

**COVINGTON INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL AND COMPLIANCE REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2018*

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**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL AND COMPLIANCE REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

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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, 2018, at a meeting of the board of school trustees of such school district on the  
\_\_\_ day of \_\_\_\_\_, 2019.

\_\_\_\_\_  
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, 2018, 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, 2018, 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.

#### *Change in Accounting Principle*

As discussed in Note T to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. My opinion is not modified with respect to this matter.

## **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) and Schedule of District Contributions to TRS as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedure to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, the TEA required schedules and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, the TEA required schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements, the TEA required schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The combining and individual nonmajor fund financial statements, the TEA required schedules and the schedule of expenditures of federal awards have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated January 14, 2019, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Cameron L. Gulley  
Certified Public Accountant

January 14, 2019



# 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, 2018. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

### USING THIS ANNUAL REPORT

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

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

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

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

### Reporting the District as a Whole

#### *The Statement of Net Position and the Statement of Activities*

The analysis of the District's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

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

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

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin on page 13 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's fund type - governmental - use the following accounting approaches.

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

### **The District as Trustee**

#### ***Reporting the District's Fiduciary Responsibilities***

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Total net position of the District's governmental activities decreased from \$4,493,639 to \$1,435,139. Implementation of new accounting pronouncement GASB Statement No. 75 related to accruals of other post-employment benefit liabilities (OPEB) was the primary reason behind the significant decrease in net position for the year. The net effect of GASB 75 on current year net position was approximately (\$3.0) million. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased from \$123,436 to (\$2,963,519) due to the effects of GASB 75. Current and other assets increased by \$196,000 due to net increases in cash offset by reductions in receivables. Capital assets decreased by \$65,000 due to depreciation expense in excess of asset additions. Long-term liabilities increased by \$2 million due to the effects of GASB 75 offset by principal retired on outstanding debt. Other liabilities increased by \$13,000 due to changes in ending accrued liabilities. Deferred resource outflows related to TRS net pension and OPEB liabilities decreased by \$165,053 and deferred resource inflows related to TRS net pension and OPEB liabilities increased by \$1,009,127.

The District's total revenues were \$260,000 less than last year. Operating grants and contributions were lower by \$930,000 due primarily to the effects of negative on-behalf revenue related to GASB 75. Increases in property tax revenues of \$107,000 were due current year valuation increases. State aid revenues were higher by \$146,000. Increases in charges for services by \$413,000 were related to fees charged to member districts of a local shared-service arrangement.

Changes in expenses for the year are not comparable to prior year due to the overall effects of GASB 75 on current year expenses. Current year on-behalf activity relative to last year was negative by \$853,000. Therefore, nearly every functional category was affected by this significant net decrease in expenses.

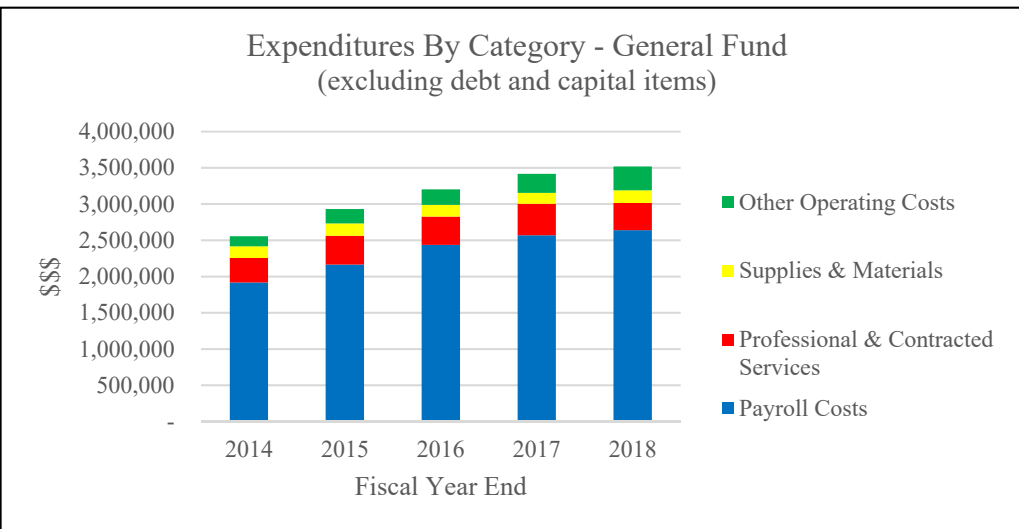
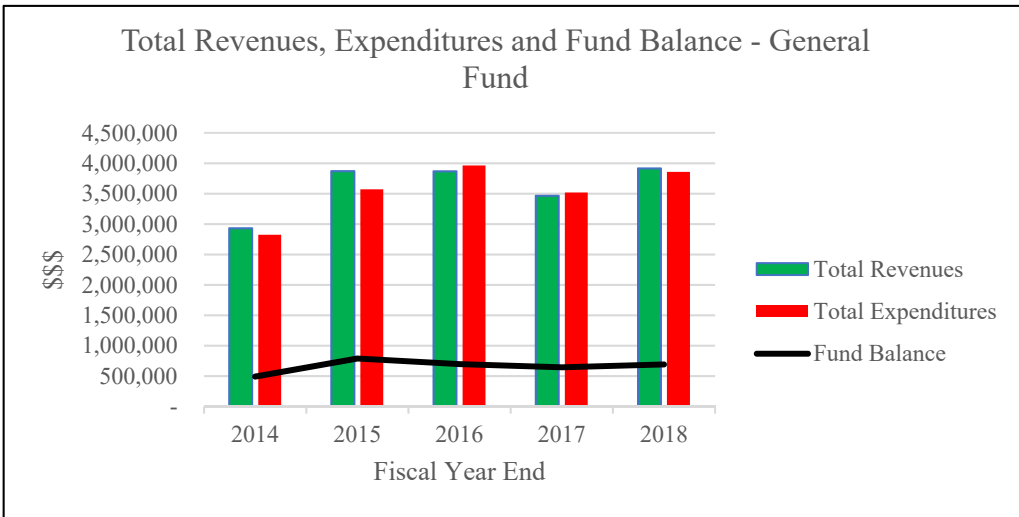
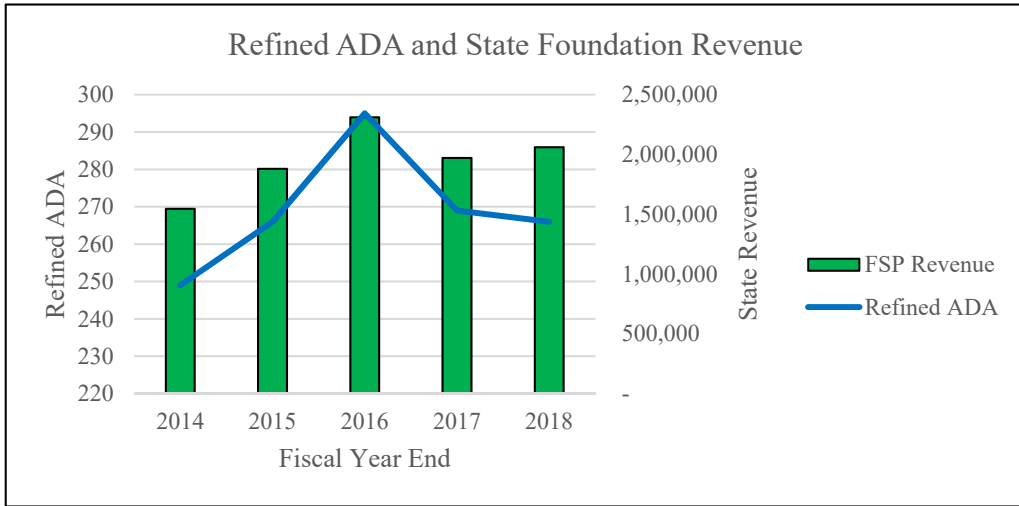
Excluding the effects on expenses of GASB 75, total expenses increased by approximately \$240,000. Net changes in the following functional categories were due to the following:

Instructional costs increased by \$87,000 due mainly to payroll costs. Child nutrition expenses increased by \$38,000 due to repairs and food costs. General administration expenses increased by \$140,000 due to payroll, fiscal agent administration fee and contract services. Payments related to shared service arrangements increased by \$46,000 due to higher proportionate share special education costs. School leadership expenses decreased by \$33,000 due mainly to payroll costs. Student support services decreased due to reductions in payroll costs offset by higher bus fleet repairs. Plant maintenance expenses were lower related to reduced campus repairs.

	Governmental Activities 2018	Governmental Activities 2017	Variance Increase/ (Decrease)
Current and other assets	\$ 1,538,095	\$ 1,342,352	\$ 195,743
Capital assets	4,704,718	4,769,364	(64,646)
Deferred resource outflows for TRS	753,501	917,554	(164,053)
Total assets and deferred resource outflows	6,996,314	7,029,270	(32,956)
Long-term liabilities	4,171,416	2,168,651	2,002,765
Other liabilities	300,112	286,460	13,652
Deferred resource inflows for TRS	1,089,647	80,520	1,009,127
Total liabilities and deferred resource inflows	5,561,175	2,535,631	3,025,544
Net position:			
Net investment in capital assets	3,907,981	3,998,396	(90,415)
Restricted for federal and state programs	0	99	(99)
Restricted for debt service	108,060	94,589	13,471
Restricted for other purposes	382,617	277,119	105,498
Unrestricted	(2,963,519)	123,436	(3,086,955)
Total net position	\$ 1,435,139	\$ 4,493,639	\$ (3,058,500)

	Governmental Activities 2018	Governmental Activities 2017	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 2,530,079	\$ 2,116,584	\$ 413,495
Operating grants and contributions	708,993	1,638,547	(929,554)
General Revenues:			
Property taxes	1,110,434	1,002,962	107,472
State aid - formula grants	2,222,558	2,076,270	146,288
Other	4,797	2,851	1,946
Total Revenues	6,576,861	6,837,214	(260,353)
Expenses:			
Instruction, curriculum and media services	2,719,585	3,498,904	779,319
Instructional and school leadership	219,872	349,874	130,002
Student support services	690,701	945,557	254,856
Child nutrition	194,984	191,911	(3,073)
Extracurricular activities	146,021	169,200	23,179
General administration	739,121	830,496	91,375
Plant maintenance, security & data processing	524,917	661,238	136,321
Debt service	15,295	15,122	(173)
Payments to fiscal agent/member districts of SSA	526,951	480,474	(46,477)
Other intergovernmental charges	32,067	29,997	(2,070)
Total Expenses	5,809,517	7,172,773	1,363,259
Increase (Decrease) in Net Position	767,347	(335,559)	1,102,906
Net Position - beginning of year	4,493,639	4,829,198	(335,559)
Prior period adjustment	(3,825,847)	0	(3,825,847)
Net Position - end of year	\$ 1,435,139	\$ 4,493,639	\$ (3,058,500)

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



## THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$1,175,366, an increase of \$143,090 in the District's Governmental Funds from last year's fund balance of \$1,032,276 (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 several times during the year. The only significant budget amendments made were for financing the purchase of two buses during the year and for the construction of a new bus barn. Other amendments were to mainly re-allocate existing budgetary balances across functions.

The District's General Fund balance of \$692,263 reported on pages 15 and 43 differs from the General Fund's budgetary fund balance of \$567,655 reported in the budgetary comparison schedule on page 43 due to expenditures being less than budgeted.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### *Capital Assets*

At the end of fiscal year 2018, the District had \$7,650,069 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Following were asset additions for the year.

#### Asset additions:

2019 IC 71-passenger buses (2)	\$	182,170
Bus barn		29,513
Building HVAC improvements		22,750
Other assets		12,469
Total asset additions	\$	<u>246,902</u>

### *Debt*

The District had three 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:

	2018	2017
Bonds payable	\$ 545,000	\$ 648,000
Notes payable	203,918	65,606
Total outstanding debt	\$ <u>748,918</u>	\$ <u>713,606</u>

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

The District should continue to maintain its financial health. A budget adopted for 2018-19 reflected tax rates at \$1.17 for maintenance and operations and \$0.1303 for debt service. Property valuations continued to increase by approximately 10% from 2017-18. General fund revenues were budgeted at approximately \$3.66 million and expenditures at approximately \$3.70 million for a projected budget deficit of \$38,000. Therefore, the District expects that its general fund balance will be approximately \$0.65 million at August 31, 2019.

## 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, 2018

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 1,302,797
1220 Property Taxes Receivable (Delinquent)	88,553
1230 Allowance for Uncollectible Taxes	(18,679)
1240 Due from Other Governments	165,424
Capital Assets:	
1510 Land	153,050
1520 Buildings, Net	4,023,376
1530 Furniture and Equipment, Net	460,717
1560 Library Books and Media, Net	24,213
1590 Infrastructure, Net	43,362
1000 Total Assets	6,242,813
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1703 Deferred Outflow Related to TRS OPEB	35,216
1705 Deferred Outflow Related to TRS Pension	718,285
1700 Total Deferred Outflows of Resources	753,501
<b>LIABILITIES</b>	
2110 Accounts Payable	98,150
2140 Interest Payable	7,257
2160 Accrued Wages Payable	103,710
2180 Due to Other Governments	4,513
2190 Due to Student Groups	59,168
2200 Accrued Expenses	26,264
2300 Unearned Revenue	1,050
Noncurrent Liabilities	
2501 Due Within One Year	163,573
2502 Due in More Than One Year	633,164
2540 Net Pension Liability (District's Share)	1,213,252
2545 Net OPEB Liability (District's Share)	2,161,427
2000 Total Liabilities	4,471,528
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2603 Deferred Inflow Related to TRS OPEB	904,128
2605 Deferred Inflow Related to TRS Pension	185,519
2600 Total Deferred Inflows of Resources	1,089,647
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	3,907,981
3850 Restricted for Debt Service	108,060
3890 Restricted for Other Purposes	382,617
3900 Unrestricted	(2,963,519)
3000 Total Net Position	\$ 1,435,139

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, 2018

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 2,651,595	\$ 1,186,256	\$ 223,745	\$ (1,241,594)
12 Instructional Resources and Media Services	38,036	-	(10,640)	(48,676)
13 Curriculum and Staff Development	29,954	24,713	10,099	4,858
21 Instructional Leadership	355	-	-	(355)
23 School Leadership	219,517	-	(47,978)	(267,495)
31 Guidance, Counseling and Evaluation Services	566,919	543,701	556,444	533,226
33 Health Services	21,224	-	(5,528)	(26,752)
34 Student (Pupil) Transportation	102,558	-	5,093	(97,465)
35 Food Services	194,984	48,346	110,626	(36,012)
36 Extracurricular Activities	146,021	10,365	(9,959)	(145,615)
41 General Administration	739,121	420,133	(119,611)	(438,599)
51 Facilities Maintenance and Operations	498,287	49,428	(59,984)	(508,843)
52 Security and Monitoring Services	778	-	-	(778)
53 Data Processing Services	25,852	-	-	(25,852)
72 Debt Service - Interest on Long Term Debt	15,295	-	-	(15,295)
93 Payments related to Shared Services Arrangements	526,951	247,137	56,686	(223,128)
99 Other Intergovernmental Charges	32,067	-	-	(32,067)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 5,809,514</u>	<u>\$ 2,530,079</u>	<u>\$ 708,993</u>	<u>(2,570,442)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			1,000,593
DT	Property Taxes, Levied for Debt Service			109,841
SF	State Aid - Formula Grants			2,222,558
IE	Investment Earnings			1,239
MI	Miscellaneous Local and Intermediate Revenue			3,558
TR	Total General Revenues			<u>3,337,789</u>
CN	Change in Net Position			767,347
NB	Net Position - Beginning			4,493,639
PA	Prior Period Adjustment			(3,825,847)
NE	Net Position--Ending			<u>\$ 1,435,139</u>

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

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COVINGTON INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2018

Data Control Codes	10 General Fund	313 SSA - IDEA B Formula	437 SSA - Special Education
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 707,249	\$ 3,228	\$ 428,058
1220 Property Taxes - Delinquent	78,303	-	-
1230 Allowance for Uncollectible Taxes (Credit)	(16,003)	-	-
1240 Receivables from Other Governments	125,621	-	10,007
1260 Due from Other Funds	11,725	-	-
1000 Total Assets	<u>\$ 906,895</u>	<u>\$ 3,228</u>	<u>\$ 438,065</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 20,671	\$ -	\$ 55,448
2160 Accrued Wages Payable	96,651	-	-
2170 Due to Other Funds	9,023	-	-
2180 Due to Other Governments	-	3,228	-
2190 Due to Student Groups	-	-	-
2200 Accrued Expenditures	25,987	-	-
2300 Unearned Revenues	-	-	-
2000 Total Liabilities	<u>152,332</u>	<u>3,228</u>	<u>55,448</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	62,300	-	-
2600 Total Deferred Inflows of Resources	<u>62,300</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
3480 Retirement of Long-Term Debt	-	-	-
3490 Other Restricted Fund Balance	-	-	382,617
3600 Unassigned Fund Balance	692,263	-	-
3000 Total Fund Balances	<u>692,263</u>	<u>-</u>	<u>382,617</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 906,895</u>	<u>\$ 3,228</u>	<u>\$ 438,065</u>

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

461 Campus Activity Fund	Other Funds	Total Governmental Funds
\$ 59,168	\$ 105,094	\$ 1,302,797
-	10,250	88,553
-	(2,676)	(18,679)
-	29,796	165,424
-	9,023	20,748
<u>\$ 59,168</u>	<u>\$ 151,487</u>	<u>\$ 1,558,843</u>
\$ -	\$ 22,031	\$ 98,150
-	7,059	103,710
-	11,725	20,748
-	1,285	4,513
59,168	-	59,168
-	277	26,264
-	1,050	1,050
<u>59,168</u>	<u>43,427</u>	<u>313,603</u>
-	7,574	69,874
-	7,574	69,874
-	100,486	100,486
-	-	382,617
-	-	692,263
<u>-</u>	<u>100,486</u>	<u>1,175,366</u>
<u>\$ 59,168</u>	<u>\$ 151,487</u>	<u>\$ 1,558,843</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2018

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	1,175,366
<b>1</b> 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 \$7,632,829 and the accumulated depreciation was (\$2,863,465). 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.		3,998,438
<b>2</b> 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.		393,760
<b>3</b> 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 \$718,285, a deferred resource inflow in the amount of \$185,519 and a net pension liability in the amount of \$1,213,252.		(3,710,825)
<p>Also 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 \$35,216, a deferred resource inflow in the amount of \$904,128 and a net OPEB liability in the amount of \$2,161,427. The net effect of items related to GASB 68 and GASB 75 for pension and OPEB liabilities was a decrease in net position.</p>		
<b>4</b> Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(254,228)
<b>5</b> 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, reclassifying the proceeds of long-term debt as an increase in notes payable 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.		(167,372)
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>1,435,139</b>

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 BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	10 General Fund	313 SSA - IDEA B Formula	437 SSA - Special Education
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 1,261,862	\$ -	\$ 2,216,494
5800 State Program Revenues	2,415,559	-	-
5900 Federal Program Revenues	54,231	1,003,298	-
5020 Total Revenues	<u>3,731,652</u>	<u>1,003,298</u>	<u>2,216,494</u>
EXPENDITURES:			
Current:			
0011 Instruction	1,683,302	379,088	1,129,651
0012 Instructional Resources and Media Services	63,954	-	-
0013 Curriculum and Instructional Staff Development	9,466	10,099	10,389
0021 Instructional Leadership	-	-	355
0023 School Leadership	310,690	-	-
0031 Guidance, Counseling and Evaluation Services	58,197	566,726	118,190
0033 Health Services	33,648	-	-
0034 Student (Pupil) Transportation	244,534	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	127,063	-	-
0041 General Administration	408,703	-	547,160
0051 Facilities Maintenance and Operations	527,677	-	70,647
0052 Security and Monitoring Services	778	-	-
0053 Data Processing Services	25,852	-	-
Debt Service:			
0071 Principal on Long Term Debt	43,858	-	-
0072 Interest on Long Term Debt	1,955	-	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	29,513	-	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	202,938	47,385	267,327
0099 Other Intergovernmental Charges	32,067	-	-
6030 Total Expenditures	<u>3,804,195</u>	<u>1,003,298</u>	<u>2,143,719</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(72,543)</u>	<u>-</u>	<u>72,775</u>
OTHER FINANCING SOURCES (USES):			
7914 Non-Current Loans	182,170	-	-
7915 Transfers In	-	-	-
8911 Transfers Out (Use)	(51,877)	-	-
7080 Total Other Financing Sources (Uses)	<u>130,293</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	57,750	-	72,775
0100 Fund Balance - September 1 (Beginning)	643,609	-	116,189
1300 Increase (Decrease) in Fund Balance	(9,096)	-	193,653
3000 Fund Balance - August 31 (Ending)	<u>\$ 692,263</u>	<u>\$ -</u>	<u>\$ 382,617</u>

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



461 Campus Activity Fund	Other Funds	Total Governmental Funds
\$ -	\$ 157,120	\$ 3,635,476
-	56,664	2,472,223
-	283,274	1,340,803
-	497,058	7,448,502
-	166,152	3,358,193
-	-	63,954
-	-	29,954
-	-	355
-	-	310,690
-	-	743,113
-	-	33,648
-	10,342	254,876
-	230,217	230,217
-	-	127,063
-	-	955,863
-	-	598,324
-	-	778
-	-	25,852
-	103,000	146,858
-	17,358	19,313
-	-	29,513
-	9,301	526,951
-	-	32,067
-	536,370	7,487,582
-	(39,312)	(39,080)
-	-	182,170
-	51,877	51,877
-	-	(51,877)
-	51,877	182,170
-	12,565	143,090
-	250,918	1,010,716
-	(162,997)	21,560
\$ -	\$ 100,486	\$ 1,175,366

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, 2018

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	143,090
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.		393,760
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.		(254,228)
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, reclassifying the proceeds of notes payable 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.		(155,166)
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$130,083. 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 net position totaling \$124,180. 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 \$125,740.		639,891
Similarly, GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$34,878. 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 net position totaling \$25,823. 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 (\$750,673). The net effect for both GASB 68 and GASB 75 related to pension and OPEB expenses is an increase in the change in net position.		
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>767,347</b>

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, 2018

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	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 35,578
Total Assets	<u>\$ 35,578</u>
LIABILITIES	
Due to Student Groups	\$ 35,578
Total Liabilities	<u>\$ 35,578</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, 2018*

**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 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.
4. **Campus Activity Special Revenue Fund.** The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

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

Governmental Funds:

5. **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.
6. **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:

7. **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	\$ 718,285
Deferred charges related to TRS OPEB	\$ 35,216

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	\$ 185,519
Deferred charges related to TRS OPEB	\$ 904,128

- 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:

- 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.
- 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.
- 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.)
- 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 Child Nutrition Program fund:

Functional Category	Amount Over Budget	Explanation
0035 - Food services	\$ 3,006	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, 2018, the following are the District's cash and cash equivalents (including it's student fund) with respective maturities and credit rating:

Type of Deposit	Fair Value	Percent	Maturity < 1 Yr	Maturity 1-10 Yrs	Maturity > 10 Yrs	Credit Rating
Cash						
Money market and FDIC insured accounts	\$ 1,334,696	100%	\$ 1,334,696			N/A
Investment pools	3,679	0%	3,679			AAA
Total Cash and Cash Equivalents	<u>\$ 1,338,375</u>	<u>100%</u>	<u>\$ 1,338,375</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 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, 2018, 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, 2018, 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, 2018 is as follows:

	Receivable	Payable	Purpose	Current?
General fund	\$ 11,725	\$ 9,023	Temporary advances	Yes
Nonmajor governmental funds	9,023	11,725	Temporary advances	Yes
Total	<u>\$ 20,748</u>	<u>\$ 20,748</u>		

Interfund transfers for the year ended August 31, 2018 consisted of the following individual amounts:

Fund	Transfers In	Transfers Out	Purpose
Nonmajor governmental funds	\$ 51,877		Food service deficit transfer
General fund		51,877	Food service deficit transfer
Total	<u>\$ 51,877</u>	<u>\$ 51,877</u>	

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2018 were as follows:

	Property Taxes (net)	Other Government	Total Receivables
Governmental Activities:			
General fund	\$ 62,300	\$ 125,621	\$ 187,921
SSA special education fund		10,007	10,007
Nonmajor governmental funds	7,574	29,796	37,370
<b>Total Governmental Activities</b>	<b>\$ 69,874</b>	<b>\$ 165,424</b>	<b>\$ 235,298</b>

Payables at August 31, 2018 were as follows:

	Accounts	Salaries and Benefits	Other Governments	Total Payables
Governmental Activities:				
General fund	\$ 20,671	\$ 122,638		\$ 143,309
SSA IDEA B fund			3,228	3,228
SSA special education fund	55,448			55,448
Nonmajor governmental funds	22,031	7,336	1,285	30,652
<b>Total Governmental Activities</b>	<b>\$ 98,150</b>	<b>\$ 129,974</b>	<b>\$ 4,513</b>	<b>\$ 232,637</b>

**F. CAPITAL ASSET ACTIVITY**

Capital asset activity for the year ended August 31, 2018, was as follows:

	(Restated) Balance 8/31/17	Additions	Disposals	Balance 8/31/18
Governmental activities:				
Land and improvements	\$ 153,050			\$ 153,050
Buildings and improvements	6,289,464	52,263		6,341,727
Vehicles and equipment	833,563	187,360		1,020,923
Library books	31,104	7,279		38,383
Infrastructure	95,986			95,986
<b>Totals</b>	<b>7,403,167</b>	<b>246,902</b>		<b>7,650,069</b>
Less accumulated depreciation for:				
Buildings and improvements	2,158,385	159,966		2,318,351
Vehicles and equipment	470,320	89,886		560,206
Library books	12,432	1,738		14,170
Infrastructure	49,986	2,638		52,624
<b>Total accumulated depreciation</b>	<b>2,691,123</b>	<b>254,228</b>		<b>2,945,351</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 4,712,044</b>	<b>\$ (7,326)</b>	<b>\$ 0</b>	<b>\$ 4,704,718</b>

Beginning balances were re-characterized for infrastructure assets previously categorized as buildings and improvements along with the related accumulated depreciation expense on those assets. Additionally, erroneous balances for assets long-ago disposed but not removed were adjusted off as beginning balance adjustments. Basis adjustment for those asset corrections totaled (\$229,662).

Additionally, prior year accumulated depreciation was over-stated for understated useful lives on numerous assets (particularly buses) and some assets which were not being depreciated at all as well as the accumulated depreciation on those assets removed discussed in the previous paragraph. Beginning balance adjustments to accumulated depreciation totaled (\$172,342).

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

Governmental activities:

11 - Instruction	\$ 146,703
12 - Instructional resources and media services	476
34 - Student (pupil) transportation	38,593
35 - Food services	3,433
36 - Extracurricular activities	37,986
51 - Facilities maintenance and operations	27,037
Total depreciation expense - governmental activities	<u>\$ 254,228</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, 2018 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/17	Issued	Retired	Amounts Outstanding 8/31/18
Bonds and Notes Payable:						
Unlimited tax refunding bonds, series 2014	2.31%-4.63%	\$ 955,000	\$ 648,000		\$ 103,000	\$ 545,000
Public property finance contract #6175	2.97%	\$ 108,000	22,879		22,879	0
Time warrants, series 2014	2.895%	\$ 102,250	42,727		20,979	21,748
Public property finance contract #7894	3.59%	\$ 182,170	0	182,170		182,170
Subtotal - bonds and notes payable			713,606	182,170	146,858	748,918
Premium - bond, series 2014	N/A	N/A	57,382		9,563	47,819
Total Long-Term Debt			<u>\$ 770,988</u>	<u>\$ 182,170</u>	<u>\$ 156,421</u>	<u>\$ 796,737</u>

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 Time Warrants, Series 2014 -

On May 9, 2014, the District issued time warrants for the purpose of providing funds to pay all or a portion of the costs of constructing, purchasing, equipping or improving school buildings and facilities with such time pursuant to the authority conferred by and in conformity with the laws of the State of Texas, including Texas Education Code, Section 45.103, as amended. The original issue was for \$102,250 maturing in various amounts, with a stated interest rate of 2.895% and payable in annual installments of \$22,254 beginning May 1, 2015 and maturing on May 1, 2019.

Covington ISD Public Property Finance Contract #7894 -

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

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

Future debt service requirements are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2019	\$ 163,573	\$ 19,868	\$ 183,441
2020	146,149	15,420	161,569
2021	142,411	11,594	154,005
2022	146,718	7,839	154,557
2023	150,067	3,967	154,034
Totals	<u>\$ 748,918</u>	<u>\$ 58,688</u>	<u>\$ 807,606</u>

**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	\$ 179,336,534,819
Less: Plan Fiduciary Net Position	(147,361,922,120)
Net Pension Liability	<u>\$ 31,974,612,699</u>

Net Position as a percentage of Total Pension Liability 82.17%

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

**Contributions.** Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize

TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018.

Contribution Rates		
	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Current fiscal year District contributions	\$ 130,083
Current fiscal year Member contributions	\$ 278,658
2017 measurement year NECE contributions	\$ 161,932

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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases	3.5% to 9.5% including inflation
Benefit Changes During the Year	None
Ad hoc Post-Employment Benefit Changes	None

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

**Discount Rate.** The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

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

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

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability	\$ 2,045,303	\$ 1,213,252	\$ 520,434

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2018, the District reported a liability of \$1,213,252 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	\$ 1,213,252
State's proportionate share that is associated with the District	1,583,139
Total	<u>\$ 2,796,391</u>

The net pension liability was measured as of August 31, 2017 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, 2016 thru August 31, 2017.

At August 31, 2017 the District's proportion of the collective net pension liability was 0.0037944217% which was an increase of 0.0000957237% from its proportion measured as of August 31, 2016.

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

For the year ended August 31, 2018, the District recognized pension expense of \$370,676 and revenue of \$120,756 for support provided by the Sate in the Government-Wide Statement of Activities.

At August 31, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experiences	\$ 17,750	\$ 65,429
Changes in actuarial assumptions	55,266	31,638
Differences between projected and actual investment earnings		88,419
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	515,186	33
Total as of August 31, 2017 measurement date	\$ 588,202	\$ 185,519
Contributions paid to TRS subsequent to the measurement date	130,083	
Total as of August 31, 2018 fiscal year end	<u>\$ 718,285</u>	<u>\$ 185,519</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
2019	\$ 88,616
2020	\$ 166,061
2021	\$ 82,664
2022	\$ 52,899
2023	\$ 9,923
Thereafter	\$ 2,520

#### 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, 2017 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 43,885,784,621
Less: plan fiduciary net position	399,535,986
Net OPEB liability	<u>\$ 43,486,248,635</u>
Net position as a percentage of total OPEB liability	0.91%

**Benefits Provided.** TRS-Care provides a basic health insurance coverage (TRS-Care 1), 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 retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

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

TRS-Care Plan Premium Rates Effective Sept. 1, 2016 - Dec. 31, 2017			
	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ 0	\$ 70	\$ 100
Retiree and spouse	20	175	255
Retiree* and children	41	132	182
Retiree and family	61	237	337
Surviving children only	28	62	82

\* or surviving spouse

**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 1.0% 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		
	2017	2018
Active employee	0.65%	0.65%
Non-employer contributing entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private funding remitted by employers	1.00%	1.25%

Current fiscal year District contributions	\$	34,878
Current fiscal year member contributions	\$	23,523
2017 measurement year NECE contributions	\$	28,748

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

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

**Actuarial Assumptions.** The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation:

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate *	3.42% *
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.
Payroll Growth Rate	2.50%
Projected Salary Increases **	3.50% to 9.50% **
Healthcare Trend Rates ***	4.50% to 12.00% ***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

\* Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.

\*\* Includes inflation at 2.50%

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

**Discount Rate.** A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% 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, 2017.

**Sensitivity of the Net OPEB Liability:**

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

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District’s proportionate share of net OPEB liability	\$ 2,551,020	\$ 2,161,427	\$ 1,848,281

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District’s proportionate share of net OPEB liability	\$ 1,799,604	\$ 2,161,427	\$ 2,636,184

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At August 31, 2018, the District reported a liability of \$2,161,427 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	\$ 2,161,427
State’s proportionate share that is associated with the District	2,404,615
Total	<u>\$ 4,566,042</u>

The net OPEB liability was measured as of August 31, 2017 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, 2016 thru August 31, 2017.

At August 31, 2017 the District’s proportion of the collective net OPEB liability was 0.0049703682%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016.

**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. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.

2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

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

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

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

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

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

For the year ended August 31, 2018, the District recognized OPEB expense of (\$1,529,498) and revenue of (\$804,648) for support provided by the State.

At August 31, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual actuarial experience		\$ 45,121
Changes in actuarial assumptions		859,007
Differences between projected and actual investment earnings	328	
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	10	
Total as of August 31, 2017 measurement date	\$ 338	\$ 904,128
Contributions paid to TRS subsequent to the measurement date	34,878	
Total as of August 31, 2018 fiscal year end	<u>\$ 35,216</u>	<u>\$ 904,128</u>

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

Year ended August 31,	Amount
2019	\$ (119,256)
2020	\$ (119,256)
2021	\$ (119,256)
2022	\$ (119,256)
2023	\$ (119,338)
Thereafter	\$ (307,428)

**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 1.00% for 2016 and 2017 and 1.25% for 2018. The contribution rate for the district was 0.55% for 2016 and 2017 and 0.75% for 2018. The contribution rate for active employees was 0.65% of the district payroll for each of the three years. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribution 1.0 % for 2016 and 2017 and 1.25% for 2018.

**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, 2018, 2017 and 2016 are as follows:

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2018	0.65%	\$ 23,523	1.25%	\$ 45,237	0.75%	\$ 27,142
2017	0.65%	\$ 22,959	1.00%	\$ 35,321	0.55%	\$ 19,427
2016	0.65%	\$ 21,074	1.00%	\$ 32,421	0.55%	\$ 17,832

**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, 2018, 2017 and 2016 were \$11,052, \$11,219 and \$13,147, respectively.

**Active Employee Health Care Coverage**

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

**L. CHANGES IN LONG-TERM LIABILITIES**

Long-term activity for the year ended August 31, 2018, was as follows:

	(restated) Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds payable	\$ 648,000		\$ 103,000	\$ 545,000	\$ 108,000
Bond premium	57,382		9,563	47,819	0
Notes payable	65,606	182,170	43,858	203,918	55,573
Net pension liability	1,397,683	(60,072)	124,359	1,213,252	0
Net OPEB liability	3,815,890	(1,628,622)	25,841	2,161,427	0
Total	<u>\$ 5,984,561</u>	<u>\$ (1,506,524)</u>	<u>\$ 306,621</u>	<u>\$ 4,171,416</u>	<u>\$ 163,573</u>

**M. UNAVAILABLE/UNEARNED REVENUE**

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

	Unavailable Revenue (levied but uncollected property taxes)	Unearned Revenue (grant proceeds not yet expended)
General fund	\$ 62,300	
Nonmajor governmental funds	7,574	1,050
Total	<u>\$ 69,874</u>	<u>\$ 1,050</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, 2018, are summarized below. They are reported on the combined financial statements as Due from Other Governments.

	State Grants	Federal Grants	Total
General fund	\$ 120,098		\$ 120,098
Nonmajor governmental funds	389	28,774	29,163
Total	<u>\$ 120,487</u>	<u>\$ 28,774</u>	<u>\$ 149,261</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	\$ 964,010		\$ 106,726	\$ 1,070,736
Penalties, interest and other tax related income	14,758		1,953	16,711
Food sales			48,346	48,346
Investment income	978	166	95	1,239
Extracurricular student activities	10,365			10,365
Shared service arrangement administration fee	255,040			255,040
Shared service arrangement fees		2,216,328		2,216,328
Donations and local grants	13,151			13,151
Other income	3,560			3,560
<b>Total</b>	<b>\$ 1,261,862</b>	<b>\$ 2,216,494</b>	<b>\$ 157,120</b>	<b>\$ 3,635,476</b>

**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	\$ 53,865	\$ 499	\$ 115,092
Aquilla ISD	40,782	378	87,138
Blum ISD	74,167	688	158,470
Bynum ISD	47,873	444	102,290
Covington ISD	89,434	829	191,091
Gholson ISD	48,432	449	103,484
Hubbard ISD	54,360	504	116,149
Itasca ISD	144,109	1,336	307,913
Malone ISD	32,042	297	68,464
Mt. Calm ISD	38,341	355	81,922
Penelope ISD	47,935	444	102,420
Whitney ISD	331,958	3,078	709,286
<b>Total</b>	<b>\$ 1,003,298</b>	<b>\$ 9,301</b>	<b>\$ 2,143,719</b>



#### 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 2018, 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, 2018, the Fund anticipates the District has not additional liability beyond the contractual obligations for payment of contributions.

##### Workers' Compensation

The District has established a partially self-funded workers' compensation plan by participating in the Claims Administrative Services, Inc. self-insured workers' compensation program administered by Texas Educational Insurance Association (the "Association"). The Association is a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The main purpose of the Association is to partially self-insure certain workers compensation risks up to a agreed upon retention limit. The plan for workers' compensation benefits is authorized by Section 504.011 of the Labor Code. Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. The liability of the workers' compensation self-insurance plan includes \$24,005 in unpaid claims (which have been accrued to the financial statements if considered material) and an estimated balance of \$34,400 in incurred but not reported claims (which have not been accrued). Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable at August 31, 2018, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the fund as they become due.

##### Unemployment Compensation

During the year ended August 31, 2018, 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, 2018, 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, 2018, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

**S. GENERAL FUND FEDERAL SOURCE REVENUES**

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

Program or Service	CFDA	Amount
Medicaid reimbursement	93.778	\$ 800
School health and related services	N/A	53,431
Total		<u>\$ 54,231</u>

**T. PRIOR PERIOD ADJUSTMENTS**

During fiscal year 2018, the District adopted GASB Statement No. 75 for *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. With GASB 75, the District assumed their proportionate share of the net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled (\$3,790,067) which resulted in a restated beginning net position balance of \$703,572.

The following are total prior period adjustments necessary to restate prior year erroneous balance accruals including the beginning balance adjustment necessary to implement GASB 75:

	Fund Level	Government-Wide
Correctly re-state prior year accumulated depreciation		\$ (57,320)
Correctly re-state prior year notes payable		(20)
Correctly re-state prior year cash balances	2,370	2,370
Correctly re-state prior year delinquent taxes receivable	(12,812)	(12,812)
Correctly re-state prior year due to state	32,002	32,002
Record GASB 75 beginning balance accruals		(3,790,067)
	<u>\$ 21,560</u>	<u>\$ (3,825,847)</u>

**U. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 14, 2019; the date which the financial statements were available for distribution.

For the 2018-19 fiscal year, one district exited the SSA Special Education Cooperative which resulted in re-allocation among the remaining 11 districts of its participatory share of the annual budget. Total amount contributed by the exiting district during the 2017-18 fiscal year was \$163,838. The effect on the District's proportionate share contribution for the 2018-19 fiscal year was lowered by \$18,672 from the 2017-18 due to cost-cutting measures made by the SSA.

**V. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS - STATEMENT OF ACTIVITIES**

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions in many functional categories on the Statement of Activities. According to guidance provided directly from GASB, this is the correct reporting.

Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded:

	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (excluding on- behalf accruals)
11 - Instruction	\$ 223,745	\$ (470,547)	\$ 694,292
12 - Instructional resources and media services	(10,640)	(12,519)	1,879
13 - Curriculum and staff development	10,099	0	10,099
23 - School leadership	(47,978)	(56,449)	8,471
31 - Guidance, counseling and evaluation services	556,444	(12,097)	568,541
33 - Health services	(5,528)	(6,505)	977
34 - Student (pupil) transportation	5,093	(6,176)	11,269
35 - Food services	110,626	(17,331)	127,957
36 - Extracurricular activities	(9,959)	(11,717)	1,758
41 - General administration	(119,611)	(140,731)	21,120
51 - Facilities maintenance and operations	(59,984)	(70,576)	10,592
93 - Payments to fiscal agent/member districts of SSA	56,686	0	56,686
	<u>\$ 708,993</u>	<u>\$ (804,648)</u>	<u>\$ 1,513,641</u>

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*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, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 1,262,414	\$ 1,262,414	\$ 1,261,862	\$ (552)
5800	State Program Revenues	2,321,806	2,383,425	2,415,559	32,134
5900	Federal Program Revenues	50,550	50,550	54,231	3,681
5020	Total Revenues	3,634,770	3,696,389	3,731,652	35,263
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	1,718,118	1,741,869	1,683,302	58,567
0012	Instructional Resources and Media Services	63,800	64,100	63,954	146
0013	Curriculum and Instructional Staff Development	12,842	12,942	9,466	3,476
0023	School Leadership	343,857	327,657	310,690	16,967
0031	Guidance, Counseling and Evaluation Services	57,346	58,246	58,197	49
0033	Health Services	33,137	33,637	33,648	(11)
0034	Student (Pupil) Transportation	82,108	259,578	244,534	15,044
0036	Extracurricular Activities	128,652	131,152	127,063	4,089
0041	General Administration	385,362	408,013	408,703	(690)
0051	Facilities Maintenance and Operations	536,269	527,696	527,677	19
0052	Security and Monitoring Services	-	800	778	22
0053	Data Processing Services	23,876	25,876	25,852	24
Debt Service:					
0071	Principal on Long Term Debt	43,809	43,859	43,858	1
0072	Interest on Long Term Debt	1,912	1,955	1,955	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	29,513	29,513	-
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	171,482	202,939	202,938	1
0099	Other Intergovernmental Charges	32,100	32,100	32,067	33
6030	Total Expenditures	3,634,670	3,901,932	3,804,195	97,737
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	100	(205,543)	(72,543)	133,000
<b>OTHER FINANCING SOURCES (USES):</b>					
7914	Non-Current Loans	-	182,170	182,170	-
8911	Transfers Out (Use)	(34,580)	(52,581)	(51,877)	704
7080	Total Other Financing Sources (Uses)	(34,580)	129,589	130,293	704
1200	Net Change in Fund Balances	(34,480)	(75,954)	57,750	133,704
0100	Fund Balance - September 1 (Beginning)	643,609	643,609	643,609	-
1300	Increase (Decrease) in Fund Balance	-	-	(9,096)	(9,096)
3000	Fund Balance - August 31 (Ending)	\$ 609,129	\$ 567,655	\$ 692,263	\$ 124,608

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, 2018

	Measurement Year Ended August 31,			
	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0037944217%	0.0036986980%	0.0039627000%	0.0009389000%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,213,252	\$ 1,397,683	\$ 1,400,762	\$ 250,793
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	1,583,139	1,759,029	1,589,038	1,074,351
Total	<u>\$ 2,796,391</u>	<u>\$ 3,156,712</u>	<u>\$ 2,989,800</u>	<u>\$ 1,325,144</u>
District's Covered Payroll	\$ 3,532,092	\$ 3,235,721	\$ 2,971,679	\$ 1,704,905
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	34.35%	43.20%	47.14%	14.71%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: Only four 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, 2018

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

Note: Only four 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, 2018

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

Note: Only one year 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, 2018

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

Note: Only one year 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, 2018*

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.*

There were no changes of assumptions or other inputs 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.*

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. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

*COMBINING SCHEDULES*

COVINGTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2018

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ -	\$ 11,034	\$ -
1220 Property Taxes - Delinquent	-	-	-
1230 Allowance for Uncollectible Taxes (Credit)	-	-	-
1240 Receivables from Other Governments	1,396	4,665	1,104
1260 Due from Other Funds	-	-	-
1000 Total Assets	<u>\$ 1,396</u>	<u>\$ 15,699</u>	<u>\$ 1,104</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ -	\$ 10,187	\$ -
2160 Accrued Wages Payable	289	5,402	420
2170 Due to Other Funds	1,078	-	642
2180 Due to Other Governments	-	-	-
2200 Accrued Expenditures	29	110	42
2300 Unearned Revenues	-	-	-
2000 Total Liabilities	<u>1,396</u>	<u>15,699</u>	<u>1,104</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	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,396</u>	<u>\$ 15,699</u>	<u>\$ 1,104</u>

265 Title IV, B Community Learning	270 ESEA VI, Pt B Rural & Low Income	289 Other Federal Special Revenue Funds	314 SSA IDEA, Part B Preschool	410 State Textbook Fund	429 Other State Special Revenue Funds	459 Other SSA Special Revenue Funds	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ 895	\$ -	\$ -	\$ 1,050	\$ -	\$ 12,979
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	21,460	149	-	389	-	-	29,163
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 21,460</u>	<u>\$ 1,044</u>	<u>\$ -</u>	<u>\$ 389</u>	<u>\$ 1,050</u>	<u>\$ -</u>	<u>\$ 42,142</u>
\$ -	\$ 11,844	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,031
-	-	948	-	-	-	-	7,059
-	9,616	-	-	389	-	-	11,725
-	-	-	-	-	-	-	-
-	-	96	-	-	-	-	277
-	-	-	-	-	1,050	-	1,050
<u>-</u>	<u>21,460</u>	<u>1,044</u>	<u>-</u>	<u>389</u>	<u>1,050</u>	<u>-</u>	<u>42,142</u>
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 21,460</u>	<u>\$ 1,044</u>	<u>\$ -</u>	<u>\$ 389</u>	<u>\$ 1,050</u>	<u>\$ -</u>	<u>\$ 42,142</u>

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COVINGTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2018

Data Control Codes	599 Debt Service Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>		
1110 Cash and Cash Equivalents	\$ 92,115	\$ 105,094
1220 Property Taxes - Delinquent	10,250	10,250
1230 Allowance for Uncollectible Taxes (Credit)	(2,676)	(2,676)
1240 Receivables from Other Governments	633	29,796
1260 Due from Other Funds	9,023	9,023
1000 Total Assets	<u>\$ 109,345</u>	<u>\$ 151,487</u>
<b>LIABILITIES</b>		
2110 Accounts Payable	\$ -	\$ 22,031
2160 Accrued Wages Payable	-	7,059
2170 Due to Other Funds	-	11,725
2180 Due to Other Governments	1,285	1,285
2200 Accrued Expenditures	-	277
2300 Unearned Revenues	-	1,050
2000 Total Liabilities	<u>1,285</u>	<u>43,427</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
2601 Unavailable Revenue - Property Taxes	7,574	7,574
2600 Total Deferred Inflows of Resources	<u>7,574</u>	<u>7,574</u>
<b>FUND BALANCES</b>		
Restricted Fund Balance:		
3480 Retirement of Long-Term Debt	100,486	100,486
3000 Total Fund Balances	<u>100,486</u>	<u>100,486</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 109,345</u>	<u>\$ 151,487</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ -	\$ 48,346	\$ -
5800 State Program Revenues	-	5,286	-
5900 Federal Program Revenues	41,294	124,609	5,548
5020 Total Revenues	<u>41,294</u>	<u>178,241</u>	<u>5,548</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	41,294	-	5,548
0034 Student (Pupil) Transportation	-	-	-
0035 Food Services	-	230,217	-
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	<u>41,294</u>	<u>230,217</u>	<u>5,548</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(51,976)	-
<b>OTHER FINANCING SOURCES (USES):</b>			
7915 Transfers In	-	51,877	-
1200 Net Change in Fund Balance	-	(99)	-
0100 Fund Balance - September 1 (Beginning)	-	99	-
1300 Increase (Decrease) in Fund Balance	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

265 Title IV, B Community Learning	270 ESEA VI, Pt B Rural & Low Income	289 Other Federal Special Revenue Funds	314 SSA IDEA, Part B Preschool	410 State Textbook Fund	429 Other State Special Revenue Funds	459 Other SSA Special Revenue Funds	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,346
-	-	-	-	26,780	350	-	32,416
67,961	25,657	8,904	9,301	-	-	-	283,274
<u>67,961</u>	<u>25,657</u>	<u>8,904</u>	<u>9,301</u>	<u>26,780</u>	<u>350</u>	<u>-</u>	<u>364,036</u>
57,619	25,657	8,904	-	26,780	350	-	166,152
10,342	-	-	-	-	-	-	10,342
-	-	-	-	-	-	-	230,217
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	9,301	-	-	-	9,301
<u>67,961</u>	<u>25,657</u>	<u>8,904</u>	<u>9,301</u>	<u>26,780</u>	<u>350</u>	<u>-</u>	<u>416,012</u>
-	-	-	-	-	-	-	(51,976)
-	-	-	-	-	-	-	51,877
-	-	-	-	-	-	-	(99)
-	-	-	-	-	-	160,930	161,029
-	-	-	-	-	-	(160,930)	(160,930)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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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, 2018

Data Control Codes	599 Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ 108,774	\$ 157,120
5800 State Program Revenues	24,248	56,664
5900 Federal Program Revenues	-	283,274
5020 Total Revenues	<u>133,022</u>	<u>497,058</u>
EXPENDITURES:		
Current:		
0011 Instruction	-	166,152
0034 Student (Pupil) Transportation	-	10,342
0035 Food Services	-	230,217
Debt Service:		
0071 Principal on Long Term Debt	103,000	103,000
0072 Interest on Long Term Debt	17,358	17,358
Intergovernmental:		
0093 Payments to Fiscal Agent/Member Districts of SSA	-	9,301
6030 Total Expenditures	<u>120,358</u>	<u>536,370</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	12,664	(39,312)
OTHER FINANCING SOURCES (USES):		
7915 Transfers In	-	51,877
1200 Net Change in Fund Balance	12,664	12,565
0100 Fund Balance - September 1 (Beginning)	89,889	250,918
1300 Increase (Decrease) in Fund Balance	<u>(2,067)</u>	<u>(162,997)</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 100,486</u>	<u>\$ 100,486</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 AGENCY FUND  
 FOR THE YEAR ENDED AUGUST 31, 2018

	BALANCE SEPTEMBER 1 2017	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2018
<b>STUDENT ACTIVITY ACCOUNT</b>				
Assets:				
Cash and Temporary Investments	\$ 21,549	\$ 91,991	\$ 77,962	\$ 35,578
Liabilities:				
Due to Student Groups	\$ 21,549	\$ 91,991	\$ 77,962	\$ 35,578
<b>TOTAL AGENCY FUNDS</b>				
Assets:				
Cash and Temporary Investments	\$ 21,549	\$ 91,991	\$ 77,962	\$ 35,578
Liabilities:				
Due to Student Groups	\$ 21,549	\$ 91,991	\$ 77,962	\$ 35,578

*REQUIRED TEA SCHEDULES*

COVINGTON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2018

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ Various
2010	1.040000	0.172800	103,755,213
2011	1.040000	0.233200	97,471,733
2012	1.170000	0.231300	96,592,869
2013	1.170000	0.231200	85,764,702
2014	1.170000	0.141800	77,387,892
2015	1.170000	0.180000	79,160,667
2016	1.170000	0.165400	77,190,954
2017	1.170000	0.140000	76,916,183
2018 (School year under audit)	1.170000	0.127900	85,727,327
1000 TOTALS			



(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 5,454	\$ -	\$ 379	\$ (320)	\$ (856)	\$ 4,539
3,097	-	318	53	-	2,726
3,427	-	422	94	-	2,911
3,766	-	1,066	211	-	2,489
3,124	-	833	165	-	2,126
3,317	-	734	89	(3)	2,491
7,327	-	2,245	345	(3)	4,734
12,195	-	4,027	571	778	8,375
28,900	-	7,790	1,299	(3,414)	16,397
-	1,112,655	946,196	104,219	(20,475)	41,765
<u>\$ 70,607</u>	<u>\$ 1,112,655</u>	<u>\$ 964,010</u>	<u>\$ 106,726</u>	<u>\$ (23,973)</u>	<u>\$ 88,553</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, 2018

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	\$ 40,527	\$ 40,527	\$ 48,346	\$ 7,819
5800	State Program Revenues	4,974	4,974	5,286	312
5900	Federal Program Revenues	107,930	107,930	124,609	16,679
5020	Total Revenues	153,431	153,431	178,241	24,810
EXPENDITURES:					
0035	Food Services	188,011	227,211	230,217	(3,006)
6030	Total Expenditures	188,011	227,211	230,217	(3,006)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(34,580)	(73,780)	(51,976)	21,804
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	34,580	52,580	51,877	(703)
1200	Net Change in Fund Balances	-	(21,200)	(99)	21,101
0100	Fund Balance - September 1 (Beginning)	99	99	99	-
3000	Fund Balance - August 31 (Ending)	\$ 99	\$ (21,101)	\$ -	\$ 21,101

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, 2018

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	\$ 100,361	\$ 100,361	\$ 108,774	\$ 8,413
5800	State Program Revenues	22,102	22,102	24,248	2,146
5020	Total Revenues	122,463	122,463	133,022	10,559
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	103,000	103,000	103,000	-
0072	Interest on Long Term Debt	17,358	17,360	17,358	2
6030	Total Expenditures	120,358	120,360	120,358	2
1100	Excess of Revenues Over Expenditures	2,105	2,103	12,664	10,561
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	1	-	(1)
1200	Net Change in Fund Balances	2,105	2,104	12,664	10,560
0100	Fund Balance - September 1 (Beginning)	89,889	89,889	89,889	-
1300	Increase (Decrease) in Fund Balance	-	-	(2,067)	(2,067)
3000	Fund Balance - August 31 (Ending)	\$ 91,994	\$ 91,993	\$ 100,486	\$ 8,493

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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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated January 14, 2019.

### 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 instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* listed as item 2018-1 on the accompanying Schedule of Findings and Questioned Costs.

### Purpose of this Report

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

Cameron L. Gulley  
Certified Public Accountant

January 14, 2019

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**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED AUGUST 31, 2018*

Finding	Statement of Condition	Material Weakness?	Questioned Costs
	None.		

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**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

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	\$ 1,003,298
84.173A - IDEA-B Preschool	<u>9,301</u>
Total	<u>\$ 1,012,599</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)

Criteria

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

Statement of Condition

During the year under audit, the District's cash and investment balances were not fully collateralized in accordance with the Public Funds Investment Act. For every month except July, 2018 bank deposits exceeded pledged securities at some point during the month. Following are the months in which deposits were not fully collateralized, the highest uncollateralized deposits each month and the number of days uncollateralized each month..

Deposit Month	Cash Uncollateralized	Days Uncollateralized
September	\$ 163,354	7
October	\$ 161,973	3
November	\$ 150,027	5
December	\$ 126,837	4
January	\$ 55,531	3
February	\$ 120,321	5
March	\$ 127,649	3
April	\$ 19,008	2
May	\$ 80,386	4
June	\$ 196,928	4
July	\$ 0	0
August	\$ 207,004	9

Questioned Costs  
None.

Cause and Effect

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

The bond market interest rates rose steadily during most of the current fiscal year which drove down the market price of bonds with lower stated interest rates. In the case of the District, most of the bonds pledged as collateral had stated interest rates of 2.5% to 3.0% resulting in the market price of the pledged bonds to be significantly lower than the par price of those bonds. The result was that the underlying value of the securities pledged and FDIC insurance coverage were less than the cash balances for many days during 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, 2018*

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, 2018. 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, 2018.

## **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.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

I have audited the financial statements of Covington Independent School District as of and for the year ended August 31, 2018, and have issued my report thereon dated January 14, 2019, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Cameron L. Gulley  
Certified Public Accountant

January 14, 2019

COVINGTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31 2018

EXHIBIT K-1

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER:</b>			
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Agriculture:			
School Breakfast Program	10.553	71401801	21,950
National School Lunch Program	10.555	71301801	66,219
Total Passed Through State Department of Agriculture			88,169
Total U.S. Department of Agriculture			88,169
Total Child Nutrition Cluster			88,169
<b>FOOD DISTRIBUTION CLUSTER:</b>			
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Agriculture:			
Commodity Supplemental Food Program	10.565	N/A	7,068
Total Passed Through State Department of Agriculture			7,068
Total U.S. Department of Agriculture			7,068
Total Food Distribution Cluster			7,068
<b>SPECIAL EDUCATION (IDEA) CLUSTER:</b>			
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
SSA - IDEA-B Formula	84.027A	176600011099036000	64,270
SSA - IDEA-B Formula	84.027A	186600011099036000	939,028
SSA - IDEA-B Preschool	84.173A	186610011099036000	9,301
Total Passed Through State Department of Education			1,012,599
Total U.S. Department of Education			1,012,599
Total Special Education (IDEA) Cluster			1,012,599
<b>OTHER PROGRAMS:</b>			
<u>U.S. Department of Education</u>			
Direct Programs:			
ESEA Title VI, Part B, Rural and Low Income Schools	84.358	N/A	25,657
Total Direct Programs			25,657
Passed Through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs	84.010A	18610101109903	41,294
ESEA Title II, Part A, Teacher & Principal Training	84.367A	18694501109903	5,548
ESEA Title IV, Part A, Subpart 1	84.424A	18680101109903	8,904
Total Passed Through State Department of Education			55,746
Passed Through Education Service Center Region 12:			
21st Century Community Learning Centers	84.287C	N/A	67,961
Total Passed Through Education Service Center Region 12			67,961
Total U.S. Department of Education			149,364
<u>U.S. Department of Health and Human Services</u>			
Passed Through State Health and Human Services Commission:			
Medicaid Administrative Claiming (MAC)	93.778	N/A	800
Total Passed Through State Health and Human Services Commission			800
Total U.S. Department of Health and Human Services			800
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Agriculture:			
Child and Adult Care Food Program	10.558	N/A	29,372
Total Passed Through State Department of Agriculture			29,372
Total U.S. Department of Agriculture			29,372
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 1,287,372</b>

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, 2018*

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

Total per expenditures of federal awards (Exhibit K-1)	\$ 1,287,372
SHARS reimbursement	53,431
Total federal revenue (Exhibit C-3)	\$ 1,340,803