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities related 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.

Q. JOINT VENTURE SHARED SERVICE ARRANGEMENTS

Shared Service Arrangement - Fiscal Agent

The District is the fiscal agent for Hill County Special Education Cooperative, a shared service arrangement (“SSA”) which provides services to member districts listed below. All services are provided by the District. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA’s Resource Guide, the District has accounted for the fiscal agent’s activities of the SSA in a special revenue fund and is accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

Member Districts	Fund 313	Fund 314	Fund 437
Abbott ISD	\$ 44,489	\$ 1,208	\$ 133,839
Aquilla ISD	33,248	903	100,023
Bynum ISD	31,466	854	94,661
Covington ISD	55,600	1,510	167,264
Gholson ISD	34,687	942	104,352
Hubbard ISD	40,830	1,109	122,833
Itasca ISD	100,879	2,739	303,480
Malone ISD	25,378	689	76,346
Mt. Calm ISD	26,588	722	79,988
Penelope ISD	53,694	1,458	161,530
Whitney ISD	260,959	7,087	785,053
Total	<u>\$ 707,818</u>	<u>\$ 19,221</u>	<u>\$ 2,129,369</u>

Shared Service Arrangement - Member District

The District also participates in various shared service arrangements with the Education Service Center Region 12. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The Education Service Center Region 12 is the fiscal agent manager and is responsible for all financial activities of the shared service arrangement.

R. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year 2019, the District purchased commercial insurance to cover general liabilities. Additional insurance information by coverage type follows.

Property Casualty Program

The District participated in the Texas Association of School Boards Risk Management Fund (the “Fund”) with coverage in auto liability, auto physical damage, general liability, property and legal liability. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. There were no significant reductions in coverage in the past fiscal year and there were not settlements exceeding insurance coverage for each of the past three years.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its auto, liability and property programs. The terms and limits of the stop-loss program vary by line coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2019, the Fund anticipates the District has not additional liability beyond the contractual obligations for payment of contributions.

Workers’ Compensation

The District has established a partially self-funded workers’ compensation plan by participating in the Claims Administrative Services, Inc. self-insured workers’ compensation program administered by Texas Educational Insurance Association (the “Association”). The Association is a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The main purpose of the Association is to partially self-insure certain workers compensation risks up to a agreed upon retention limit. The plan for workers’ compensation benefits is authorized by Section 504.011 of the Labor Code. Claims are paid by a third

party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. The liability of the workers' compensation self-insurance plan includes \$18,161 in unpaid claims (which have been accrued to the financial statements if considered material) and an estimated balance of \$28,416 in incurred but not reported claims (which have not been accrued). Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable at August 31, 2019, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the fund as they become due.

Unemployment Compensation

During the year ended August 31, 2019, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's unemployment compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended August 31, 2019, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's board of trustees in February of the following year. The Fund's audited financial statements as of August 31, 2019, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

S. GENERAL FUND FEDERAL SOURCE REVENUES

Revenues from federal sources, which are reported in the General Fund, consist of:

Program or Service	CFDA	Amount
Medicaid reimbursement	93.778	\$ 738
School health and related services	N/A	93,162
Total		<u>\$ 93,900</u>

T. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 16, 2020; the date which the financial statements were available for distribution. There were none noted.

REQUIRED SUPPLEMENTARY INFORMATION

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COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 1,356,997	\$ 1,356,997	\$ 1,357,393	\$ 396
5800 State Program Revenues	2,300,063	2,300,063	2,390,209	90,146
5900 Federal Program Revenues	50,800	50,800	93,900	43,100
5020 Total Revenues	3,707,860	3,707,860	3,841,502	133,642
EXPENDITURES:				
Current:				
0011 Instruction	1,790,454	1,769,426	1,727,212	42,214
0012 Instructional Resources and Media Services	65,068	65,377	64,147	1,230
0013 Curriculum and Instructional Staff Development	12,880	9,880	7,024	2,856
0023 School Leadership	310,360	372,216	369,871	2,345
0031 Guidance, Counseling and Evaluation Services	74,708	78,017	77,447	570
0033 Health Services	29,102	32,411	31,857	554
0034 Student (Pupil) Transportation	66,088	90,215	89,541	674
0036 Extracurricular Activities	138,615	135,115	130,325	4,790
0041 General Administration	400,208	396,445	399,316	(2,871)
0051 Facilities Maintenance and Operations	515,096	482,712	479,166	3,546
0052 Security and Monitoring Services	778	778	778	-
0053 Data Processing Services	20,264	20,264	20,264	-
Debt Service:				
0071 Principal on Long-Term Debt	55,451	55,571	55,573	(2)
0072 Interest on Long-Term Debt	7,279	7,309	7,285	24
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	188,891	189,686	189,686	-
0099 Other Intergovernmental Charges	35,398	35,398	35,398	-
6030 Total Expenditures	3,710,640	3,740,820	3,684,890	55,930
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,780)	(32,960)	156,612	189,572
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	(37,952)	(84,205)	(21,658)	62,547
1200 Net Change in Fund Balances	(40,732)	(117,165)	134,954	252,119
0100 Fund Balance - September 1 (Beginning)	692,263	692,263	692,263	-
3000 Fund Balance - August 31 (Ending)	\$ 651,531	\$ 575,098	\$ 827,217	\$ 252,119

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019

	Measurement Year Ended August 31,				
	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0038482854%	0.0037944217%	0.0036986980%	0.0039627000%	0.0009389000%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 2,118,190	\$ 1,213,252	\$ 1,397,683	\$ 1,400,762	\$ 250,793
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	2,607,945	1,583,139	1,759,029	1,589,038	1,074,351
Total	<u>\$ 4,726,135</u>	<u>\$ 2,796,391</u>	<u>\$ 3,156,712</u>	<u>\$ 2,989,800</u>	<u>\$ 1,325,144</u>
District's Covered Payroll	\$ 3,618,940	\$ 3,532,092	\$ 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 Payroll	58.53%	34.35%	43.20%	47.14%	14.71%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	73.74%	82.17%	78.00%	78.43%	83.25%

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

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 127,897	\$ 130,083	\$ 124,179	\$ 117,517	\$ 117,291
Contribution in Relation to the Contractually Required Contribution	(127,897)	(130,083)	(124,179)	(117,517)	(117,291)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 3,594,423	\$ 3,618,940	\$ 3,532,092	\$ 3,235,721	\$ 2,971,679
Contributions as a percentage of Covered Payroll	3.56%	3.59%	3.52%	3.63%	3.95%

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

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019

	Measurement Year Ended August 31,	
	2018	2017
District's Proportion of the Net OPEB Liability (Asset)	0.0050466976%	0.0049703682%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 2,519,862	\$ 2,161,427
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	2,711,967	2,404,615
Total	<u>\$ 5,231,829</u>	<u>\$ 4,566,042</u>
District's Covered Payroll	\$ 3,618,940	\$ 3,532,092
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	69.63%	61.19%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	1.57%	0.91%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019

	Fiscal Year Ended August 31,	
	2019	2018
Contractually Required Contribution	\$ 34,092	\$ 34,878
Contribution in Relation to the Contractually Required Contribution	(34,092)	(34,878)
Contribution Deficiency (Excess)	\$ -	\$ -
District's Covered Payroll	\$ 3,594,423	\$ 3,618,940
Contributions as a percentage of Covered Payroll	0.95%	0.96%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years 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
FOR THE YEAR ENDED AUGUST 31, 2019

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only 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. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment 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.

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 cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms.

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

Changes of assumptions.

See Footnote I page 31 for changes in assumptions that affected measurement of the total pension liability during the measurement period.

Other Post-Employment Benefit Plan

Changes of benefit terms.

See Footnote J page 35 for changes in benefit terms that affected measurement of the total OPEB liability during the measurement period.

Changes of assumptions.

See Footnote J page 35 for changes in assumptions that affected measurement of the total OPEB liability during the measurement period.

COMBINING SCHEDULES

COVINGTON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2019

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ 2,679	\$ -	\$ -
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes	-	-	-	-
1240	Due from Other Governments	33,116	5,361	500	4,397
1260	Due from Other Funds	-	-	-	-
1000	Total Assets	<u>\$ 33,116</u>	<u>\$ 8,040</u>	<u>\$ 500</u>	<u>\$ 4,397</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ 2,006	\$ -	\$ -
2160	Accrued Wages Payable	3,360	5,912	415	-
2170	Due to Other Funds	29,621	-	41	4,397
2200	Accrued Expenditures	135	122	44	-
2000	Total Liabilities	<u>33,116</u>	<u>8,040</u>	<u>500</u>	<u>4,397</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3480	Retirement of Long-Term Debt	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 33,116</u>	<u>\$ 8,040</u>	<u>\$ 500</u>	<u>\$ 4,397</u>

289 Other Federal Special Revenue Funds	313 SSA IDEA, Part B Formula	314 SSA IDEA, Part B Preschool	410 State Instructional Materials	429 Other State Special Revenue Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,679	\$ 107,162	\$ 109,841
-	-	-	-	-	-	9,027	9,027
-	-	-	-	-	-	(2,521)	(2,521)
810	2,362	19,221	63,969	-	129,736	2,663	132,399
-	-	-	-	-	-	9,023	9,023
<u>\$ 810</u>	<u>\$ 2,362</u>	<u>\$ 19,221</u>	<u>\$ 63,969</u>	<u>\$ -</u>	<u>\$ 132,415</u>	<u>\$ 125,354</u>	<u>\$ 257,769</u>
\$ -	\$ 1,339	\$ -	\$ 1,506	\$ -	\$ 4,851	\$ -	\$ 4,851
426	-	-	-	-	10,113	-	10,113
350	1,023	19,221	62,463	-	117,116	-	117,116
34	-	-	-	-	335	-	335
<u>810</u>	<u>2,362</u>	<u>19,221</u>	<u>63,969</u>	<u>-</u>	<u>132,415</u>	<u>-</u>	<u>132,415</u>
-	-	-	-	-	-	6,506	6,506
-	-	-	-	-	-	6,506	6,506
-	-	-	-	-	-	118,848	118,848
-	-	-	-	-	-	118,848	118,848
<u>\$ 810</u>	<u>\$ 2,362</u>	<u>\$ 19,221</u>	<u>\$ 63,969</u>	<u>\$ -</u>	<u>\$ 132,415</u>	<u>\$ 125,354</u>	<u>\$ 257,769</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 66,106	\$ -	\$ -
5800 State Program Revenues	-	6,849	-	-
5900 Federal Program Revenues	57,935	155,535	5,666	23,262
5020 Total Revenues	57,935	228,490	5,666	23,262
EXPENDITURES:				
Current:				
0011 Instruction	57,935	-	5,666	23,262
0013 Curriculum and Instructional Staff Development	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0035 Food Services	-	250,148	-	-
Debt Service:				
0071 Principal on Long-Term Debt	-	-	-	-
0072 Interest on Long-Term Debt	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030 Total Expenditures	57,935	250,148	5,666	23,262
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(21,658)	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	21,658	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

289 Other Federal Special Revenue Funds	313 SSA IDEA, Part B Formula	314 SSA IDEA, Part B Preschool	410 State Instructional Materials	429 Other State Special Revenue Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,106	\$ 122,184	\$ 188,290
-	-	-	110,415	1,050	118,314	16,767	135,081
9,408	707,818	19,221	-	-	978,845	-	978,845
9,408	707,818	19,221	110,415	1,050	1,163,265	138,951	1,302,216
9,408	240,579	-	110,415	1,050	448,315	-	448,315
-	4,642	-	-	-	4,642	-	4,642
-	462,597	-	-	-	462,597	-	462,597
-	-	-	-	-	250,148	-	250,148
-	-	-	-	-	-	108,000	108,000
-	-	-	-	-	-	12,589	12,589
-	-	19,221	-	-	19,221	-	19,221
9,408	707,818	19,221	110,415	1,050	1,184,923	120,589	1,305,512
-	-	-	-	-	(21,658)	18,362	(3,296)
-	-	-	-	-	21,658	-	21,658
-	-	-	-	-	-	18,362	18,362
-	-	-	-	-	-	100,486	100,486
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 118,848	\$ 118,848

COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED AUGUST 31, 2019

	BALANCE SEPTEMBER 1 2018	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2019
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	\$ 35,578	\$ 80,594	\$ 72,126	\$ 44,046
Liabilities:				
Due to Student Groups	\$ 35,578	\$ 80,594	\$ 72,126	\$ 44,046
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 35,578	\$ 80,594	\$ 72,126	\$ 44,046
Liabilities:				
Due to Student Groups	\$ 35,578	\$ 80,594	\$ 72,126	\$ 44,046

REQUIRED TEA SCHEDULES

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2019

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2010 and prior years	Various	Various	\$ Various
2011	1.040000	0.233200	97,471,733
2012	1.170000	0.231300	96,592,869
2013	1.170000	0.231200	85,764,702
2014	1.170000	0.141800	77,387,892
2015	1.170000	0.180000	79,160,667
2016	1.170000	0.165400	77,190,954
2017	1.170000	0.140000	76,916,183
2018	1.170000	0.127900	85,727,327
2019 (School year under audit)	1.170000	0.130300	91,715,995
1000 TOTALS			

(10) Beginning Balance 9/1/2018	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2019
\$ 7,265	\$ -	\$ 238	\$ 46	\$ -	\$ 6,981
2,911	-	6	1	-	2,904
2,489	-	86	17	-	2,386
2,126	-	414	82	-	1,630
2,491	-	902	109	-	1,480
4,734	-	2,322	357	(54)	2,001
8,375	-	3,162	447	(1,770)	2,996
16,397	-	7,972	954	(2,307)	5,164
41,765	-	19,549	2,137	(3,750)	16,329
-	1,192,583	1,029,109	115,007	(9,758)	38,709
<u>\$ 88,553</u>	<u>\$ 1,192,583</u>	<u>\$ 1,063,760</u>	<u>\$ 119,157</u>	<u>\$ (17,639)</u>	<u>\$ 80,580</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 45,000	\$ 45,000	\$ 66,106	\$ 21,106
5800 State Program Revenues	6,259	6,259	6,849	590
5900 Federal Program Revenues	119,850	119,850	155,535	35,685
5020 Total Revenues	171,109	171,109	228,490	57,381
EXPENDITURES:				
Current:				
0035 Food Services	239,061	255,314	250,148	5,166
6030 Total Expenditures	239,061	255,314	250,148	5,166
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(67,952)	(84,205)	(21,658)	62,547
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	37,952	84,205	21,658	(62,547)
1200 Net Change in Fund Balances	(30,000)	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ (30,000)	\$ -	\$ -	\$ -

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, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 109,187	\$ 109,187	\$ 122,184	\$ 12,997
5800 State Program Revenues	15,087	15,087	16,767	1,680
5020 Total Revenues	124,274	124,274	138,951	14,677
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	108,000	108,000	108,000	-
0072 Interest on Long-Term Debt	12,590	12,590	12,589	1
6030 Total Expenditures	120,590	120,590	120,589	1
1200 Net Change in Fund Balances	3,684	3,684	18,362	14,678
0100 Fund Balance - September 1 (Beginning)	100,486	100,486	100,486	-
3000 Fund Balance - August 31 (Ending)	\$ 104,170	\$ 104,170	\$ 118,848	\$ 14,678

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OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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Independent Auditor's Report

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Board of Trustees
Covington Independent School District
501 N. Main Street
Covington, Texas 76636

I 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, the business-type activities, the aggregate discretely presented component units, 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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated January 16, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 Covington Independent School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* listed as item 2018-1 on the accompanying Schedule of Findings and Questioned Costs.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cameron L. Gulley
Certified Public Accountant

January 16, 2020

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COVINGTON INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2019

Finding	Statement of Condition	Material Weakness?	Questioned Costs
2018-1	<p><u>State Compliance - Public Funds Investment Act (Government Code 2256)</u></p> <p>During the 2017-18 fiscal year, the District's cash and investment balances were not fully collateralized in accordance with the Public Funds Investment Act. For every month except July, 2018 bank deposits exceeded pledged securities at some point during the month.</p> <p><u>Status:</u></p> <p>The compliance violation continued throughout the current year under audit. See continuation finding 2018-1 on the Schedule of Findings and Questioned Costs.</p>	No	0

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COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2019

I. Summary of Auditor's Results

A. Financial Statements

Type of auditor's report issued:	Unmodified.
Internal control over financial reporting:	
Material weakness(es) identified?	No.
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No.

B. Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified.
Internal control over major programs:	
Material weakness(es) identified?	No.
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?	No.
Major programs are as follows:	
84.027A - IDEA-B Formula	\$ 707,818
84.173A - IDEA-B Preschool	<u>19,221</u>
Total	<u>\$ 727,039</u>
Threshold used to distinguish between type A and type B programs:	\$ 750,000.
Auditee qualified as low-risk auditee?	Yes.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

2018-1 State Compliance - Public Funds Investment Act (Government Code 2256) (continuation finding)

Criteria

The Public Funds Investment Act requires that all cash deposits be collateralized at all times during the year with either FDIC insurance, pledged securities from the depository bank or a combination of both.

Statement of Condition

During the year under audit, the District's cash and investment balances were not fully collateralized in accordance with the Public Funds Investment Act. For every month except February, March, April and July, 2019 bank deposits exceeded pledged securities at some point during the month. Following are the months in which deposits were not fully collateralized, the highest uncollateralized deposits each month and the number of days uncollateralized each month..

Deposit Month	Cash Uncollateralized	Days Uncollateralized
September	\$ 136,723	1
October	\$ 67,560	5
November	\$ 183,052	3
December	\$ 248,250	4
January	\$ 7,546	1
February	\$ 0	0
March	\$ 0	0
April	\$ 0	0
May	\$ 52,599	2
June	\$ 11,448	1
July	\$ 0	0
August	\$ 72,712	1

Questioned Costs

None.

Cause and Effect

The depository bank checks the District's bank balances on a daily basis. However, the market value of the bank's pledged securities were not sufficient to cover actual cash balances. After review of the pledged securities held on the District's behalf, it appears that the gyrations in the bond market during the current fiscal year may have contributed to the deficiency. The base cause is that total face value of collateral pledged on the District's behalf is not adequate to cover bank balances throughout the year.

Recommendations

I recommend a review of your future projected cash and anticipate the periods where your cash balances will be higher than normal. Once identified, you should contact your bank to request additional pledged securities before those cash balances actually exceed the pledged balances. Additionally, the District can move more funds from the depository bank account into the TexPool investment account which is 100% secured by the State of Texas.

III. Findings and Questioned Costs for Federal Awards

N/A.

COVINGTON INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2019

2018-1 We will meet with the bank representatives to discuss changing the procedures regarding pledged securities. A cash flow projection for months in which cash balances are expected to peak will be prepared to determine adequate pledged security amounts.

Contact representative: Pam Frazier, business manager
501 N. Main Street
Covington, Texas 76636
(254) 854-2215

Expected implementation date: Immediately

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FEDERAL AWARDS SECTION

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Independent Auditor's Report

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees
Covington Independent School District
501 N. Main Street
Covington, Texas 76636

Report on Compliance for Each Major Federal Program

I have audited Covington Independent School District's compliance with the types of compliance requirements described in the *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, 2019. Covington Independent School District's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Covington Independent School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I 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 I consider necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Covington Independent School District's compliance.

Opinion on Each Major Federal Program

In my opinion, Covington Independent School 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, 2019.

Report on Internal Control Over Compliance

Management of Covington Independent School 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 my audit of compliance, I 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, I 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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my 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.

Cameron L. Gulley
Certified Public Accountant

January 16, 2020

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31 2019

EXHIBIT K-1

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Agriculture:			
School Breakfast Program *	10.553	201919N109946	\$ 38,285
National School Lunch Program - cash assistance *	10.555	201919N109946	78,878
National School Lunch Program - noncash assistance *	10.555	201919N109946	10,150
Child and Adult Care Food Program	10.558	N/A	28,222
Total Passed Through State Department of Agriculture			155,535
Total U.S. Department of Agriculture			155,535
<u>U.S. Department of Education</u>			
Direct Programs:			
ESEA Title VI, Part B, Rural and Low Income Schools	84.358	N/A	23,262
Total Direct Programs			23,262
Passed Through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs	84.010A	19610101109903	57,935
IDEA-B Formula *	84.027A	186600011099036000	174,249
IDEA-B Formula *	84.027A	196600011099036000	533,569
IDEA-B Preschool *	84.173A	186610011099036000	19,221
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	19694501109903	5,666
ESEA Title IV, Part A, Subpart I	84.424A	19680101109903	9,408
Total Passed Through State Department of Education			800,048
Total U.S. Department of Education			823,310
<u>U.S. Department of Health and Human Services</u>			
Passed Through State Health and Human Services Commission:			
Medicaid Administrative Claiming (MAC)	93.778	N/A	738
Total Passed Through State Health and Human Services Commission			738
Total U.S. Department of Health and Human Services			738
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 979,583

* Clustered programs

The accompanying notes are an integral part of this statement.

COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2019

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's Financial Accountability System Resource Guide. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund.
2. The accompanying schedule of expenditures of federal awards included the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.
3. Reconciliation of Schedule of Expenditures of Federal Awards to Exhibit C-3:

Total per expenditures of federal awards (Exhibit K-1)	\$ 979,583
SHARS reimbursement	93,162
Total federal revenue (Exhibit C-3)	<u>\$ 1,072,745</u>