

**COVINGTON INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL AND COMPLIANCE REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2020*

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**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL AND COMPLIANCE REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2020**

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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, 2020, 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, 2020, 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, 2020, 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 December 15, 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

December 15, 2020



# COVINGTON INDEPENDENT SCHOOL DISTRICT

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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, 2020. 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 increased from \$1,371,206 to \$1,867,236. 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 - increased from (\$3,114,376) to (\$2,910,993). Current and other assets increased by \$780,000 due to net increases in cash and receivables. Capital assets decreased by \$93,000 due to depreciation expense in excess of asset additions. Long-term liabilities decreased by \$621,000 due to the effects of net pension (NPL) and other post-employment benefit (OPEB) liabilities offset by principal retired on outstanding debt. Other liabilities increased by \$43,000 due to changes in ending payroll liabilities. Deferred resource outflows related to NPL and OPEB liabilities decreased by \$194,000 and deferred resource inflows related to NPL and OPEB liabilities increased by \$575,000.

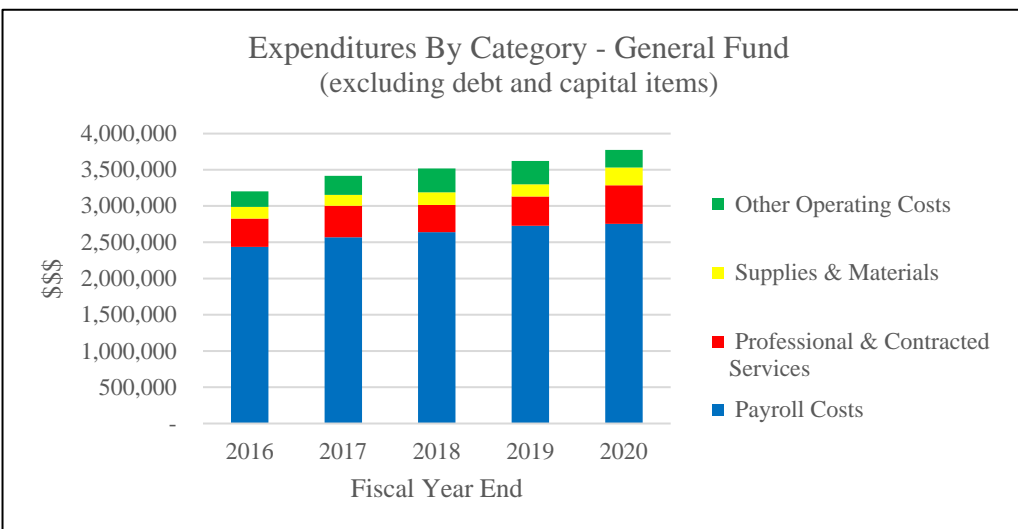
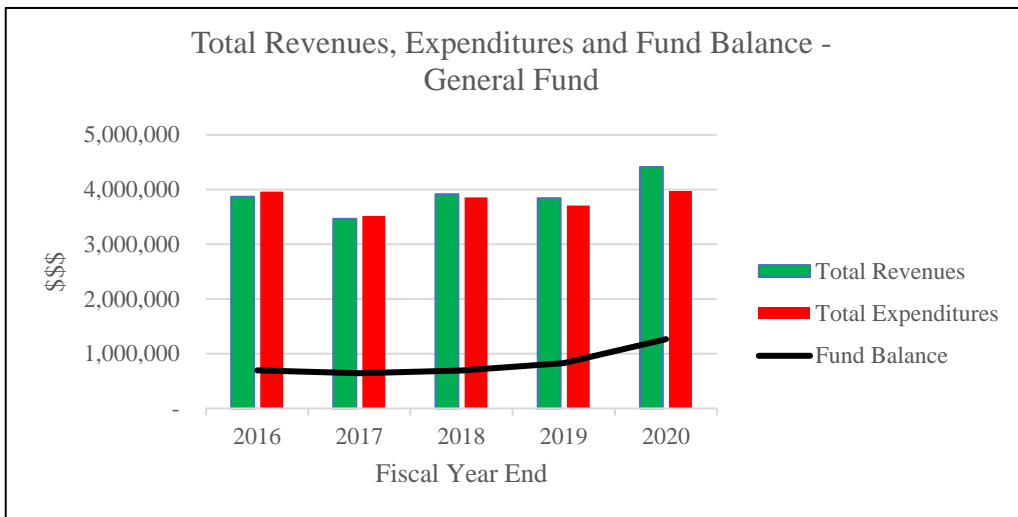
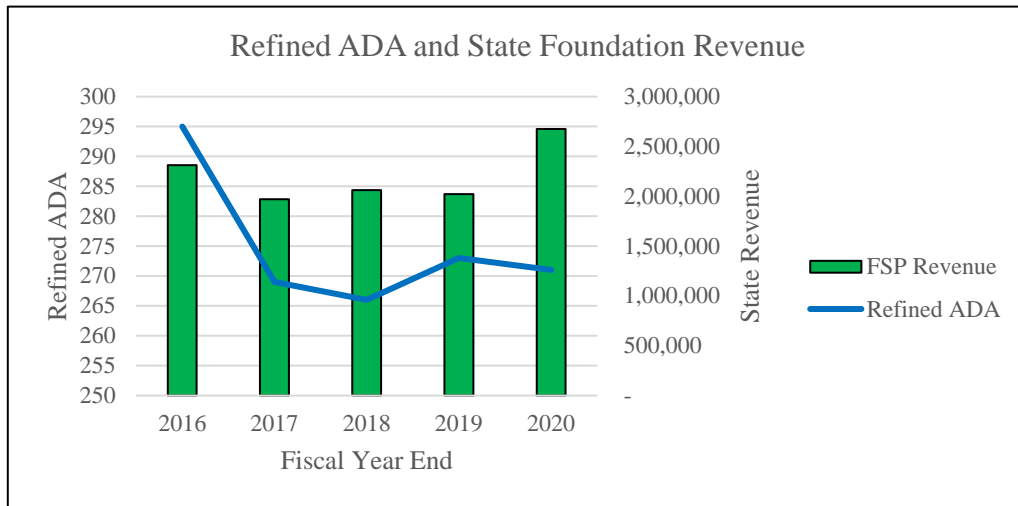
Total revenues increased by \$972,000 for the year. Charges for services decreased \$96,000 due to shared service fees from other districts. Operating grants and contributions increased \$362,000 due to IDEA revenues and state onbehalf revenue accruals related to NPL and OPEB. Property tax revenues increased \$51,000 due to valuation increases. State aid-formula grants increased \$651,000 due to higher funding allotments from HB 3, 86<sup>th</sup> Legislative Session.

Total expenses decreased by \$472,000 for the year. HB 3, 86<sup>th</sup> Legislative Session mandated salary increases for all professional personnel. Total payroll increases for the year as a result of HB 3 was \$664,000. Additionally, employee benefit expenses increased related to NPL and OPEB by \$60,000 for combined net payroll increase of \$724,000 for the year. Most all functional category variances for the year versus the prior year are related to those expense increases. Payments to shared service arrangements decreased \$87,000 due to reduced proportional allocation of SSA costs to the District.

| Table I<br>Net Position                         |                                    |                                    |                                     |
|---|------------------------------------|------------------------------------|-------------------------------------|
|   | Governmental<br>Activities<br>2020 | Governmental<br>Activities<br>2019 | Variance<br>Increase/<br>(Decrease) |
| Current and other assets                        | \$ 2,593,366                       | \$ 1,813,619                       | \$ 779,747                          |
| Capital assets                                  | 4,349,351                          | 4,442,225                          | (92,874)                            |
| Deferred resource outflows for TRS              | 1,365,580                          | 1,559,214                          | (193,634)                           |
| Total assets and deferred resource outflows     | 8,308,297                          | 7,815,058                          | 493,239                             |
| Long-term liabilities                           | 4,640,682                          | 5,261,653                          | (620,971)                           |
| Other liabilities                               | 312,288                            | 269,307                            | 42,981                              |
| Deferred resource inflows for TRS               | 1,488,091                          | 912,892                            | 575,199                             |
| Total liabilities and deferred resource inflows | 6,441,061                          | 6,443,852                          | (2,791)                             |
| Net position:                                   |                                    |                                    |                                     |
| Net investment in capital assets                | 3,881,462                          | 3,818,624                          | 62,838                              |
| Restricted for debt service                     | 220,496                            | 125,354                            | 95,142                              |
| Restricted for other purposes                   | 676,271                            | 541,604                            | 134,667                             |
| Unrestricted                                    | (2,910,993)                        | (3,114,376)                        | 203,383                             |
| Total net position                              | \$ 1,867,236                       | \$ 1,371,206                       | \$ 496,030                          |

| Table II<br>Changes in Net Position              |                                    |                                    |   |
|--|------------------------------------|------------------------------------|---|
|  | Governmental<br>Activities<br>2020 | Governmental<br>Activities<br>2019 | Variance<br>Favorable/<br>(Unfavorable) |
| Revenues:  |                                    |                                    |   |
| Program Revenues:                                |                                    |                                    |   |
| Charges for services                             | \$ 2,515,637                       | \$ 2,611,349                       | \$ (95,712)                             |
| Operating grants and contributions               | 1,927,887                          | 1,565,671                          | 362,216                                 |
| General Revenues:                                |                                    |                                    |   |
| Property taxes                                   | 1,251,679                          | 1,199,747                          | 51,932                                  |
| State aid - formula grants                       | 2,849,210                          | 2,197,957                          | 651,253                                 |
| Other  | 8,040                              | 5,355                              | 2,685                                   |
| Total Revenues                                   | 8,552,453                          | 7,580,079                          | 972,374                                 |
| Expenses:  |                                    |                                    |   |
| Instruction, curriculum and media services       | 4,244,352                          | 3,802,349                          | (442,003)                               |
| Instructional and school leadership              | 362,902                            | 394,745                            | 31,843                                  |
| Student support services                         | 988,884                            | 913,388                            | (75,496)                                |
| Child nutrition                                  | 294,092                            | 266,823                            | (27,269)                                |
| Extracurricular activities                       | 185,240                            | 173,592                            | (11,648)                                |
| General administration                           | 892,376                            | 864,221                            | (28,155)                                |
| Plant maintenance, security & data processing    | 682,069                            | 673,718                            | (8,351)                                 |
| Debt service                                     | 4,514                              | 8,697                              | 4,183                                   |
| Payments to fiscal agent/member districts of SSA | 424,472                            | 511,081                            | 86,609                                  |
| Other intergovernmental charges                  | 37,073                             | 35,398                             | (1,675)                                 |
| Total Expenses                                   | 8,115,974                          | 7,644,012                          | (471,962)                               |
| Increase (Decrease) in Net Position              | 436,479                            | (63,933)                           | 500,412                                 |
| Net Position - beginning of year                 | 1,371,206                          | 1,435,139                          | (63,933)                                |
| Prior period adjustment                          | 59,551                             | 0                                  | 59,551                                  |
| Net Position - end of year                       | \$ 1,867,236                       | \$ 1,371,206                       | \$ 496,030                              |

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 \$2,229,262, an increase of \$682,042 in the District's Governmental Funds from last year's fund balance of \$1,547,220 (net of beginning balance adjustments). 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 budget amendments were to re-allocate existing budgetary balances across functions.

The District's General Fund balance of \$1,265,927 reported on pages 15 and 42 differs from the General Fund's budgetary fund balance of \$791,205 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 2020, the District had \$7,684,809 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Additions for the year were as follows:

|                                    |    |                |
|------------------------------------|----|----------------|
| HVAC improvements                  | \$ | 42,166         |
| Security improvements              |    | 49,996         |
| Used international bus             |    | 5,000          |
| 2020 Ford Explorer and F250 pickup |    | 70,579         |
| SSA building improvements          |    | 6,475          |
| Total asset additions              | \$ | <u>174,216</u> |

### *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:

|                        | 2020              | 2019              |
|------------------------|-------------------|-------------------|
| Bonds payable          | \$ 326,000        | \$ 437,000        |
| Notes payable          | 113,196           | 148,345           |
| Total outstanding debt | <u>\$ 439,196</u> | <u>\$ 585,345</u> |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District should continue to maintain its financial health. A budget adopted for 2020-21 reflected tax rates at \$1.0547 for maintenance and operations and \$0.1003 for debt service. Property valuations continued to increase by approximately 4% from 2019-20. General fund revenues and expenditures were budgeted at approximately \$4.35 million for break-even budget. Therefore, the District expects that its general fund balance will be approximately \$1.27 million at August 31, 2021.

## 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, 2020

EXHIBIT A-1

| Data  | Primary Government |
|---|--------------------|
| Control                                       | Governmental       |
| Codes   | Activities         |
| <b>ASSETS</b>                                 |                    |
| 1110 Cash and Cash Equivalents                | \$ 2,037,211       |
| 1220 Property Taxes - Delinquent              | 74,873             |
| 1230 Allowance for Uncollectible Taxes        | (18,758)           |
| 1240 Due from Other Governments               | 500,040            |
| Capital Assets:                               |                    |
| 1510 Land                                     | 153,050            |
| 1520 Buildings, Net                           | 3,747,702          |
| 1530 Furniture and Equipment, Net             | 389,996            |
| 1560 Library Books and Media, Net             | 20,373             |
| 1590 Infrastructure, Net                      | 38,230             |
| 1000 Total Assets                             | 6,942,717          |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>         |                    |
| 1705 Deferred Outflow Related to TRS Pension  | 1,050,811          |
| 1706 Deferred Outflow Related to TRS OPEB     | 314,769            |
| 1700 Total Deferred Outflows of Resources     | 1,365,580          |
| <b>LIABILITIES</b>                            |                    |
| 2110 Accounts Payable                         | 60,159             |
| 2140 Interest Payable                         | 4,299              |
| 2160 Accrued Wages Payable                    | 160,513            |
| 2180 Due to Other Governments                 | 55,627             |
| 2200 Accrued Expenses                         | 21,690             |
| 2300 Unearned Revenue                         | 10,000             |
| Noncurrent Liabilities:                       |                    |
| 2501 Due Within One Year                      | 142,411            |
| 2502 Due in More Than One Year                | 325,478            |
| 2540 Net Pension Liability (District's Share) | 1,901,195          |
| 2545 Net OPEB Liability (District's Share)    | 2,271,598          |
| 2000 Total Liabilities                        | 4,952,970          |
| <b>DEFERRED INFLOWS OF RESOURCES</b>          |                    |
| 2605 Deferred Inflow Related to TRS Pension   | 370,709            |
| 2606 Deferred Inflow Related to TRS OPEB      | 1,117,382          |
| 2600 Total Deferred Inflows of Resources      | 1,488,091          |
| <b>NET POSITION</b>                           |                    |
| 3200 Net Investment in Capital Assets         | 3,881,462          |
| 3850 Restricted for Debt Service              | 220,496            |
| 3890 Restricted for Other Purposes            | 676,271            |
| 3900 Unrestricted                             | (2,910,993)        |
| 3000 Total Net Position                       | \$ 1,867,236       |

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, 2020

EXHIBIT B-1

| FOR THE YEAR ENDED AUGUST 31, 2020 |  |                         |  | Net (Expense)<br>Revenue and<br>Changes in Net<br>Position |                |
|------------------------------------|--|-------------------------|--|--|----------------|
| Data<br>Control<br>Codes           | 1  | Program Revenues        |  | 6  |                |
|                                    |  | 3                       | 4  | Primary Gov.   |                |
|                                    | Expenses   | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Governmental<br>Activities                                 |                |
| <b>Primary Government:</b>         |  |                         |  |  |                |
| GOVERNMENTAL ACTIVITIES:           |  |                         |  |  |                |
| 11                                 | Instruction                                      | \$ 4,120,647            | \$ 1,347,475                             | \$ 961,467   | \$ (1,811,705) |
| 12                                 | Instructional Resources and Media Services       | 81,874                  | 5,735                                    | 7,421  | (68,718)       |
| 13                                 | Curriculum and Instructional Staff Development   | 41,831                  | 21,658                                   | 15,232   | (4,941)        |
| 21                                 | Instructional Leadership                         | 165                     | -  | -  | (165)          |
| 23                                 | School Leadership                                | 362,737                 | -  | 31,924   | (330,813)      |
| 31                                 | Guidance, Counseling, and Evaluation Services    | 856,265                 | 151,608                                  | 548,985  | (155,672)      |
| 33                                 | Health Services                                  | 40,289                  | -  | 3,989  | (36,300)       |
| 34                                 | Student (Pupil) Transportation                   | 92,330                  | -  | 3,663  | (88,667)       |
| 35                                 | Food Services                                    | 294,092                 | 51,661                                   | 199,846  | (42,585)       |
| 36                                 | Extracurricular Activities                       | 185,240                 | 37,379                                   | 17,084   | (130,777)      |
| 41                                 | General Administration                           | 892,376                 | 498,142                                  | 72,829   | (321,405)      |
| 51                                 | Facilities Maintenance and Operations            | 658,446                 | 129,950                                  | 45,627   | (482,869)      |
| 52                                 | Security and Monitoring Services                 | 4,349                   | -  | -  | (4,349)        |
| 53                                 | Data Processing Services                         | 19,274                  | -  | -  | (19,274)       |
| 72                                 | Debt Service - Interest on Long-Term Debt        | 4,514                   | -  | -  | (4,514)        |
| 93                                 | Payments Related to Shared Services Arrangements | 424,472                 | 272,029                                  | 19,820   | (132,623)      |
| 99                                 | Other Intergovernmental Charges                  | 37,073                  | -  | -  | (37,073)       |
| [TP]                               | TOTAL PRIMARY GOVERNMENT:                        | \$ 8,115,974            | \$ 2,515,637                             | \$ 1,927,887   | (3,672,450)    |
| Data<br>Control<br>Codes           | General Revenues:                                |                         |  |  |                |
|                                    | Taxes:   |                         |  |  |                |
| MT                                 | Property Taxes, Levied for General Purposes      |                         |  |  | 1,045,442      |
| DT                                 | Property Taxes, Levied for Debt Service          |                         |  |  | 206,237        |
| SF                                 | State Aid - Formula Grants                       |                         |  |  | 2,849,210      |
| IE                                 | Investment Earnings                              |                         |  |  | 6,270          |
| MI                                 | Miscellaneous Local and Intermediate Revenue     |                         |  |  | 1,770          |
| TR                                 | Total General Revenues                           |                         |  |  | 4,108,929      |
| CN                                 | Change in Net Position                           |                         |  |  | 436,479        |
| NB                                 | Net Position - Beginning                         |                         |  |  | 1,371,206      |
| PA                                 | Prior Period Adjustment                          |                         |  |  | 59,551         |
| NE                                 | Net Position - Ending                            |                         |  | \$   | 1,867,236      |

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, 2020

| Data<br>Control<br>Codes             |   | 10<br>General<br>Fund | SSA<br>IDEA, Part B<br>Formula | SSA<br>Special<br>Education |
|--------------------------------------|---|-----------------------|--------------------------------|-----------------------------|
| <b>ASSETS</b>                        |   |                       |                                |                             |
| 1110                                 | Cash and Cash Equivalents                           | \$ 1,293,623          | \$ -                           | \$ 456,917                  |
| 1220                                 | Property Taxes - Delinquent                         | 63,855                | -                              | -                           |
| 1230                                 | Allowance for Uncollectible Taxes                   | (15,807)              | -                              | -                           |
| 1240                                 | Due from Other Governments                          | 219,526               | 215,222                        | -                           |
| 1260                                 | Due from Other Funds                                | 24,357                | -                              | 251,674                     |
| 1000                                 | Total Assets  | <u>\$ 1,585,554</u>   | <u>\$ 215,222</u>              | <u>\$ 708,591</u>           |
| <b>LIABILITIES</b>                   |   |                       |                                |                             |
| 2110                                 | Accounts Payable                                    | \$ 34,429             | \$ -                           | \$ 15,122                   |
| 2160                                 | Accrued Wages Payable                               | 150,954               | -                              | -                           |
| 2170                                 | Due to Other Funds                                  | 9,280                 | 215,222                        | 7,198                       |
| 2180                                 | Due to Other Governments                            | 55,627                | -                              | -                           |
| 2200                                 | Accrued Expenditures                                | 21,289                | -                              | -                           |
| 2300                                 | Unearned Revenue                                    | -                     | -                              | 10,000                      |
| 2000                                 | Total Liabilities                                   | <u>271,579</u>        | <u>215,222</u>                 | <u>32,320</u>               |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |   |                       |                                |                             |
| 2601                                 | Unavailable Revenue - Property Taxes                | 48,048                | -                              | -                           |
| 2600                                 | Total Deferred Inflows of Resources                 | <u>48,048</u>         | <u>-</u>                       | <u>-</u>                    |
| <b>FUND BALANCES</b>                 |   |                       |                                |                             |
| Restricted Fund Balance:             |   |                       |                                |                             |
| 3480                                 | Retirement of Long-Term Debt                        | -                     | -                              | -                           |
| 3490                                 | Other Restricted Fund Balance                       | -                     | -                              | 676,271                     |
| 3600                                 | Unassigned Fund Balance                             | 1,265,927             | -                              | -                           |
| 3000                                 | Total Fund Balances                                 | <u>1,265,927</u>      | <u>-</u>                       | <u>676,271</u>              |
| 4000                                 | Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 1,585,554</u>   | <u>\$ 215,222</u>              | <u>\$ 708,591</u>           |

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

|       |         | Total        |           |
|-------|---------|--------------|-----------|
| Other |         | Governmental |           |
| Funds |         | Funds        |           |
| \$    | 286,671 | \$           | 2,037,211 |
|       | 11,018  |              | 74,873    |
|       | (2,951) |              | (18,758)  |
|       | 65,292  |              | 500,040   |
|       | 9,280   |              | 285,311   |
| \$    | 369,310 | \$           | 2,878,677 |
|       |         |              |           |
| \$    | 10,608  | \$           | 60,159    |
|       | 9,559   |              | 160,513   |
|       | 53,611  |              | 285,311   |
|       | -       |              | 55,627    |
|       | 401     |              | 21,690    |
|       | -       |              | 10,000    |
|       | 74,179  |              | 593,300   |
|       |         |              |           |
|       | 8,067   |              | 56,115    |
|       | 8,067   |              | 56,115    |
|       |         |              |           |
|       | 212,429 |              | 212,429   |
|       | -       |              | 676,271   |
|       | 74,635  |              | 1,340,562 |
|       | 287,064 |              | 2,229,262 |
| \$    | 369,310 | \$           | 2,878,677 |

COVINGTON INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2020

EXHIBIT C-2

|   |                            |
|---|----------------------------|
| <b>Total Fund Balances - Governmental Funds</b>   | \$ 2,229,262               |
| 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 (\$3,207,844). 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. | 3,856,880                  |
| 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.  | 320,365                    |
| 3 Included in the items related to debt is the recognition of the District's 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 \$1,050,811, a deferred resource inflow in the amount of \$370,709 and a net pension liability in the amount of \$1,901,195. This resulted in a decrease in net position.  | (1,221,093)                |
| 4 Included in the items related to debt is the recognition of the District's 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 \$314,769, a deferred resource inflow in the amount of \$1,117,382 and a net OPEB liability in the amount of \$2,271,598. This resulted in a decrease in net position.  | (3,074,211)                |
| 5 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.   | (257,340)                  |
| 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.  | 13,373                     |
| <b>19 Net Position of Governmental Activities</b>   | <u><u>\$ 1,867,236</u></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, 2020

| Data<br>Control<br>Codes                                       | 10<br>General<br>Fund | SSA<br>IDEA, Part B<br>Formula | SSA<br>Special<br>Education |
|--|-----------------------|--------------------------------|-----------------------------|
| REVENUES:  |                       |                                |                             |
| 5700 Total Local and Intermediate Sources                      | \$ 1,324,584          | \$ -                           | \$ 2,216,784                |
| 5800 State Program Revenues                                    | 3,027,099             | -                              | 81,165                      |
| 5900 Federal Program Revenues                                  | 54,105                | 982,179                        | -                           |
| 5020 Total Revenues  | 4,405,788             | 982,179                        | 2,297,949                   |
| EXPENDITURES:  |                       |                                |                             |
| Current:   |                       |                                |                             |
| 0011 Instruction   | 1,993,246             | 436,717                        | 1,180,500                   |
| 0012 Instructional Resources and Media Services                | 70,538                | -                              | -                           |
| 0013 Curriculum and Instructional Staff Development            | 10,109                | 15,232                         | 16,490                      |
| 0021 Instructional Leadership                                  | -                     | -                              | 165                         |
| 0023 School Leadership   | 331,754               | -                              | -                           |
| 0031 Guidance, Counseling, and Evaluation Services             | 94,953                | 530,230                        | 140,193                     |
| 0033 Health Services   | 37,711                | -                              | -                           |
| 0034 Student (Pupil) Transportation                            | 64,855                | -                              | -                           |
| 0035 Food Services   | -                     | -                              | -                           |
| 0036 Extracurricular Activities                                | 110,294               | -                              | -                           |
| 0041 General Administration                                    | 388,486               | -                              | 444,834                     |
| 0051 Facilities Maintenance and Operations                     | 580,105               | -                              | 115,025                     |
| 0052 Security and Monitoring Services                          | 25,774                | -                              | -                           |
| 0053 Data Processing Services                                  | 19,274                | -                              | -                           |
| Debt Service:  |                       |                                |                             |
| 0071 Principal on Long-Term Debt                               | 35,149                | -                              | -                           |
| 0072 Interest on Long-Term Debt                                | 5,326                 | -                              | -                           |
| Intergovernmental:   |                       |                                |                             |
| 0093 Payments to Fiscal Agent/Member Districts of SSA          | 138,577               | -                              | 266,075                     |
| 0099 Other Intergovernmental Charges                           | 37,073                | -                              | -                           |
| 6030 Total Expenditures  | 3,943,224             | 982,179                        | 2,163,282                   |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | 462,564               | -                              | 134,667                     |
| OTHER FINANCING SOURCES (USES):                                |                       |                                |                             |
| 7912 Sale of Real and Personal Property                        | 5,800                 | -                              | -                           |
| 7915 Transfers In  | -                     | -                              | -                           |
| 8911 Transfers Out (Use)                                       | (29,654)              | -                              | -                           |
| 7080 Total Other Financing Sources (Uses)                      | (23,854)              | -                              | -                           |
| 1200 Net Change in Fund Balances                               | 438,710               | -                              | 134,667                     |
| 0100 Fund Balance - September 1 (Beginning)                    | 827,217               | -                              | 541,604                     |
| 1300 Increase (Decrease) in Fund Balance                       | -                     | -                              | -                           |
| 3000 Fund Balance - August 31 (Ending)                         | \$ 1,265,927          | \$ -                           | \$ 676,271                  |

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



|    | Other<br>Funds | Total<br>Governmental<br>Funds |
|----|----------------|--------------------------------|
| \$ | 321,243        | \$ 3,862,611                   |
|    | 57,991         | 3,166,255                      |
|    | 304,750        | 1,341,034                      |
|    | 683,984        | 8,369,900                      |
|    | 126,225        | 3,736,688                      |
|    | 5,570          | 76,108                         |
|    | -              | 41,831                         |
|    | -              | 165                            |
|    | -              | 331,754                        |
|    | 4              | 765,380                        |
|    | -              | 37,711                         |
|    | -              | 64,855                         |
|    | 275,384        | 275,384                        |
|    | 31,875         | 142,169                        |
|    | -              | 833,320                        |
|    | 25,000         | 720,130                        |
|    | -              | 25,774                         |
|    | -              | 19,274                         |
|    | 111,000        | 146,149                        |
|    | 10,095         | 15,421                         |
|    | 19,820         | 424,472                        |
|    | -              | 37,073                         |
|    | 604,973        | 7,693,658                      |
|    | 79,011         | 676,242                        |
|    | -              | 5,800                          |
|    | 29,654         | 29,654                         |
|    | -              | (29,654)                       |
|    | 29,654         | 5,800                          |
|    | 108,665        | 682,042                        |
|    | 118,848        | 1,487,669                      |
|    | 59,551         | 59,551                         |
| \$ | 287,064        | \$ 2,229,262                   |

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, 2020

EXHIBIT C-4

|  |                   |
|--|-------------------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>  | \$ 682,042        |
| 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.  | 320,365           |
| 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.  | (257,340)         |
| 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 decrease net position.   | (5,014)           |
| GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. Those contributions made after the measurement date of the plan caused the change in ending net position to increase by \$162,570. 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 \$127,897. 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 \$328,645. The net result is a decrease in the change in net position. | (293,972)         |
| GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. Those contributions made after the measurement date of the plan caused the change in ending net position to increase by \$40,322. 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 \$34,092. 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 \$15,832. The net result is a decrease in the change in net position.             | (9,602)           |
| <b>Change in Net Position of Governmental Activities</b>   | <u>\$ 436,479</u> |

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, 2020

|                           | Agency<br>Fund   |
|---------------------------|------------------|
| <hr/>                     |                  |
| ASSETS                    |                  |
| Cash and Cash Equivalents | \$ 56,535        |
| Total Assets              | <u>\$ 56,535</u> |
| LIABILITIES               |                  |
| Due to Student Groups     | \$ 56,535        |
| Total Liabilities         | <u>\$ 56,535</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, 2020*

**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 IDEA, Part B Formula 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. **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.

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 | \$ 1,050,811 |
| Deferred charges related to TRS OPEB       | \$ 314,769   |

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 | \$ 370,709   |
| Deferred charges related to TRS OPEB       | \$ 1,117,382 |



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                 |
|--|--------------------|-----------------------------|
| 0051 - Facilities maintenance and operations | \$ 2,773           | 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, 2020, 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<br>< 1 Yr  | Maturity<br>1-10 Yrs | Maturity<br>> 10 Yrs | Credit<br>Rating |
|--|---------------------|-------------|---------------------|----------------------|----------------------|------------------|
| Cash                                   |                     |             |                     |                      |                      |                  |
| Money market and FDIC insured accounts | \$ 1,587,139        | 76%         | \$ 1,587,139        |                      |                      | N/A              |
| Investment pools                       | 506,607             | 24%         | 506,607             |                      |                      | AAA              |
| Total Cash and Cash Equivalents        | <u>\$ 2,093,746</u> | <u>100%</u> | <u>\$ 2,093,746</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, 2020, 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, 2020, 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, 2020 is as follows:

| Fund                          | Receivable        | Payable           | Purpose            | Current? |
|-------------------------------|-------------------|-------------------|--------------------|----------|
| General fund                  | \$ 24,357         | \$ 9,280          | Temporary advances | Yes      |
| SSA IDEA, Part B Formula fund |                   | 215,222           | Temporary advances | Yes      |
| SSA special education fund    | 251,674           | 7,198             | Temporary advances | Yes      |
| Nonmajor governmental funds   | 9,280             | 53,611            | Temporary advances | Yes      |
| Total                         | <u>\$ 285,311</u> | <u>\$ 285,311</u> |                    |          |

Interfund transfers for the year ended August 31, 2020 consisted of the following individual amounts:

| Fund                        | Transfers In     | Transfers Out    | Purpose                       |
|-----------------------------|------------------|------------------|-------------------------------|
| Nonmajor governmental funds | \$ 29,654        |                  | Food service deficit transfer |
| General fund                |                  | 29,654           | Food service deficit transfer |
| Total                       | <u>\$ 29,654</u> | <u>\$ 29,654</u> |                               |

## E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2020 were as follows:

|                               | Property<br>Taxes (net) | Other<br>Government | Total<br>Receivables |
|-------------------------------|-------------------------|---------------------|----------------------|
| Governmental Activities:      |                         |                     |                      |
| General fund                  | \$ 48,048               | \$ 219,526          | \$ 267,574           |
| SSA IDEA, Part B Formula fund |                         | 215,222             | 215,222              |
| Nonmajor governmental funds   | 8,067                   | 65,292              | 73,359               |
| Total Governmental Activities | <u>\$ 56,115</u>        | <u>\$ 500,040</u>   | <u>\$ 556,155</u>    |

Payables at August 31, 2020 were as follows:

|                               | Accounts         | Salaries and<br>Benefits | Other<br>Governments | Total<br>Payables |
|-------------------------------|------------------|--------------------------|----------------------|-------------------|
| Governmental Activities:      |                  |                          |                      |                   |
| General fund                  | \$ 34,429        | \$ 172,243               | \$ 55,627            | \$ 262,299        |
| SSA special education fund    | 15,122           |                          |                      | 15,122            |
| Nonmajor governmental funds   | 10,608           | 9,960                    |                      | 20,568            |
| Total Governmental Activities | <u>\$ 60,159</u> | <u>\$ 182,203</u>        | <u>\$ 55,627</u>     | <u>\$ 297,989</u> |

## F. CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended August 31, 2020, was as follows:

|   | Balance<br>8/31/19  | Additions          | Disposals       | Balance<br>8/31/20  |
|---|---------------------|--------------------|-----------------|---------------------|
| Governmental activities:                    |                     |                    |                 |                     |
| Land and improvements                       | \$ 153,050          |                    |                 | \$ 153,050          |
| Buildings and improvements                  | 6,341,727           | 48,641             | (6,308)         | 6,396,676           |
| Vehicles and equipment                      | 1,020,923           | 125,575            | 145,784         | 1,000,714           |
| Library books                               | 38,383              |                    |                 | 38,383              |
| Infrastructure                              | 95,986              |                    |                 | 95,986              |
| Totals                                      | 7,650,069           | 174,216            | 139,476         | 7,684,809           |
| Less accumulated depreciation for:          |                     |                    |                 |                     |
| Buildings and improvements                  | 2,480,136           | 162,530            | (6,308)         | 2,648,974           |
| Vehicles and equipment                      | 656,428             | 90,324             | 136,034         | 610,718             |
| Library books                               | 16,090              | 1,920              |                 | 18,010              |
| Infrastructure                              | 55,190              | 2,566              |                 | 57,756              |
| Total accumulated depreciation              | 3,207,844           | 257,340            | 129,726         | 3,335,458           |
| Governmental activities capital assets, net | <u>\$ 4,442,225</u> | <u>\$ (83,124)</u> | <u>\$ 9,750</u> | <u>\$ 4,349,351</u> |

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

|  |                   |
|--|-------------------|
| Governmental activities:                             |                   |
| 11 - Instruction                                     | \$ 149,935        |
| 12 - Instructional resources and media services      | 658               |
| 34 - Student (pupil) transportation                  | 30,129            |
| 35 - Food services                                   | 4,141             |
| 36 - Extracurricular activities                      | 38,029            |
| 51 - Facilities maintenance and operations           | 30,877            |
| 52 - Security and monitoring services                | 3,571             |
| Total depreciation expense - governmental activities | <u>\$ 257,340</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, 2020 is as follows:

| Description                                   | Interest<br>Rate<br>Payable | Amounts<br>Original<br>Issue | Amounts<br>Outstanding<br>9/1/19 | Issued | Retired    | Amounts<br>Outstanding<br>8/31/20 |
|---|-----------------------------|------------------------------|----------------------------------|--------|------------|-----------------------------------|
| Bonds and Notes Payable:                      |                             |                              |                                  |        |            |                                   |
| Unlimited tax refunding bonds,<br>series 2014 | 2.31% -<br>4.63%            | \$ 955,000                   | \$ 437,000                       |        | \$ 111,000 | \$ 326,000                        |
| Public property finance contract<br>#7894     | 3.59%                       | \$ 182,170                   | 148,345                          |        | 35,149     | 113,196                           |
| Subtotal - bonds and notes payable            |                             |                              | 585,345                          |        | 146,149    | 439,196                           |
| Premium - bond, series 2014                   | N/A                         | N/A                          | 38,256                           |        | 9,563      | 28,693                            |
| Total Long-Term Debt                          |                             |                              | \$ 623,601                       |        | \$ 155,712 | \$ 467,889                        |

### 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<br>August 31, | Principal  | Interest  | Total<br>Requirements |
|--------------------------|------------|-----------|-----------------------|
| 2021                     | \$ 142,411 | \$ 11,594 | \$ 154,005            |
| 2022                     | 146,718    | 7,839     | 154,557               |
| 2023                     | 150,067    | 3,967     | 154,034               |
| Totals                   | \$ 439,196 | \$ 23,400 | \$ 462,596            |

## 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           | \$ 209,961,325,288       |
| Less: Plan Fiduciary Net Position | (157,978,199,075)        |
| Net Pension Liability             | <u>\$ 51,983,126,213</u> |

Net Position as a percentage of Total Pension Liability 75.24%

**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 grand fathered, 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 2019 and 2020.

| Contribution Rates                       |      |      |
|--|------|------|
|  | 2019 | 2020 |
| Member                                   | 7.7% | 7.7% |
| Non-Employer Contributing Entity (State) | 6.8% | 7.5% |
| Employers                                | 6.8% | 7.5% |

|  |            |
|--|------------|
| Current fiscal year District contributions | \$ 162,570 |
| Current fiscal year Member contributions   | \$ 321,612 |
| 2019 measurement year NECE contributions   | \$ 158,365 |

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, 2019 actuarial valuation was determined using the following actuarial assumptions:

|  |   |
|--|---|
| Valuation Date                               | August 31, 2018 rolled forward to August 31, 2019 |
| Actuarial Cost Method                        | Individual Entry Age Normal                       |
| Asset Valuation Method                       | Market Value                                      |
| Actuarial Assumptions:                       |   |
| Single Discount Rate                         | 7.25%   |
| 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, 2018. For a full description of these assumptions, please see the TRS CAFR and actuarial valuation report dated November 9, 2018.

**Discount Rate.** The single discount rate used to measure the total pension liability was 7.25%. This was a change in the discount rate from the previous year of 0.343%. 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 set during the 2019 legislative session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and State contributions for active and rehired retirees. 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, 2019 are summarized below:

| Asset Class                   | Target Allocation | Real Return<br>Geometric Basis | Long-Term Expected<br>Portfolio Real Rate<br>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                         | <u>100%</u>       |                                | <u>7.25%</u>  |

\* 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 (7.25%) in measuring the 2019 Net Pension Liability.

|   | 1% Decrease in<br>Discount Rate<br>(6.25%) | Discount Rate<br>(7.25%) | 1% Increase in<br>Discount Rate<br>(8.25%) |
|---|--|--------------------------|--|
| District's proportionate share of the net pension liability | \$ 2,922,413                               | \$ 1,901,195             | \$ 1,073,811                               |

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2020, the District reported a liability of \$1,901,195 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:.

|  |                     |
|--|---------------------|
| District's proportionate share of the collective net pension liability | \$ 1,901,195        |
| State's proportionate share that is associated with the District       | 2,352,100           |
| Total  | <u>\$ 4,253,295</u> |

The net pension liability was measured as of August 31, 2019 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, 2018 thru August 31, 2019.



At August 31, 2019 the District's proportion of the collective net pension liability was 0.0036573312% which was a decrease of 0.0001909542% from its proportion measured as of August 31, 2018.

**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 single discount rate as of August 31, 2018 was a blended rate of 6.907% and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
2. With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.

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, 2020, the District recognized pension expense of \$826,024 and revenue of \$369,482 for support provided by the State in the Government-Wide Statement of Activities.

At August 31, 2020, 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<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual economic experiences   | \$ 7,987                             | \$ 66,013                           |
| Changes in actuarial assumptions  | 589,844                              | 243,751                             |
| Differences between projected and actual investment earnings  | 19,090                               |                                     |
| Changes in proportion and differences between the District's contributions and the proportionate share of contributions | 271,320                              | 60,945                              |
| Total as of August 31, 2019 measurement date  | \$ 888,241                           | \$ 370,709                          |
| Contributions paid to TRS subsequent to the measurement date  | 162,570                              |                                     |
| Total as of August 31, 2020 fiscal year end   | <u>\$ 1,050,811</u>                  | <u>\$ 370,709</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      |
|------------------------------|-------------|
| 2021                         | \$ 176,379  |
| 2022                         | \$ 147,280  |
| 2023                         | \$ 101,987  |
| 2024                         | \$ 91,814   |
| 2025                         | \$ 21,702   |
| Thereafter                   | \$ (21,630) |

#### 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, 2019 are as follows:

| <u>Net OPEB Liability:</u>                           | <u>Total</u>             |
|--|--------------------------|
| Total OPEB liability                                 | \$ 48,583,247,239        |
| Less: plan fiduciary net position                    | (1,292,022,349)          |
| Net OPEB liability                                   | <u>\$ 47,291,224,890</u> |
| Net position as a percentage of total OPEB liability | 2.66%                    |

**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 General Appropriations Act passed by the 86<sup>th</sup> Legislature included funding to maintain TRS Care premiums at their current level through 2021. The 86<sup>th</sup> legislature also passed SB 1682 which requires TRS to establish a contingency reserve in the TRS-Care fund equal to 60 days of expenditures.

The following 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<br>Effective January 1, 2018 - December 31, 2021 |          |              |
|--|----------|--------------|
|  | 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                            |       |       |
|---|-------|-------|
|   | 2019  | 2020  |
| Active employee                               | 0.65% | 0.65% |
| Non-employer contributing entity (State)      | 1.25% | 1.25% |
| Employers                                     | 0.75% | 0.75% |
| Federal/private funding remitted by employers | 1.25% | 1.25% |

|  |           |
|--|-----------|
| Current fiscal year District contributions | \$ 40,322 |
| Current fiscal year member contributions   | \$ 27,149 |
| 2019 measurement year NECE contributions   | \$ 45,297 |

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.

A supplemental appropriation was received in 2019 for \$73.6 million, which was re-appropriated from amounts received by the pension and TRS-Care funds in excess of the state's actual obligation and then transferred to TRS-Care.

**Actuarial Assumptions.** The total OPEB liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of TRS-Care was performed as of August 31, 2018. Update procedures were used to roll forward the total OPEB liability to August 31, 2019.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The following assumptions used for members of TRS are identical to the assumptions employed in the August 31, 2019 TRS annual pension actuarial valuation:

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

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 (U-MP).

The initial medical trend rates were 10.25% for Medicare retirees and 7.50% for non-Medicare retirees. There was an initial prescription drug trend rate of 10.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 13 years.

Additional Actuarial Methods and Assumptions:

|  |  |
|--|--|
| Valuation Date                         | August 31, 2018 rolled forward to August 31, 2019  |
| Actuarial Cost Method                  | Individual Entry Age Normal  |
| Inflation                              | 2.30%  |
| Discount Rate                          | 2.63%  |
| 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             | 3.05% to 9.05%   |
| Election Rates                         | Normal Retirement: 65% participation prior to age 65 and 50% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65. |
| Ad hoc post-employment benefit changes | None   |

The impact of the Cadillac Tax that is returning in fiscal year 2023 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 2.30%.
- 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.

**Discount Rate.** A single discount rate of 2.63% was used to measure the total OPEB liability. There was a change of (1.06%) 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, 2019.

***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<br>Discount Rate<br>(1.63%) | Current Single<br>Discount Rate<br>(2.63%) | 1% Increase in<br>Discount Rate<br>(3.63%) |
|--|--|--|--|
| District’s proportionate share of net OPEB liability | \$ 2,742,547                               | \$ 2,271,598                               | \$ 1,903,173                               |

**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<br>Healthcare Cost<br>Trend Rate | 1% Increase  |
|--|--------------|--|--------------|
| District’s proportionate share of net OPEB liability | \$ 1,853,089 | \$ 2,271,598                             | \$ 2,832,205 |

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.*** At August 31, 2020, the District reported a liability of \$2,271,598 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 | \$ 2,271,598        |
| State’s proportionate share that is associated with the District    | 3,018,444           |
| Total   | <u>\$ 5,290,042</u> |

The net OPEB liability was measured as of August 31, 2019 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, 2018 thru August 31, 2019.

At August 31, 2019 the District’s proportion of the collective net OPEB liability was 0.0048034220% which was a decrease of 0.0002432756% from its proportion measured as of August 31, 2018.

**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 discount rate changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the total OPEB liability (TOL).
2. The participation rate for pre-65 retirees was lowered from 70% to 65%. The participation rate for post-65 retirees was lowered from 75% to 50%. 25% of pre-65 retirees are assumed to discontinue their coverage at age 65. There was not lapse assumption in the prior valuation. These changes decreased the TOL.
3. The trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
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 percentage of retirees who are assumed to have two-person coverage was lowered from 20% to 15%. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20% to 10%. These changes decreased the TOL.

There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2020, the District recognized OPEB expense of \$129,478 and revenue of \$79,554 for support provided by the State.

At August 31, 2020, 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<br>Outflow of<br>Resources | Deferred<br>Inflow of<br>Resources |
|--|-------------------------------------|------------------------------------|
| Differences between expected and actual actuarial experience   | \$ 111,441                          | \$ 371,723                         |
| Changes in actuarial assumptions   | 126,170                             | 611,004                            |
| Differences between projected and actual investment earnings   | 245                                 |                                    |
| Changes in proportion and difference between the District's contributions and the proportionate share of contributions | 36,591                              | 134,655                            |
| Total as of August 31, 2019 measurement date   | \$ 274,447                          | \$ 1,117,382                       |
| Contributions paid to TRS subsequent to the measurement date   | 40,322                              |                                    |
| Total as of August 31, 2020 fiscal year end  | <u>\$ 314,769</u>                   | <u>\$ 1,117,382</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:

| Fiscal year ended August 31, | Amount       |
|------------------------------|--------------|
| 2021                         | \$ (136,897) |
| 2022                         | \$ (136,897) |
| 2023                         | \$ (136,977) |
| 2024                         | \$ (137,024) |
| 2025                         | \$ (137,012) |
| Thereafter                   | \$ (158,128) |

## 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](http://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 1.25% for 2018 thru 2020. The contribution rate for the district was 0.75% for 2018 thru 2020. The contribution rate for active employees was 0.65% of the district payroll for 2018 thru 2020. 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 1.25% for 2018 thru 2020.

**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, 2020, 2019 and 2018 are as follows:

| Contribution Rates and Contribution Amounts |        |           |       |           |                 |           |
|---|--------|-----------|-------|-----------|-----------------|-----------|
| Year  | Member |           | State |           | School District |           |
|   | Rate   | Amount    | Rate  | Amount    | Rate            | Amount    |
| 2020  | 0.65%  | \$ 27,149 | 1.25% | \$ 52,210 | 0.75%           | \$ 31,326 |
| 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 |

**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, 2020, 2019 and 2018 were \$19,928, \$13,977 and \$11,052, respectively.

The 86<sup>th</sup> Legislative Session of the Texas Legislature appropriated supplemental contributions to the TRS-Care program. Amounts appropriated for fiscal year 2020 totaled \$230.8 million with the District's share of the on behalf contribution recognized during the year as both revenues and expenditures totaling \$11,084.

### 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, 2020, was as follows:

|                       | Beginning<br>Balance | Additions | Retirements       | Ending<br>Balance   | Due Within<br>One Year |
|-----------------------|----------------------|-----------|-------------------|---------------------|------------------------|
| Bonds payable         | \$ 437,000           |           | \$ 111,000        | \$ 326,000          | \$ 106,000             |
| Bond premium          | 38,256               |           | 9,563             | 28,693              | 0                      |
| Notes payable         | 148,345              |           | 35,149            | 113,196             | 36,411                 |
| Net pension liability | 2,118,190            |           | 216,995           | 1,901,195           | 0                      |
| Net OPEB liability    | 2,519,862            |           | 248,264           | 2,271,598           | 0                      |
| Total                 | <u>\$ 5,261,653</u>  |           | <u>\$ 620,971</u> | <u>\$ 4,640,682</u> | <u>\$ 142,411</u>      |

**M. UNAVAILABLE/UNEARNED REVENUE**

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

|                             | Unavailable<br>Revenue<br>(levied but<br>uncollected<br>property<br>taxes) | Unearned<br>Revenue<br>(grant<br>receipts not<br>yet expended) |
|-----------------------------|--|--|
| General fund                | \$ 48,048  |  |
| Nonmajor governmental funds | 8,067  | 10,000   |
| Total                       | <u>\$ 56,115</u>   | <u>\$ 10,000</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, 2020, are summarized below. They are reported on the combined financial statements as Due from Other Governments.

|                               | State<br>Grants   | Federal<br>Grants | Total             |
|-------------------------------|-------------------|-------------------|-------------------|
| General fund                  | \$ 207,803        |                   | \$ 207,803        |
| SSA IDEA, Part B Formula fund |                   | 215,222           | 215,222           |
| Nonmajor governmental funds   | 735               | 62,132            | 62,867            |
| Total                         | <u>\$ 208,538</u> | <u>\$ 277,354</u> | <u>\$ 485,892</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                                   | \$ 1,030,968 |                          | \$ 201,086               | \$ 1,232,054 |
| Penalties, interest and other tax-related income | 22,206       |                          | 3,590                    | 25,796       |
| Food sales                                       |              |                          | 51,661                   | 51,661       |
| Investment income                                | 4,867        | 951                      | 452                      | 6,270        |
| Extracurricular student activities               | 11,932       |                          | 35,841                   | 47,773       |
| Shared service arrangement administration fee    | 250,371      |                          |                          | 250,371      |
| Shared service arrangement fees                  |              | 2,165,833                |                          | 2,165,833    |
| Donations and local grants                       |              | 50,000                   | 27,134                   | 77,134       |
| Other income                                     | 4,240        |                          | 1,479                    | 5,719        |
| Total  | \$ 1,324,584 | \$ 2,216,784             | \$ 321,243               | \$ 3,862,611 |

## 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       | \$ 55,047  | \$ 2,043  | \$ 121,243   |
| Aquilla ISD      | 61,130     | 2,269     | 134,640      |
| Bynum ISD        | 49,104     | 1,822     | 108,153      |
| Covington ISD    | 61,709     | 2,290     | 135,917      |
| Gholson ISD      | 46,918     | 1,741     | 103,338      |
| Hubbard ISD      | 83,213     | 3,088     | 183,280      |
| Itasca ISD       | 136,670    | 5,072     | 301,021      |
| Malone ISD       | 36,109     | 1,340     | 79,531       |
| Mt. Calm ISD     | 44,303     | 1,644     | 97,579       |
| Penelope ISD     | 69,619     | 2,584     | 153,338      |
| Whitney ISD      | 338,357    | 12,559    | 745,242      |
| Total            | \$ 982,179 | \$ 36,452 | \$ 2,163,282 |



#### 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 2020, 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, 2020, the Fund anticipates the District has not additional liability beyond the contractual obligations for payment of contributions.

#### Workers' Compensation

During the year, the District met its statutory workers' compensation obligations 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 Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2019, The Fund carries a discounted reserve of \$45,439,534 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2020, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

#### Unemployment Compensation

During the year ended August 31, 2020, 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, 2020, 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, 2020, 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           |
|------------------------------------|------|------------------|
| School health and related services | N/A  | <u>\$ 54,105</u> |

**T. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 15, 2020; the date which the financial statements were available for distribution. There were none noted.

**U. PRIOR PERIOD ADJUSTMENT**

A beginning balance adjustment totaling \$59,551 was necessary to re-characterize balances previously classified as “due to student groups” when, in fact, they should have been characterized as campus activity “fund balances”. The beginning balance properly restated those beginning balances from “due to student groups” to “fund balances” of the various campus activities of the District.

*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, 2020

| 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             | \$ 1,300,781     | \$ 1,300,781 | \$ 1,324,584                | \$ 23,803   |
| 5800 State Program Revenues                           | 2,836,382        | 2,836,382    | 3,027,099                   | 190,717   |
| 5900 Federal Program Revenues                         | 50,000           | 50,000       | 54,105                      | 4,105   |
| 5020 Total Revenues                                   | 4,187,163        | 4,187,163    | 4,405,788                   | 218,625   |
| EXPENDITURES:   |                  |              |                             |   |
| Current:  |                  |              |                             |   |
| 0011 Instruction                                      | 1,986,990        | 2,154,855    | 1,993,246                   | 161,609   |
| 0012 Instructional Resources and Media Services       | 70,190           | 75,190       | 70,538                      | 4,652   |
| 0013 Curriculum and Instructional Staff Development   | 25,290           | 15,290       | 10,109                      | 5,181   |
| 0023 School Leadership                                | 342,323          | 337,323      | 331,754                     | 5,569   |
| 0031 Guidance, Counseling, and Evaluation Services    | 97,513           | 95,513       | 94,953                      | 560   |
| 0033 Health Services                                  | 34,399           | 40,399       | 37,711                      | 2,688   |
| 0034 Student (Pupil) Transportation                   | 93,518           | 68,518       | 64,855                      | 3,663   |
| 0036 Extracurricular Activities                       | 145,633          | 120,633      | 110,294                     | 10,339  |
| 0041 General Administration                           | 424,308          | 389,308      | 388,486                     | 822   |
| 0051 Facilities Maintenance and Operations            | 633,630          | 577,332      | 580,105                     | (2,773)   |
| 0052 Security and Monitoring Services                 | 1,000            | 26,000       | 25,774                      | 226   |
| 0053 Data Processing Services                         | 21,000           | 21,000       | 19,274                      | 1,726   |
| Debt Service:   |                  |              |                             |   |
| 0071 Principal on Long-Term Debt                      | 35,149           | 35,149       | 35,149                      | -   |
| 0072 Interest on Long-Term Debt                       | 5,326            | 5,326        | 5,326                       | -   |
| Capital Outlay:                                       |                  |              |                             |   |
| 0081 Facilities Acquisition and Construction          | 85,817           | -            | -                           | -   |
| Intergovernmental:                                    |                  |              |                             |   |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | 147,077          | 139,077      | 138,577                     | 500   |
| 0099 Other Intergovernmental Charges                  | 38,000           | 38,000       | 37,073                      | 927   |
| 6030 Total Expenditures                               | 4,187,163        | 4,138,913    | 3,943,224                   | 195,689   |
| 1100 Excess of Revenues Over Expenditures             | -                | 48,250       | 462,564                     | 414,314   |
| OTHER FINANCING SOURCES (USES):                       |                  |              |                             |   |
| 7912 Sale of Real and Personal Property               | -                | -            | 5,800                       | 5,800   |
| 8911 Transfers Out (Use)                              | (36,012)         | (84,262)     | (29,654)                    | 54,608  |
| 7080 Total Other Financing Sources (Uses)             | (36,012)         | (84,262)     | (23,854)                    | 60,408  |
| 1200 Net Change in Fund Balances                      | (36,012)         | (36,012)     | 438,710                     | 474,722   |
| 0100 Fund Balance - September 1 (Beginning)           | 827,217          | 827,217      | 827,217                     | -   |
| 3000 Fund Balance - August 31 (Ending)                | \$ 791,205       | \$ 791,205   | \$ 1,265,927                | \$ 474,722  |

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, 2020

|   | Measurement Year Ended August 31, |                     |                     |                     |                     |                     |
|---|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|   | 2019                              | 2018                | 2017                | 2016                | 2015                | 2014                |
| District's Proportion of the Net Pension Liability (Asset)  | 0.0036573312%                     | 0.0038482854%       | 0.0037944217%       | 0.0036986980%       | 0.0039627000%       | 0.0009389000%       |
| District's Proportionate Share of Net Pension Liability (Asset)   | \$ 1,901,195                      | \$ 2,118,190        | \$ 1,213,252        | \$ 1,397,683        | \$ 1,400,762        | \$ 250,793          |
| States Proportionate Share of the Net Pension Liability (Asset)<br>associated with the District               | 2,352,100                         | 2,607,945           | 1,583,139           | 1,759,029           | 1,589,038           | 1,074,351           |
| Total   | <u>\$ 4,253,295</u>               | <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  | \$ 3,594,423                      | \$ 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)<br>as a percentage of its Covered Payroll | 52.89%                            | 58.53%              | 34.35%              | 43.20%              | 47.14%              | 14.71%              |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability                                    | 75.24%                            | 73.74%              | 82.17%              | 78.00%              | 78.43%              | 83.25%              |

Note: Only six 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, 2020

|   | Fiscal Year Ended August 31, |              |              |              |              |              |
|---|------------------------------|--------------|--------------|--------------|--------------|--------------|
|   | 2020                         | 2019         | 2018         | 2017         | 2016         | 2015         |
| Contractually Required Contribution                                 | \$ 162,570                   | \$ 127,897   | \$ 130,083   | \$ 124,179   | \$ 117,517   | \$ 117,291   |
| Contribution in Relation to the Contractually Required Contribution | (162,570)                    | (127,897)    | (130,083)    | (124,179)    | (117,517)    | (117,291)    |
| Contribution Deficiency (Excess)                                    | <u>\$ -</u>                  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| District's Covered Payroll  | \$ 4,176,777                 | \$ 3,594,423 | \$ 3,618,940 | \$ 3,532,092 | \$ 3,235,721 | \$ 2,971,679 |
| Contributions as a percentage of Covered Payroll                    | 3.89%                        | 3.56%        | 3.59%        | 3.52%        | 3.63%        | 3.95%        |

Note: Only six 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, 2020

|  | Measurement Year Ended August 31, |                     |                     |
|--|-----------------------------------|---------------------|---------------------|
|  | 2019                              | 2018                | 2017                |
| District's Proportion of the Net OPEB Liability (Asset)  | 0.0048034220%                     | 0.0050466976%       | 0.0049703682%       |
| District's Proportionate Share of the Net OPEB Liability (Asset)   | \$ 2,271,598                      | \$ 2,519,862        | \$ 2,161,427        |
| State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District                 | 3,018,444                         | 2,711,967           | 2,404,615           |
| Total  | <u>\$ 5,290,042</u>               | <u>\$ 5,231,829</u> | <u>\$ 4,566,042</u> |
| District's Covered Payroll   | \$ 3,594,423                      | \$ 3,618,940        | \$ 3,532,092        |
| District's Proportionate Share of the Net OPEB Liability (Asset)<br>as a percentage of its Covered Payroll | 63.20%                            | 69.63%              | 61.19%              |
| Plan Fiduciary Net Position as a percentage of the Total OPEB Liability                                    | 2.66%                             | 1.57%               | 0.91%               |

Note: Only three 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, 2020

|   | Fiscal Year Ended August 31, |              |              |
|---|------------------------------|--------------|--------------|
|   | 2020                         | 2019         | 2018         |
| Contractually Required Contribution                                 | \$ 40,322                    | \$ 34,092    | \$ 34,878    |
| Contribution in Relation to the Contractually Required Contribution | (40,322)                     | (34,092)     | (34,878)     |
| Contribution Deficiency (Excess)                                    | \$ -                         | \$ -         | \$ -         |
| District's Covered Payroll  | \$ 4,176,777                 | \$ 3,594,423 | \$ 3,618,940 |
| Contributions as a percentage of Covered Payroll                    | 0.97%                        | 0.95%        | 0.96%        |

Note: Only three 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, 2020**

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.*

There were no changes of 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, 2020

| Data<br>Control<br>Codes             |   | 211<br>ESEA I, A<br>Improving<br>Basic Program | 240<br>National<br>Breakfast and<br>Lunch Program | 255<br>ESEA II,A<br>Training and<br>Recruiting |
|--------------------------------------|---|--|---|--|
| <b>ASSETS</b>                        |   |  |   |  |
| 1110                                 | Cash and Cash Equivalents                           | \$ -   | \$ 12,047   | \$ -   |
| 1220                                 | Property Taxes - Delinquent                         | -  | -   | -  |
| 1230                                 | Allowance for Uncollectible Taxes                   | -  | -   | -  |
| 1240                                 | Due from Other Governments                          | 12,623   | 5,940   | 4,032  |
| 1260                                 | Due from Other Funds                                | -  | -   | -  |
| 1000                                 | Total Assets  | <u>\$ 12,623</u>                               | <u>\$ 17,987</u>                                  | <u>\$ 4,032</u>                                |
| <b>LIABILITIES</b>                   |   |  |   |  |
| 2110                                 | Accounts Payable                                    | \$ -   | \$ 10,608   | \$ -   |
| 2160                                 | Accrued Wages Payable                               | 723  | 7,230   | 553  |
| 2170                                 | Due to Other Funds                                  | 11,822   | -   | 3,419  |
| 2200                                 | Accrued Expenditures                                | 78   | 149   | 60   |
| 2000                                 | Total Liabilities                                   | <u>12,623</u>                                  | <u>17,987</u>                                     | <u>4,032</u>                                   |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |   |  |   |  |
| 2601                                 | Unavailable Revenue - Property Taxes                | -  | -   | -  |
| 2600                                 | Total Deferred Inflows of Resources                 | <u>-</u>                                       | <u>-</u>  | <u>-</u>                                       |
| <b>FUND BALANCES</b>                 |   |  |   |  |
| Restricted Fund Balance:             |   |  |   |  |
| 3480                                 | Retirement of Long-Term Debt                        | -  | -   | -  |
| 3600                                 | Unassigned Fund Balance                             | -  | -   | -  |
| 3000                                 | Total Fund Balances                                 | <u>-</u>                                       | <u>-</u>  | <u>-</u>                                       |
| 4000                                 | Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 12,623</u>                               | <u>\$ 17,987</u>                                  | <u>\$ 4,032</u>                                |

| 270<br>ESEA VI, Pt B<br>Rural & Low<br>Income | 289<br>Other Federal<br>Special<br>Revenue Funds | 314<br>SSA<br>IDEA, Part B<br>Preschool | 397<br>Advanced<br>Placement<br>Incentives | 410<br>State<br>Instructional<br>Materials | 429<br>Other State<br>Special<br>Revenue Funds | 461<br>Campus<br>Activity<br>Funds | Total<br>Nonmajor<br>Special<br>Revenue Funds |
|---|--|---|--|--|--|------------------------------------|---|
| \$ -  | \$ -   | \$ -                                    | \$ -                                       | \$ -                                       | \$ -   | \$ 74,635                          | \$ 86,682                                     |
| -   | -  | -                                       | -  | -  | -  | -                                  | -   |
| -   | -  | -                                       | -  | -  | -  | -                                  | -   |
| -   | 3,085  | 36,452                                  | -  | -  | -  | -                                  | 62,132  |
| -   | -  | -                                       | -  | -  | -  | -                                  | -   |
| <u>\$ -</u>                                   | <u>\$ 3,085</u>                                  | <u>\$ 36,452</u>                        | <u>\$ -</u>                                | <u>\$ -</u>                                | <u>\$ -</u>                                    | <u>\$ 74,635</u>                   | <u>\$ 148,814</u>                             |
| \$ -  | \$ -   | \$ -                                    | \$ -                                       | \$ -                                       | \$ -   | \$ -                               | \$ 10,608                                     |
| -   | 1,053  | -                                       | -  | -  | -  | -                                  | 9,559   |
| -   | 1,918  | 36,452                                  | -  | -  | -  | -                                  | 53,611  |
| -   | 114  | -                                       | -  | -  | -  | -                                  | 401   |
| <u>-</u>                                      | <u>3,085</u>                                     | <u>36,452</u>                           | <u>-</u>                                   | <u>-</u>                                   | <u>-</u>                                       | <u>-</u>                           | <u>74,179</u>                                 |
| -   | -  | -                                       | -  | -  | -  | -                                  | -   |
| <u>-</u>                                      | <u>-</u>   | <u>-</u>                                | <u>-</u>                                   | <u>-</u>                                   | <u>-</u>                                       | <u>-</u>                           | <u>-</u>                                      |
| -   | -  | -                                       | -  | -  | -  | -                                  | -   |
| -   | -  | -                                       | -  | -  | -  | 74,635                             | 74,635  |
| <u>-</u>                                      | <u>-</u>   | <u>-</u>                                | <u>-</u>                                   | <u>-</u>                                   | <u>-</u>                                       | <u>74,635</u>                      | <u>74,635</u>                                 |
| <u>\$ -</u>                                   | <u>\$ 3,085</u>                                  | <u>\$ 36,452</u>                        | <u>\$ -</u>                                | <u>\$ -</u>                                | <u>\$ -</u>                                    | <u>\$ 74,635</u>                   | <u>\$ 148,814</u>                             |

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COVINGTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2020

| Data<br>Control<br>Codes             |   | 599<br>Debt<br>Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--------------------------------------|---|--------------------------------|--|
| <b>ASSETS</b>                        |   |                                |  |
| 1110                                 | Cash and Cash Equivalents                           | \$ 199,989                     | \$ 286,671                                 |
| 1220                                 | Property Taxes - Delinquent                         | 11,018                         | 11,018                                     |
| 1230                                 | Allowance for Uncollectible Taxes                   | (2,951)                        | (2,951)                                    |
| 1240                                 | Due from Other Governments                          | 3,160                          | 65,292                                     |
| 1260                                 | Due from Other Funds                                | 9,280                          | 9,280                                      |
| 1000                                 | Total Assets  | <u>\$ 220,496</u>              | <u>\$ 369,310</u>                          |
| <b>LIABILITIES</b>                   |   |                                |  |
| 2110                                 | Accounts Payable                                    | \$ -                           | \$ 10,608                                  |
| 2160                                 | Accrued Wages Payable                               | -                              | 9,559                                      |
| 2170                                 | Due to Other Funds                                  | -                              | 53,611                                     |
| 2200                                 | Accrued Expenditures                                | -                              | 401  |
| 2000                                 | Total Liabilities                                   | <u>-</u>                       | <u>74,179</u>                              |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |   |                                |  |
| 2601                                 | Unavailable Revenue - Property Taxes                | 8,067                          | 8,067                                      |
| 2600                                 | Total Deferred Inflows of Resources                 | <u>8,067</u>                   | <u>8,067</u>                               |
| <b>FUND BALANCES</b>                 |   |                                |  |
| Restricted Fund Balance:             |   |                                |  |
| 3480                                 | Retirement of Long-Term Debt                        | 212,429                        | 212,429                                    |
| 3600                                 | Unassigned Fund Balance                             | -                              | 74,635                                     |
| 3000                                 | Total Fund Balances                                 | <u>212,429</u>                 | <u>287,064</u>                             |
| 4000                                 | Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 220,496</u>              | <u>\$ 369,310</u>                          |

COVINGTON INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2020

| Data<br>Control<br>Codes  | 211<br>ESEA I, A<br>Improving<br>Basic Program | 240<br>National<br>Breakfast and<br>Lunch Program | 255<br>ESEA II,A<br>Training and<br>Recruiting |
|---|--|---|--|
| <b>REVENUES:</b>  |  |   |  |
| 5700 Total Local and Intermediate Sources                         | \$ -   | \$ 51,661   | \$ -   |
| 5800 State Program Revenues                                       | -  | 8,493   | -  |
| 5900 Federal Program Revenues                                     | 50,299   | 185,576   | 9,266  |
| 5020 Total Revenues   | 50,299   | 245,730   | 9,266  |
| <b>EXPENDITURES:</b>  |  |   |  |
| Current:  |  |   |  |
| 0011 Instruction  | 50,299   | -   | 9,266  |
| 0012 Instructional Resources and Media Services                   | -  | -   | -  |
| 0031 Guidance, Counseling, and Evaluation Services                | -  | -   | -  |
| 0035 Food Services  | -  | 275,384   | -  |
| 0036 Extracurricular Activities                                   | -  | -   | -  |
| 0051 Facilities Maintenance and Operations                        | -  | -   | -  |
| 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   | 50,299   | 275,384   | 9,266  |
| 1100 Excess (Deficiency) of Revenues Over (Under)<br>Expenditures | -  | (29,654)  | -  |
| <b>OTHER FINANCING SOURCES (USES):</b>                            |  |   |  |
| 7915 Transfers In   | -  | 29,654  | -  |
| 1200 Net Change in Fund Balance                                   | -  | -   | -  |
| 0100 Fund Balance - September 1 (Beginning)                       | -  | -   | -  |
| 1300 Increase (Decrease) in Fund Balance                          | -  | -   | -  |
| 3000 Fund Balance - August 31 (Ending)                            | \$ -   | \$ -  | \$ -   |



| 270<br>ESEA VI, Pt B<br>Rural & Low<br>Income | 289<br>Other Federal<br>Special<br>Revenue Funds | 314<br>SSA<br>IDEA, Part B<br>Preschool | 397<br>Advanced<br>Placement<br>Incentives | 410<br>State<br>Instructional<br>Materials | 429<br>Other State<br>Special<br>Revenue Funds | 461<br>Campus<br>Activity<br>Funds | Total<br>Nonmajor<br>Special<br>Revenue Funds |
|---|--|---|--|--|--|------------------------------------|---|
| \$ -  | \$ -   | \$ -                                    | \$ -                                       | \$ -                                       | \$ -   | \$ 64,454                          | \$ 116,115                                    |
| -   | -  | -                                       | 4  | 14,946                                     | 25,000   | -                                  | 48,443  |
| 12,566  | 10,591   | 36,452                                  | -  | -  | -  | -                                  | 304,750                                       |
| 12,566  | 10,591   | 36,452                                  | 4  | 14,946                                     | 25,000   | 64,454                             | 469,308                                       |
| 12,566  | 10,591   | 16,632                                  | -  | 14,946                                     | -  | 11,925                             | 126,225                                       |
| -   | -  | -                                       | -  | -  | -  | 5,570                              | 5,570   |
| -   | -  | -                                       | 4  | -  | -  | -                                  | 4   |
| -   | -  | -                                       | -  | -  | -  | -                                  | 275,384                                       |
| -   | -  | -                                       | -  | -  | -  | 31,875                             | 31,875  |
| -   | -  | -                                       | -  | -  | 25,000   | -                                  | 25,000  |
| -   | -  | -                                       | -  | -  | -  | -                                  | -   |
| -   | -  | -                                       | -  | -  | -  | -                                  | -   |
| -   | -  | 19,820                                  | -  | -  | -  | -                                  | 19,820  |
| 12,566  | 10,591   | 36,452                                  | 4  | 14,946                                     | 25,000   | 49,370                             | 483,878                                       |
| -   | -  | -                                       | -  | -  | -  | 15,084                             | (14,570)                                      |
| -   | -  | -                                       | -  | -  | -  | -                                  | 29,654  |
| -   | -  | -                                       | -  | -  | -  | 15,084                             | 15,084  |
| -   | -  | -                                       | -  | -  | -  | -                                  | -   |
| -   | -  | -                                       | -  | -  | -  | 59,551                             | 59,551  |
| \$ -  | \$ -   | \$ -                                    | \$ -                                       | \$ -                                       | \$ -   | \$ 74,635                          | \$ 74,635                                     |

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COVINGTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2020

| Data<br>Control<br>Codes                                       | 599<br>Debt<br>Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|--------------------------------|--|
| <b>REVENUES:</b>   |                                |  |
| 5700 Total Local and Intermediate Sources                      | \$ 205,128                     | \$ 321,243                                 |
| 5800 State Program Revenues                                    | 9,548                          | 57,991                                     |
| 5900 Federal Program Revenues                                  | -                              | 304,750                                    |
| 5020 Total Revenues  | 214,676                        | 683,984                                    |
| <b>EXPENDITURES:</b>   |                                |  |
| Current:   |                                |  |
| 0011 Instruction   | -                              | 126,225                                    |
| 0012 Instructional Resources and Media Services                | -                              | 5,570                                      |
| 0031 Guidance, Counseling, and Evaluation Services             | -                              | 4  |
| 0035 Food Services   | -                              | 275,384                                    |
| 0036 Extracurricular Activities                                | -                              | 31,875                                     |
| 0051 Facilities Maintenance and Operations                     | -                              | 25,000                                     |
| Debt Service:  |                                |  |
| 0071 Principal on Long-Term Debt                               | 111,000                        | 111,000                                    |
| 0072 Interest on Long-Term Debt                                | 10,095                         | 10,095                                     |
| Intergovernmental:   |                                |  |
| 0093 Payments to Fiscal Agent/Member Districts of SSA          | -                              | 19,820                                     |
| 6030 Total Expenditures  | 121,095                        | 604,973                                    |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | 93,581                         | 79,011                                     |
| <b>OTHER FINANCING SOURCES (USES):</b>                         |                                |  |
| 7915 Transfers In  | -                              | 29,654                                     |
| 1200 Net Change in Fund Balance                                | 93,581                         | 108,665                                    |
| 0100 Fund Balance - September 1 (Beginning)                    | 118,848                        | 118,848                                    |
| 1300 Increase (Decrease) in Fund Balance                       | -                              | 59,551                                     |
| 3000 Fund Balance - August 31 (Ending)                         | \$ 212,429                     | \$ 287,064                                 |

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*REQUIRED TEA SCHEDULES*

COVINGTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2020

| Last 10 Years Ended<br>August 31 | (1)         | (2)          | (3)  |
|----------------------------------|-------------|--------------|--|
|                                  | Tax Rates   |              | Assessed/Appraised<br>Value for School<br>Tax Purposes |
|                                  | Maintenance | Debt Service |  |
| 2011 and prior years             | Various     | Various      | \$ Various   |
| 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                             | 1.170000    | 0.130300     | 91,715,995   |
| 2020 (School year under audit)   | 1.068300    | 0.210300     | 96,988,712   |
| 1000 TOTALS                      |             |              |  |

| (10)<br>Beginning<br>Balance<br>9/1/2019 | (20)<br>Current<br>Year's<br>Total Levy | (31)<br>Maintenance<br>Collections | (32)<br>Debt Service<br>Collections | (40)<br>Entire<br>Year's<br>Adjustments | (50)<br>Ending<br>Balance<br>8/31/2020 |
|--|---|------------------------------------|-------------------------------------|---|--|
| \$ 9,885                                 | \$ -                                    | \$ -                               | \$ 306                              | \$ -                                    | \$ 9,579                               |
| 2,386                                    | -                                       | 168                                | 33                                  | -                                       | 2,185                                  |
| 1,630                                    | -                                       | 140                                | 28                                  | -                                       | 1,462                                  |
| 1,480                                    | -                                       | 133                                | 16                                  | -                                       | 1,331                                  |
| 2,001                                    | -                                       | (7,250)                            | (1,116)                             | (8,515)                                 | 1,852                                  |
| 2,996                                    | -                                       | 1,093                              | 155                                 | -                                       | 1,748                                  |
| 5,164                                    | -                                       | 1,516                              | 182                                 | -                                       | 3,466                                  |
| 16,329                                   | -                                       | 10,449                             | 1,142                               | (649)                                   | 4,089                                  |
| 38,709                                   | -                                       | 22,039                             | 2,454                               | (1,698)                                 | 12,518                                 |
| -  | 1,240,098                               | 1,002,680                          | 197,885                             | (2,890)                                 | 36,643                                 |
| <u>\$ 80,580</u>                         | <u>\$ 1,240,098</u>                     | <u>\$ 1,030,968</u>                | <u>\$ 201,085</u>                   | <u>\$ (13,752)</u>                      | <u>\$ 74,873</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, 2020

| Data<br>Control<br>Codes                          | Budgeted Amounts |           | Actual Amounts<br>(GAAP BASIS) | Variance With<br>Final Budget<br>Positive or<br>(Negative) |
|---|------------------|-----------|--------------------------------|--|
|   | Original         | Final     |                                |  |
| REVENUES:   |                  |           |                                |  |
| 5700 Total Local and Intermediate Sources         | \$ 62,000        | \$ 62,000 | \$ 51,661                      | \$ (10,339)  |
| 5800 State Program Revenues                       | 7,279            | 7,279     | 8,493                          | 1,214  |
| 5900 Federal Program Revenues                     | 147,250          | 147,250   | 185,576                        | 38,326   |
| 5020 Total Revenues                               | 216,529          | 216,529   | 245,730                        | 29,201   |
| EXPENDITURES:                                     |                  |           |                                |  |
| Current:  |                  |           |                                |  |
| 0035 Food Services                                | 252,383          | 300,633   | 275,384                        | 25,249   |
| 6030 Total Expenditures                           | 252,383          | 300,633   | 275,384                        | 25,249   |
| 1100 Excess (Deficiency) of Revenues Over (Under) | (35,854)         | (84,104)  | (29,654)                       | 54,450   |
| Expenditures                                      |                  |           |                                |  |
| OTHER FINANCING SOURCES (USES):                   |                  |           |                                |  |
| 7915 Transfers In                                 | 35,854           | 84,104    | 29,654                         | (54,450)   |
| 1200 Net Change in Fund Balances                  | -                | -         | -                              | -  |
| 0100 Fund Balance - September 1 (Beginning)       | -                | -         | -                              | -  |
| 3000 Fund Balance - August 31 (Ending)            | \$ -             | \$ -      | \$ -                           | \$ -   |



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, 2020

| Data<br>Control<br>Codes                    | Budgeted Amounts |            | Actual Amounts<br>(GAAP BASIS) | Variance With<br>Final Budget<br>Positive or<br>(Negative) |
|---|------------------|------------|--------------------------------|--|
|   | Original         | Final      |                                |  |
| REVENUES:                                   |                  |            |                                |  |
| 5700 Total Local and Intermediate Sources   | \$ 121,096       | \$ 214,256 | \$ 205,128                     | \$ (9,128)   |
| 5800 State Program Revenues                 | -                | -          | 9,548                          | 9,548  |
| 5020 Total Revenues                         | 121,096          | 214,256    | 214,676                        | 420  |
| EXPENDITURES:                               |                  |            |                                |  |
| Debt Service:                               |                  |            |                                |  |
| 0071 Principal on Long-Term Debt            | 111,000          | 204,160    | 111,000                        | 93,160   |
| 0072 Interest on Long-Term Debt             | 10,096           | 10,096     | 10,095                         | 1  |
| 6030 Total Expenditures                     | 121,096          | 214,256    | 121,095                        | 93,161   |
| 1200 Net Change in Fund Balances            | -                | -          | 93,581                         | 93,581   |
| 0100 Fund Balance - September 1 (Beginning) | 118,848          | 118,848    | 118,848                        | -  |
| 3000 Fund Balance - August 31 (Ending)      | \$ 118,848       | \$ 118,848 | \$ 212,429                     | \$ 93,581  |

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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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated December 15, 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

December 15, 2020

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**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED AUGUST 31, 2020**

| 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 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.</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, 2020**

**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  | \$ 982,179                 |
| 84.173A - IDEA-B Preschool  | <u>36,452</u>              |
| Total   | <u><u>\$ 1,018,631</u></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 the months of September thru December, 2019 and July, 2020 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<br>Uncollateralized | Days<br>Uncollateralized |
|---------------|--------------------------|--------------------------|
| September     | \$ 253,831               | 1                        |
| October       | \$ 104,606               | 3                        |
| November      | \$ 78,841                | 2                        |
| December      | \$ 23,014                | 1                        |
| July          | \$ 135,040               | 7                        |

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 valuation changes 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, 2020*

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, 2020. 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, 2020.

## 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

December 15, 2020



COVINGTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31 2020

EXHIBIT K-1

| (1)   | (2)                       | (3)  | (4)                     |
|---|---------------------------|--|-------------------------|
| FEDERAL GRANTOR/<br>PASS-THROUGH GRANTOR/<br>PROGRAM or CLUSTER TITLE | Federal<br>CFDA<br>Number | Pass-Through<br>Entity Identifying<br>Number | Federal<br>Expenditures |
| <u>U.S. Department of Agriculture</u>                                 |                           |  |                         |
| Passed Through State Department of Agriculture:                       |                           |  |                         |
| School Breakfast Program *  | 10.553                    | N/A  | \$ 52,118               |
| National School Lunch Program - cash assistance *                     | 10.555                    | N/A  | 98,527                  |
| National School Lunch Program - noncash assistance *                  | 10.555                    | N/A  | 10,409                  |
| Child and Adult Care Food Program *                                   | 10.558                    | N/A  | 24,522                  |
| Total Passed Through State Department of Agriculture                  |                           |  | <u>185,576</u>          |
| Total U.S. Department of Agriculture                                  |                           |  | <u>185,576</u>          |
| <u>U.S. Department of Education</u>                                   |                           |  |                         |
| Direct Programs:  |                           |  |                         |
| ESEA Title VI, Part B, Rural and Low Income Schools                   | 84.358                    | N/A  | 12,566                  |
| Total Direct Programs   |                           |  | <u>12,566</u>           |
| Passed Through State Department of Education:                         |                           |  |                         |
| ESEA Title I Part A - Improving Basic Programs                        | 84.010A                   | 20610101109903                               | 50,299                  |
| IDEA-B Formula *  | 84.027A                   | 196600011099036000                           | 74,567                  |
| IDEA-B Formula *  | 84.027A                   | 206600011099036000                           | 907,612                 |
| IDEA-B Preschool *  | 84.173A                   | 186610011099036000                           | 36,452                  |
| ESEA Title II, Part A - Teacher and Principal Training and Recruiting | 84.367A                   | 20694501109903                               | 9,266                   |
| ESEA Title IV, Part A, Subpart I                                      | 84.424A                   | 20680101109903                               | 10,591                  |
| Total Passed Through State Department of Education                    |                           |  | <u>1,088,787</u>        |
| Total U.S. Department of Education                                    |                           |  | <u>1,101,353</u>        |
| TOTAL EXPENDITURES OF FEDERAL AWARDS                                  |                           |  | <u>\$ 1,286,929</u>     |

\* 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, 2020**

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. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with Section H, Period of Availability of Federal Funds, Part 3, OMB Uniform Guidance Compliance Supplement.
4. Non-monetary assistance received from the Commodity Supplemental Food Program is recorded in fair market value of the commodities received and disbursed. The revenue and expenditures are reported in the Child Nutrition Special Revenue Fund.
5. Reconciliation of Schedule of Expenditures of Federal Awards to Exhibit C-3:

|  |                            |
|--|----------------------------|
| Total per expenditures of federal awards (Exhibit K-1) | \$ 1,286,929               |
| SHARS reimbursement                                    | 54,105                     |
| Total federal revenue (Exhibit C-3)                    | <u><u>\$ 1,341,034</u></u> |