

Covington Independent School District

**Financial Statements
With Supplementary Information
Year Ended June 30, 2015
With Independent Auditors' Report**

COVINGTON INDEPENDENT SCHOOL DISTRICT

Year Ended June 30, 2015

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COVINGTON INDEPENDENT SCHOOL DISTRICT

Year Ended June 30, 2015

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Independent Auditors' Report

To the Members of the Board of Education
Covington Independent School District
Covington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Covington Independent School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Covington Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Covington Independent School District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditors' Report
(Continued)

Other Matters

Change in Accounting Principle

As described in note 17 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this item.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Covington Independent School District's basic financial statements. The management's discussion and analysis and combining and individual nonmajor fund financial statements sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015 on our consideration of the Covington Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covington Independent School District's internal control over financial reporting and compliance.



COVINGTON INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2015

As management of the Covington Independent School District (District), we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$8,711,263.
- A concerted effort remains in place for purchasing in the areas of supplies, food and travel by using effective management strategies to reduce cost for the District. All purchase requests must be budgetary.
- District Staffing Policy is reviewed annually to monitor student reductions and staff per available funding. Any open positions are reviewed to determine if the need is still there to fill the position or restructure the position with another position already in the District.
- The District continues to educate and train the Board of Education in regard to all of the District's budgets.
- The District continues to train the schools' SBDM councils on spending the allocations within the current fiscal year.
- The District continues to strive to maintain a healthy contingency.
 - The District refinanced Bond Series 2010B during the year saving the district \$231,899 over the life of the Bond. The District also refinanced Bond Series 2005B and 2010A during the year saving the district \$170,289 over the life of those Bonds.
 - The District has continued to look into ways to invest the District's money until the money is needed. The District opened a Brokerage Certificate of Deposit (CD) during the school year. This investment opportunity will earn the district more interest.
 - The District continues to look for ways to improve student achievement by providing Section 7 funds to schools based on their needs of their particular school/program. Section 7 funds are in addition to a schools Section 6 (SBDM) funds which is based on 3.5% of the SEEK allocation times the number of children in the school.
 - In FY15 the District was able to provide approximately \$376,000 additional funds to schools. Some schools used these funds for technology needs such as computers, iPads, laptops, Smart Boards and projectors for Smart Boards. Some schools used their funds to add positions to their school to provide additional Reading and Math interventions. Some schools used their funds for classroom furnishings, supplemental classroom textbooks & materials and software. Some schools used their funds for after school tutoring, and professional development for their teachers through collaborative learning.
- Budgets in the District besides the SBDM budgets provided by the schools have gone through a review process with the Budget Committee to address needs/priorities of each area and adjusted accordingly.

COVINGTON INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2015 (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- The District continues to work with our Insurance Providers developing a Safety Committee. This committee also provides additional safety training to our employees. There has been a steady decline in Worker Compensation claims saving the District money on insurance premiums.
- In reviewing attendance data over the past 20 years, our district had been on a steady decline in Average Daily attendance of between 50 and 100 students per year for the first 14 years. Then the trend began to change over the past 6 years. Beginning in 2009 the enrollment has actually increased each year (80 students in 2010, 55 students in 2011, 10 students in 2012, 157 students in 2013, 79 students in 2014, and 11 students in 2015). Our current enrollment this year shows that we are looking at a dip in enrollment. We will monitor this data closely during the 15-16 school year so that we can make an accurate budget and staff projection for 2016-17.
- The District administered \$1,304,261 in Federal, State and local grants during the year.
- The average teacher's salary in the District for 2015 was \$47,002. The Covington Board of Education remains committed to maintaining teachers' salaries at competitive levels.
- The General Fund had \$41,057,695 in revenue excluding interfund transfers and proceeds from sale of assets of \$15,000 and \$5,583, respectively. General Fund revenues primarily consisted of the state program (SEEK), property, franchise tax, motor vehicle taxes, as well as on-behalf benefits from the state. There was \$40,235,824 in General Fund expenditures, excluding interfund transfers of \$449,199 and including the on-behalf benefit payments made by the state.
- Our primary financial concern continues to be state funding which has not kept up with the increases in operating expenses due to inflation, increased salaries - some of which are a direct result of mandates by the state, and an increasing portion of the retirement shortfall that we have been asked to fund. After many years of not making the necessary contributions to fully fund the Kentucky Teachers' Retirement System (KTRS), the legislature passed along a portion of the funding shortfall to employees and a larger portion to school districts. As a result, our district has paid hundreds of thousands of dollars into the retirement system over the past five years and will pay millions of dollars in the future in an effort to help stabilize the fund. For the first time this year we are also being required to record the portion of the unfunded state liability in our financial statements attributable to our employees, as determined by KTRS. While it remains to be seen if districts, including our own, will end up shouldering more this deficit over the years to come, if the state does not start responsibly funding the system it can be safely assumed that we will. This will continue to shift more of the responsibility for funding our education system onto the backs of school districts and subsequently local tax payers. The continual erosion of state funding makes it increasingly difficult to maintain the high standard of education and programming that our students deserve without increasing taxes locally. In this climate of shrinking state support the Covington Independent School District will maintain fiscally responsible policies in order to continue providing quality academic, extra-curricular and community service programs to all of its students.

COVINGTON INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2015 (Continued)

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) district-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations and day care operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 through 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 40 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$10,358,789 as of June 30, 2015.

The largest portion of the District's net position reflects its investment in capital assets (i.e. land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2015
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS (Continued)

The District's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the periods ending June 30, 2015 and 2014

The following is a summary of net position for the fiscal years ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Current assets	\$ 12,461,847	\$ 11,258,182
Noncurrent assets	22,718,457	23,420,511
Total assets	<u>35,180,304</u>	<u>34,678,693</u>
Total deferred outflows	<u>1,582,873</u>	<u>-</u>
Current liabilities	2,976,397	2,880,291
Noncurrent liabilities	23,427,990	13,578,931
Total liabilities	<u>26,404,387</u>	<u>16,459,222</u>
Net position		
Investment in capital assets (net of debt)	9,674,445	8,749,743
Restricted	1,362,575	1,308,887
Unrestricted	(678,230)	8,160,841
Total net position	<u>\$ 10,358,790</u>	<u>\$ 18,219,471</u>

Comments on General Fund Budget Comparisons

- The District's total revenues in the General Fund for the fiscal year ended June 30, 2015, were \$41,057,695, net of interfund transfers and proceeds from sale of assets of \$15,000 and \$5,583, respectively.
- General Fund budgeted revenue compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$9,378,121 more than budget or approximately 30% of General Fund Budget. The majority of this variance is the result of the District recording "on-behalf" payments made by the state.
- General Fund actual expenditures were \$40,235,824, net of inter-fund transfers of \$449,199.
- General Fund actual expenditures were less than budgeted expenditures by \$42,445. This is the result of the District closely monitoring budgetary expenditures.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2015
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS (Continued)

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Revenues		
Program revenues		
Charges for services	\$ 281,523	\$ 292,811
Operating grants	11,214,989	11,314,963
Capital grants	1,396,232	1,376,129
Total grant revenues	<u>12,892,744</u>	<u>12,983,903</u>
General Revenues		
Property taxes	17,368,169	17,230,183
Grants and entitlements	27,858,083	22,934,886
Earnings on investments	15,414	20,415
Miscellaneous	1,565,880	426,817
Total general revenues	<u>46,807,546</u>	<u>40,612,301</u>
Total revenues	<u>59,700,290</u>	<u>53,596,204</u>
Expenses		
Instructional	31,783,449	26,930,402
Student support services	3,215,840	2,957,482
Staff support	942,629	970,869
District administration	2,089,668	1,895,909
School administration	4,060,854	3,725,457
Business support	1,913,710	1,732,897
Plant operations	6,042,694	6,334,370
Student transportation	1,510,482	1,557,247
Food service operation	10,084	9,165
Facilities acquisition and construction	997,833	1,097,728
Community service	12,898	165,910
Food service	3,056,540	2,920,899
Daycare	265,756	270,657
Interest on long-term debt	378,534	664,834
Total expenses	<u>56,280,971</u>	<u>51,233,826</u>
Excess of revenues over expenses	<u>\$ 3,419,319</u>	<u>\$ 2,362,378</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2015
(Continued)**

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs, operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget with \$2,497,426 in contingency (6.1%). The cash balance for the beginning of the fiscal year was \$8,711,263.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Questions regarding this report should be directed to Mr. Alvin L. Garrison, Superintendent (859) 392-1001 or to his representative Ms. Annette Bemerer, Director of Financial Services/Finance Officer (859) 392-1016 or by mail to: Covington Board of Education, 25 East 7th Street, Covington, KY 41011.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – District Wide
Year Ended June 30, 2015**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Current			
Cash and cash equivalents	\$ 9,020,814	\$ 990,292	\$ 10,011,106
Accounts receivable	2,223,753	35,014	2,258,767
Interfund receivable	116,301	-	116,301
Inventories for consumption	-	75,673	75,673
	<u>11,360,868</u>	<u>1,100,979</u>	<u>12,461,847</u>
Noncurrent			
Nondepreciated capital assets			
Land	1,393,260	-	1,393,260
Depreciated capital assets			
Land improvements	781,134	-	781,134
Buildings and improvements	40,566,341	-	40,566,341
Furniture and equipment	6,373,409	772,408	7,145,817
Less: accumulated depreciation	<u>(26,626,858)</u>	<u>(541,237)</u>	<u>(27,168,095)</u>
Total noncurrent	<u>22,487,286</u>	<u>231,171</u>	<u>22,718,457</u>
Total assets	<u>33,848,154</u>	<u>1,332,150</u>	<u>35,180,304</u>
Deferred Outflows	<u>1,530,315</u>	<u>52,558</u>	<u>1,582,873</u>
Liabilities			
Current			
Current portion of bonds payable	1,600,525	-	1,600,525
Accounts payable	209,363	1,232	210,595
Interfund payable	116,301	-	116,301
Accrued interest	77,923	-	77,923
Accrued sick leave	63,278	-	63,278
Accrued payroll and related expenses	64,565	-	64,565
Assessed KISBIT liability	-	-	-
Unearned revenues	843,210	-	843,210
	<u>2,975,165</u>	<u>1,232</u>	<u>2,976,397</u>
Noncurrent			
Accrued sick leave	569,503	-	569,503
CERS net pension liability	10,870,536	409,464	11,280,000
Bond obligations	11,578,487	-	11,578,487
Total noncurrent	<u>23,018,526</u>	<u>409,464</u>	<u>23,427,990</u>
Total liabilities	<u>25,993,691</u>	<u>410,696</u>	<u>26,404,387</u>
Net position			
Invested in capital assets, net of related debt	9,443,274	231,171	9,674,445
Restricted	706,863	655,712	1,362,575
Unrestricted	<u>(765,359)</u>	<u>87,129</u>	<u>(678,230)</u>
Total net position	<u>\$ 9,384,778</u>	<u>\$ 974,012</u>	<u>\$ 10,358,790</u>

The accompanying notes are an integral part of these financial statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Activities – District Wide
Year Ended June 30, 2015**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	
Governmental Activities:							
Instructional	\$ 31,783,449	\$ -	\$ 6,560,450	\$ -	\$ (25,222,999)	\$ -	\$ (25,222,999)
Student support services	3,215,840	-	166,128	-	(3,049,712)	-	(3,049,712)
Staff support services	942,629	-	52,541	-	(890,088)	-	(890,088)
District administration	2,089,668	-	-	-	(2,089,668)	-	(2,089,668)
School administration	4,060,854	-	149,023	-	(3,911,831)	-	(3,911,831)
Business support services	1,913,710	-	-	-	(1,913,710)	-	(1,913,710)
Plant operation and maintenance	6,042,694	-	-	-	(6,042,694)	-	(6,042,694)
Student transportation	1,510,482	20,131	124,076	-	(1,366,275)	-	(1,366,275)
Food service operation	10,084	-	-	-	(10,084)	-	(10,084)
Community service operations	997,833	-	997,778	-	(55)	-	(55)
Facility acquisition and construction	12,898	-	-	1,396,232	1,383,334	-	1,383,334
Interest on long-term debt	378,534	-	-	-	(378,534)	-	(378,534)
Total governmental activities	52,958,675	20,131	8,049,996	1,396,232	(43,492,316)	-	(43,492,316)
Business-type Activities							
Food service	3,056,540	153,875	3,110,944	-	-	208,279	208,279
Daycare	265,756	107,517	54,049	-	-	(104,190)	(104,190)
Total business-type activities	3,322,296	261,392	3,164,993	-	-	104,089	104,089
Total school district	\$ 56,280,971	\$ 281,523	\$ 11,214,989	\$ 1,396,232	(43,492,316)	104,089	(43,388,227)
			General revenues:				
			Taxes		17,368,169	-	17,368,169
			State and federal sources		27,858,083	-	27,858,083
			Investment earnings		14,076	1,338	15,414
			Miscellaneous		1,588,882	-	1,588,882
			Special items:				
			Loss on disposal of fixed assets		(23,002)	-	(23,002)
			Fund transfer		(97,588)	97,588	-
			Total general and special revenues		46,708,620	98,926	46,807,546
			Change in net position		3,216,304	203,015	3,419,319
			Net position - beginning		17,039,010	1,180,461	18,219,471
			Net position adjustment (Note 17)		(10,870,536)	(409,464)	(11,280,000)
			Net position - ending		\$ 9,384,778	\$ 974,012	\$ 10,358,790

The accompanying notes are an integral part of these financial statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Balance Sheet – Governmental Funds
Year Ended June 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Current				
Cash and cash equivalents	\$ 8,999,255	\$ (685,304)	\$ 706,863	\$ 9,020,814
Interfund receivable	116,301	-	-	116,301
Accounts receivable	490,492	1,733,261	-	2,223,753
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total current	<u>\$ 9,606,048</u>	<u>\$ 1,047,957</u>	<u>\$ 706,863</u>	<u>\$ 11,360,868</u>
Liabilities and Fund Balance				
Current				
Accounts payable	\$ 120,917	\$ 88,446	\$ -	\$ 209,363
Accrued payroll and related expenses	64,565	-	-	64,565
Interfund payable	-	116,301	-	116,301
Unearned revenues	-	843,210	-	843,210
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total current	<u>185,482</u>	<u>1,047,957</u>	<u>-</u>	<u>1,233,439</u>
Fund Balance				
Assigned - Purchase obligations	8,842	-	-	8,842
Restricted:				
Capital projects	-	-	706,863	706,863
Committed:				
Other	9,388,192	-	-	9,388,192
Site-Based carryforward	23,532	-	-	23,532
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>9,420,566</u>	<u>-</u>	<u>706,863</u>	<u>10,127,429</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 9,606,048</u>	<u>\$ 1,047,957</u>	<u>\$ 706,863</u>	<u>\$ 11,360,868</u>

The accompanying notes are an integral part of these financial statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
Year Ended June 30, 2015**

Total governmental fund balance		\$ 10,127,429
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	49,114,144	
Accumulated depreciation	<u>(26,626,858)</u>	22,487,286
Deferred outflows		
Bond refinancing	135,000	
CERS contributions made after the measurement date	<u>1,395,315</u>	1,530,315
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.		
Long-term liabilities at year end consist of:		
Bonds payable		(13,179,012)
Accrued interest on bonds		(77,923)
Net pension liability		(10,870,536)
Accrued sick leave		<u>(632,781)</u>
Total net position - governmental		<u>\$ 9,384,778</u>

The accompanying notes are an integral part of these financial statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 16,580,477	\$ -	\$ 787,692	\$ 17,368,169
Earnings on investments	13,945	131	-	14,076
State sources	23,673,092	2,936,770	1,396,232	28,006,094
Federal sources	582,863	4,838,068	-	5,420,931
Other sources	213,698	275,158	-	488,856
	<u>41,064,075</u>	<u>8,050,127</u>	<u>2,183,924</u>	<u>51,298,126</u>
Total revenues				
Expenditures				
Instructional	21,066,946	6,663,820	-	27,730,766
Student support services	3,012,971	166,128	-	3,179,099
Staff support services	887,052	52,541	-	939,593
District administration	2,018,188	-	-	2,018,188
School administration	3,863,206	149,023	-	4,012,229
Business support services	1,852,874	-	-	1,852,874
Plant operation and maintenance	5,873,588	-	-	5,873,588
Student transportation	1,632,692	124,076	-	1,756,768
Food service operation	10,084	-	-	10,084
Community service operations	-	997,778	-	997,778
Facility acquisition and construction	24,603	-	-	24,603
Debt service:				
Principal	-	-	1,626,756	1,626,756
Interest	-	-	468,264	468,264
	<u>40,242,204</u>	<u>8,153,366</u>	<u>2,095,020</u>	<u>50,490,590</u>
Total expenditures				
Excess (deficit) of revenues over expenditures	<u>821,871</u>	<u>(103,239)</u>	<u>88,904</u>	<u>807,536</u>
Other financing sources (uses)				
Loan and bond proceeds	-	-	-	-
Proceeds from sale of assets	5,583	-	-	5,583
Operating transfers in	15,000	103,239	1,858,160	1,976,399
Operating transfers out	(449,199)	-	(1,624,788)	(2,073,987)
	<u>(428,616)</u>	<u>103,239</u>	<u>233,372</u>	<u>(92,005)</u>
Total other financing sources (uses)				
Net change in fund balance	393,255	-	322,276	715,531
Fund balance, July 1, 2014	9,027,311	-	384,587	9,411,898
Fund balance, June 30, 2015	<u>\$ 9,420,566</u>	<u>\$ -</u>	<u>\$ 706,863</u>	<u>\$ 10,127,429</u>

The accompanying notes are an integral part of these financial statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2015**

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

Net changes-governmental funds		\$ 715,531
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.</p>		
Depreciation expense	(1,375,621)	
Capital outlays	727,142	
Retirement of capital assets	<u>(28,585)</u>	
		(677,064)
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Bond proceeds		(5,460,000)
Principal paid		6,951,756
Deferred outflow from bond refinancing		135,000
Deferred outflow CERS contributions made after the measurement date		1,395,315
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
		<u>155,766</u>
Changes in net position of governmental activities		<u><u>\$ 3,216,304</u></u>

The accompanying notes are an integral part of these financial statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – Proprietary Funds
As of June 30, 2015**

	<u>Food Service</u>	<u>Day Care Funds</u>	<u>Total</u>
Assets			
Current:			
Cash and cash equivalents	\$ 990,292	\$ -	\$ 990,292
Accounts receivable	35,014	-	35,014
Inventories for consumption	75,673	-	75,673
	<u>1,100,979</u>	<u>-</u>	<u>1,100,979</u>
Noncurrent			
Furniture and fixtures	772,408	-	772,408
Less: accumulated depreciation	(541,237)	-	(541,237)
	<u>231,171</u>	<u>-</u>	<u>231,171</u>
Total assets	<u>1,332,150</u>	<u>-</u>	<u>1,332,150</u>
Deferred Outflows	<u>44,160</u>	<u>8,398</u>	<u>52,558</u>
Liabilities and Net Position			
Current:			
Accounts payable	1,232	-	1,232
	<u>1,232</u>	<u>-</u>	<u>1,232</u>
Noncurrent			
CERS net pension liability	344,040	65,424	409,464
	<u>344,040</u>	<u>65,424</u>	<u>409,464</u>
Total liabilities	<u>345,272</u>	<u>65,424</u>	<u>410,696</u>
Net Position			
Invested in assets, net of debt	231,171	-	231,171
Nonspendable - inventories	75,673	-	75,673
Assigned	11,456	-	11,456
Restricted	712,738	(57,026)	655,712
	<u>\$ 1,031,038</u>	<u>\$ (57,026)</u>	<u>\$ 974,012</u>

The accompanying notes are an integral part of these financial statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
Year Ended June 30, 2015**

	<u>Food Service</u>	<u>Day Care Funds</u>	<u>Total</u>
Operating revenues			
Lunchroom sales	\$ 136,725	\$ -	\$ 136,725
Other operating revenues	<u>17,150</u>	<u>107,517</u>	<u>124,667</u>
Total operating revenues	<u>153,875</u>	<u>107,517</u>	<u>261,392</u>
Operating expenses			
Salaries and benefits	1,113,676	208,947	1,322,623
Contract services	124,011	171	124,182
Materials and supplies	1,628,085	24,088	1,652,173
Depreciation	24,990	-	24,990
Other operating expenses	<u>165,778</u>	<u>32,550</u>	<u>198,328</u>
Total operating expenses	<u>3,056,540</u>	<u>265,756</u>	<u>3,322,296</u>
Operating loss	<u>(2,902,665)</u>	<u>(158,239)</u>	<u>(3,060,904)</u>
Nonoperating revenues (expenses)			
Federal grants	2,758,099	13,494	2,771,593
State grants	191,312	40,555	231,867
Donated commodities and other donations	161,533	-	161,533
Transfers	(15,000)	112,588	97,588
Interest income	<u>1,338</u>	<u>-</u>	<u>1,338</u>
Total nonoperating revenues	<u>3,097,282</u>	<u>166,637</u>	<u>3,263,919</u>
Change in net position	194,617	8,398	203,015
Total net position, July 1, 2014	1,180,461	-	1,180,461
Net position adjustment	<u>(344,040)</u>	<u>(65,424)</u>	<u>(409,464)</u>
Total net position, June 30, 2015	<u>\$ 1,031,038</u>	<u>\$ (57,026)</u>	<u>\$ 974,012</u>

The accompanying notes are an integral part of these financial statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2015**

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from lunchroom sales	\$ 136,725	\$ -	\$ 136,725
Cash received from other activities	13,753	108,002	121,755
Cash payments to employees for services	(1,113,676)	(208,947)	(1,322,623)
Cash payments to suppliers for goods and services	<u>(1,971,347)</u>	<u>(65,230)</u>	<u>(2,036,577)</u>
Net cash used in operating activities	<u>(2,934,545)</u>	<u>(166,175)</u>	<u>(3,100,720)</u>
Cash flows from capital financing activities			
Transfers	<u>(15,000)</u>	<u>112,588</u>	<u>97,588</u>
Net cash used in capital financing activities	<u>(15,000)</u>	<u>112,588</u>	<u>97,588</u>
Cash flows from noncapital financing activities			
Non-operating revenues received	<u>3,110,944</u>	<u>54,049</u>	<u>3,164,993</u>
Net cash provided by noncapital financing activities	<u>3,110,944</u>	<u>54,049</u>	<u>3,164,993</u>
Cash flows from investing activities			
Interest on investments	<u>1,338</u>	<u>-</u>	<u>1,338</u>
Net cash flows provided by investing activities	<u>1,338</u>	<u>-</u>	<u>1,338</u>
Net increase (decrease) in cash and cash equivalents	162,737	462	163,199
Cash and cash equivalents - beginning	<u>827,555</u>	<u>(462)</u>	<u>827,093</u>
Cash and cash equivalents - ending	<u>\$ 990,292</u>	<u>\$ -</u>	<u>\$ 990,292</u>
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$ (2,902,665)	\$ (158,239)	\$ (3,060,904)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	24,990	-	24,990
Changes in assets and liabilities:			
Increase in deferred outflows			
(Increase) increase in deferred outflows	(44,160)	(8,398)	(52,558)
(Decrease) in accounts payable	(307)	(23)	(330)
(Increase) decrease in accounts receivable	(3,397)	485	(2,912)
(Increase) in inventories	<u>(9,006)</u>	<u>-</u>	<u>(9,006)</u>
Net cash used in operating activities	<u>\$ (2,934,545)</u>	<u>\$ (166,175)</u>	<u>\$ (3,100,720)</u>
Schedule of non-cash transactions			
Donated commodities received from federal government	<u>\$ 161,533</u>	<u>\$ -</u>	<u>\$ 161,533</u>

The accompanying notes are an integral part of these financial statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

Statement of Fiduciary Net Position
Year Ended June 30, 2015

	<u>School Activity Funds</u>	<u>Total</u>
Assets		
Cash and cash equivalents	<u>\$ 340,110</u>	<u>\$ 340,110</u>
Total assets	<u>340,110</u>	<u>340,110</u>
Liabilities		
Due to student groups	<u>340,110</u>	<u>340,110</u>
Total liabilities	<u><u>\$ 340,110</u></u>	<u><u>\$ 340,110</u></u>

The accompanying notes are an integral part of these financial statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Covington Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Covington Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Covington Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Covington Independent School District Finance Corporation - The Board authorized the establishment of the Covington Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Covington Independent Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

District-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The district-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total net position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the schedule of expenditures of federal awards included in this report on page 54. This is a major fund of the District.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

I. Governmental Fund Types (cont'd)

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Fund (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The Food Service fund is a major fund of the District.

IV. Fiduciary Fund Type (Agency and Trust Funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP) of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars, with the exception of computers, digital cameras and real property, for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's experience of making termination payments. The entire compensated absence liability is reported on the district-wide financial statements.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reserves

Beginning with fiscal year 2012 the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance – amounts that are available for purpose; positive amounts are reported only in the General fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, 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.

NOTE 2 ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 CASH AND CASH EQUIVALENTS

The District maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. The amounts exceeding the federally insured limits are covered by a collateral agreement and the collateral is held by the pledging banks' trust departments in the District's name. The District has not experienced any losses in such accounts and the District believes it is not exposed to any significant credit risk on cash and cash equivalents.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
Land	\$ 1,393,260	\$ -	\$ -	\$ 1,393,260
Land improvements	781,134	-	-	781,134
Buildings and improvements	40,586,103	-	19,762	40,566,341
Technology equipment	2,795,063	410,738	530,219	2,675,582
Vehicles	2,365,656	304,699	72,553	2,597,802
General equipment	<u>1,098,485</u>	<u>11,705</u>	<u>10,165</u>	<u>1,100,025</u>
Totals at historical cost	<u>49,019,701</u>	<u>727,142</u>	<u>632,699</u>	<u>49,114,144</u>
Less: accumulated depreciation				
Land improvements	733,898	9,202	-	743,100
Buildings and improvements	20,812,613	804,930	5,928	21,611,615
Technology equipment	1,908,618	391,132	518,276	1,781,474
Vehicles	1,560,151	139,749	72,553	1,627,347
General equipment	<u>840,071</u>	<u>30,608</u>	<u>7,357</u>	<u>863,322</u>
Total accumulated depreciation	<u>25,855,351</u>	<u>1,375,621</u>	<u>604,114</u>	<u>26,626,858</u>
Governmental activities capital assets - net	<u>\$ 23,164,350</u>	<u>\$ (648,479)</u>	<u>\$ 28,585</u>	<u>\$ 22,487,286</u>
 <u>Business - Type Activities</u>				
General equipment	\$ 769,208	\$ -	\$ -	\$ 769,208
Technology equipment	<u>3,200</u>	<u>-</u>	<u>-</u>	<u>3,200</u>
Totals at historical cost	<u>772,408</u>	<u>-</u>	<u>-</u>	<u>772,408</u>
Less: accumulated depreciation				
General equipment	514,434	24,350	-	538,784
Technology equipment	<u>1,813</u>	<u>640</u>	<u>-</u>	<u>2,453</u>
Total accumulated depreciation	<u>516,247</u>	<u>24,990</u>	<u>-</u>	<u>541,237</u>
Business - type activities capital assets - net	<u>\$ 256,161</u>	<u>\$ (24,990)</u>	<u>\$ -</u>	<u>\$ 231,171</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 4 CAPITAL ASSETS (Continued)

Depreciation expense by function for the fiscal year ended June 30, 2015 was as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Instructional	\$ 378,795	\$ -
Student support services	36,741	-
Staff support services	3,036	-
District administration	71,480	-
School administration	48,625	-
Business support services	60,836	-
Plant operation and maintenance	717,640	-
Student transportation	58,413	-
Community service operations	55	-
Food service	-	24,990
	<u> </u>	<u> </u>
Total	<u>\$ 1,375,621</u>	<u>\$ 24,990</u>

NOTE 5 ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2015 this amount totaled approximately \$632,781 for those employees with twenty-seven or more years of experience.

NOTE 6 LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
October 1, 2005	\$ 55,000.00	2.900% - 4.200%
January 1, 2005	126,934	3.000% - 3.625%
January 1, 2005	545,000	3.35%
January 1, 2006	214,714	3.000% - 4.200%
September 1, 2006	154,177	3.500% - 3.875%
April 1, 2007	4,255,000	3.500% - 3.800%
May 1, 2008	3,760,000	2.200% - 3.300%
May 15, 2008	1,030,000	2.200% - 3.300%
June 1, 2009	1,255,000	1.400% - 4.500%
January 1, 2009	83,609	2.000% - 3.900%
July 1, 2010	176,764	1.000% - 3.300%
October 1, 2012	1,090,000	1.100% - 2.625%
July 1, 2012	265,448	2.000% - 2.750%
October 1, 2014	2,835,000	2.000% - 3.125%
March 1, 2015	2,530,000	2.000% - 3.000%

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 6 LEASE OBLIGATIONS AND BONDED DEBT (Continued)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kenton County Fiscal Court and the Covington Independent School District Finance Corporation to construct school facilities.

The District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. Note P sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal has been recorded in the financial statements.

All issues may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2015 for debt service (principal and interest) are reported in Note 16.

NOTE 7 RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous

Plan description

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 7 RETIREMENT PLANS (Continued)

Benefits provided

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions

Required contributions by the employee are based on the following tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The contribution requirement for CERS for the year ended June 30, 2015, was \$1,870,544, which consisted of \$1,447,873 from the District and \$422,671 from the employees. Total contributions for the year ended June 30, 2014 and 2013 were \$1,945,211 and \$2,005,355, respectively. The contributions have been contributed in full for fiscal years 2015, 2014 and 2013.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 7 RETIREMENT PLANS (Continued)

General information about the Teachers' Retirement System of the State of Kentucky

Plan description

Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided

For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 7 RETIREMENT PLANS (Continued)

Contributions

Contribution rates are established by Kentucky Revised Statutes. Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS. The contribution requirement for KTRS for the year ended June 30, 2015, was \$3,449,084, which consisted of \$807,615 from the District and \$2,641,469 from the employees. Total contributions for the year ended June 30, 2014 and 2013 were \$3,081,661 and \$2,934,556, respectively. The contributions have been contributed in full for fiscal years 2015, 2014 and 2013.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description

In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy

In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 7 RETIREMENT PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth 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 CERS net pension liability	\$ 11,280,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>141,611,269</u>
	<u>\$ 152,891,269</u>

The net pension liability for each plan was measured as of June 30, 2014, 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 for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.347687%.

For the year ended June 30, 2015, the District recognized pension expense of \$1,529,852 related to CERS and \$6,939,240 related to KTRS. The District also recognized revenue of \$6,939,240 for KTRS support provided by the Commonwealth. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 1,259,000
District contributions subsequent to the measurement date	<u>1,447,873</u>	<u>-</u>
Total	<u>\$ 1,447,873</u>	<u>\$ 1,259,000</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 7 RETIREMENT PLANS (Continued)

\$1,447,873 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2016	\$ 251,800
2017	251,800
2018	251,800
2019	251,800
2020	251,800

Actuarial assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense and inflation	7.75%	7.50%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were 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 then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 7 RETIREMENT PLANS (Continued)

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>KTRS Target Allocation</u>	<u>KTRS Long-Term Expected Real Rate of Return</u>	<u>CERS Target Allocation</u>	<u>CERS Long-Term Expected Real Rate of Return</u>
US equity	45%	6.00%	30%	8.45%
Non-US equity	17%	7.00%	22%	8.85%
Emerging market equity	-	-	5%	10.50%
Private equity	-	-	7%	1.25%
Core US fixed income	-	-	10%	5.25%
High yield US fixed income	-	-	5%	7.25%
Non-US fixed incomes	-	-	5%	5.50%
Commodities	-	-	5%	7.75%
TIPS	-	-	5%	5.00%
Fixed income	24%	2.00%	-	-
High yield bonds	4%	3.00%	-	-
Real estate	4%	6.00%	5%	7.00%
Alternatives	4%	7.00%	-	-
Cash	2%	2.00%	1%	3.25%
Total	<u>100%</u>		<u>100%</u>	

Discount rate

For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 7 RETIREMENT PLANS (Continued)

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate

The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	\$ 14,843,725	\$ 11,280,000	\$ 8,131,365
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

NOTE 8 CONTINGENCIES

Grant Fund Approval

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

NOTE 9 INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, which includes workers' compensation insurance.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District is self-insured for unemployment insurance benefits. The District reimburses the state for any claims paid. The District purchases workers' compensation insurance through the Kentucky School Boards Insurance Trust. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures, resulting in a corresponding reduction of fund balance:

Latonia Elementary School	\$ 5,855
John G. Carlisle Elementary School	4,946
Ninth District Elementary School	2,304
Covington Adult High School	135
James E. Biggs Early Childhood Education Center	1

NOTE 12 COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

NOTE 13 CONTINGENT LIABILITY

The District is a participant in the Kentucky School Board Insurance Trust in which the District purchases general liability and workers' compensation insurance. As of June 30, 2015, the District has paid its portion of the deficit in the trust. No contingent liability needs to be recorded in the District Wide Financial Statements.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 14 TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Food Service Fund	General Fund	Indirect Costs Transfer	\$ 15,000
General Fund	Special Revenue Fund	Matching	\$ 103,239
General Fund	Construction Fund	Construction	\$ 82,814
General Fund	Day Care Fund	Operations	\$ 112,588
General Fund	Debt Service Fund	Debt Service	\$ 150,558
Capital Outlay Fund	Debt Service Fund	Debt Service	\$ 349,885
Building Fund	Debt Service Fund	Debt Service	\$ 1,070,855
Construction Fund	Construction Fund	Construction	\$ 204,048

NOTE 15 ON-BEHALF PAYMENTS

For the year ended June 30, 2015 total payments of \$8,371,234 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

General Fund	\$ 7,650,181
Debt Service	523,722
Day Care	31,552
Food Service	165,779
	<hr/>
Total On-Behalf	<u>\$ 8,371,234</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 16 SCHEDULE OF LONG-TERM OBLIGATIONS

Fiscal Year	Covington Independent School District			KY School Facilities Construction Commission			Total Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2015-2016	\$ 1,226,766	\$ 242,348	\$ 1,469,114	\$ 373,759	\$ 149,467	\$ 523,226	\$ 1,992,340
2016-2017	1,238,194	206,406	1,444,600	389,454	140,422	529,876	1,974,476
2017-2018	1,268,122	165,373	1,433,495	398,143	130,534	528,677	1,962,172
2018-2019	1,302,268	122,764	1,425,032	370,302	120,122	490,424	1,915,456
2019-2020	331,433	75,274	406,707	320,571	110,510	431,081	837,788
2020-2021	317,114	68,029	385,143	327,886	102,646	430,532	815,675
2021-2022	234,532	60,896	295,428	335,468	94,514	429,982	725,410
2022-2023	236,754	55,947	292,701	343,246	86,186	429,432	722,133
2023-2024	238,362	50,475	288,837	356,638	76,900	433,538	722,375
2024-2025	254,339	44,862	299,201	365,661	66,640	432,301	731,502
2025-2026	257,060	37,585	294,645	362,940	55,074	418,014	712,659
2026-2027	233,506	29,696	263,202	306,494	43,123	349,617	612,819
2027-2028	238,163	22,482	260,645	311,837	32,686	344,523	605,168
2028-2029	234,650	15,085	249,735	250,350	21,947	272,297	522,032
2029-2030	194,387	7,794	202,181	185,613	13,497	199,110	401,291
2030-2031	60,618	1,894	62,512	189,382	8,021	197,403	259,915
2031-2032	-	-	-	65,000	2,428	67,428	67,428
2032-2033	-	-	-	60,000	788	60,788	60,788
	<u>\$ 7,866,268</u>	<u>\$ 1,206,910</u>	<u>\$ 9,073,178</u>	<u>\$ 5,312,744</u>	<u>\$ 1,255,505</u>	<u>\$ 6,568,249</u>	<u>\$ 15,641,427</u>

A summary of the changes in the outstanding principal for the District during the fiscal year ended June 30, 2015, is as follows:

Governmental Activities	Balance July 1, 2014	Additions	Payments	Balance June 30, 2015
Bond Obligations	<u>\$ 14,670,768</u>	<u>\$ 5,460,000</u>	<u>\$ 6,951,756</u>	<u>\$ 13,179,012</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 17 CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$11,280,000 reduction in beginning net position on the Statement of Activities and an increase of \$1,447,873 of deferred outflows of resources – District contributions subsequent to the measurement date.

NOTE 18 SUBSEQUENT EVENTS

Subsequent events were considered through November 13, 2015, which represents the release date of our report.

SUPPLEMENTARY
INFORMATION

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Combining Balance Sheet – Nonmajor Governmental Funds
Year Ended June 30, 2015**

	<u>Capital Outlay Fund</u>	<u>Construction Funds</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-major Government Funds</u>
Assets					
Current:					
Cash and cash equivalents	\$ -	\$ 286,862	\$ 420,001	\$ -	\$ 706,863
Total current	<u>\$ -</u>	<u>\$ 286,862</u>	<u>\$ 420,001</u>	<u>\$ -</u>	<u>\$ 706,863</u>
Fund Balances:					
Restricted:					
Capital projects fund	-	286,862	420,001	-	706,863
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>286,862</u>	<u>420,001</u>	<u>-</u>	<u>706,863</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 286,862</u>	<u>\$ 420,001</u>	<u>\$ -</u>	<u>\$ 706,863</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Combining Statement of Revenues, Expenditures and
Changes in Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2015**

	<u>Capital Outlay Fund</u>	<u>Construction Funds</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Government Funds</u>
Revenues:					
Taxes	\$ -	\$ -	\$ 787,692	\$ -	\$ 787,692
State sources	349,885	-	522,625	523,722	1,396,232
Total revenues	<u>349,885</u>	<u>-</u>	<u>1,310,317</u>	<u>523,722</u>	<u>2,183,924</u>
Expenditures:					
Debt service:					
Principal	-	-	-	1,626,756	1,626,756
Interest	-	-	-	468,264	468,264
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,095,020</u>	<u>2,095,020</u>
Excess (deficit) of revenues over expenditures	<u>349,885</u>	<u>-</u>	<u>1,310,317</u>	<u>(1,571,298)</u>	<u>88,904</u>
Other Financing Sources (Uses)					
Operating transfers in	-	286,862	-	1,571,298	1,858,160
Operating transfers out	<u>(349,885)</u>	<u>(204,048)</u>	<u>(1,070,855)</u>	-	<u>(1,624,788)</u>
Total other financing sources(uses)	<u>(349,885)</u>	<u>82,814</u>	<u>(1,070,855)</u>	<u>1,571,298</u>	<u>233,372</u>
Net change in fund balance	-	82,814	239,462	-	322,276
Fund balance, July 1, 2014	<u>-</u>	<u>204,048</u>	<u>180,539</u>	<u>-</u>	<u>384,587</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ 286,862</u>	<u>\$ 420,001</u>	<u>\$ -</u>	<u>\$ 706,863</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget to Actual – General Fund
Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 16,040,000	\$ 16,040,000	\$ 16,580,477	\$ 540,477
Other local sources	61,500	61,500	227,643	166,143
State sources	15,175,657	15,175,657	23,673,092	8,497,435
Federal sources	420,000	420,000	582,863	162,863
Other sources	3,000	3,000	20,583	17,583
Total revenues	<u>31,700,157</u>	<u>31,700,157</u>	<u>41,084,658</u>	<u>9,384,501</u>
Expenditures				
Instructional	18,668,262	18,668,262	21,066,946	(2,398,684)
Student support services	2,404,921	2,404,921	3,012,971	(608,050)
Staff support services	751,346	751,346	887,052	(135,706)
District administration	3,904,344	3,904,344	2,018,188	1,886,156
School administration	3,052,967	3,052,967	3,863,206	(810,239)
Business support services	1,589,110	1,589,110	1,852,874	(263,764)
Plant operation and maintenance	5,832,650	5,832,650	5,873,588	(40,938)
Student transportation	1,516,592	1,516,592	1,632,692	(116,100)
Food service operation	15,000	15,000	10,084	4,916
Facility acquisition and construction	40,000	40,000	24,603	15,397
Other	2,952,276	2,952,276	449,199	2,503,077
Total expenditures	<u>40,727,468</u>	<u>40,727,468</u>	<u>40,691,403</u>	<u>36,065</u>
Net change in fund balance	(9,027,311)	(9,027,311)	393,255	9,420,566
Fund balance, July 1, 2014	<u>9,027,311</u>	<u>9,027,311</u>	<u>9,027,311</u>	<u>-</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,420,566</u>	<u>\$ 9,420,566</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget to Actual – Special Revenue Fund
Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Other local sources	\$ 105,980	\$ 105,980	\$ 275,289	\$ 169,309
State sources	2,866,061	2,866,061	2,936,770	70,709
Federal sources	4,887,622	4,887,622	4,838,068	(49,554)
Other sources	78,961	78,961	103,239	24,278
Total revenues	<u>7,938,624</u>	<u>7,938,624</u>	<u>8,153,366</u>	<u>214,742</u>
Expenditures:				
Instructional	6,165,153	6,165,153	6,663,820	(498,667)
Student support services	172,401	172,401	166,128	6,273
Staff support services	448,573	448,573	52,541	396,032
School administration	109,038	109,038	149,023	(39,985)
Student transportation	124,938	124,938	124,076	862
Community service operations	918,521	918,521	997,778	(79,257)
Total expenditures	<u>7,938,624</u>	<u>7,938,624</u>	<u>8,153,366</u>	<u>(214,742)</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2014	-	-	-	-
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Bond and Interest Redemption Funds
Year Ended June 30, 2015**

	<u>Issue of 2005B</u>	<u>Issue of 2005 KISTA</u>	<u>Issue of 2005B KISTA</u>	<u>Issue of 2006 KISTA</u>	<u>Issue of 2006 KISTA - 2</u>	<u>Issue of 2007</u>	<u>Issue of 2008</u>	<u>Issue of 2008B</u>	<u>Issue of 2009</u>
Cash at July 1, 2013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:									
Transfers and miscellaneous deposits	67,178	12,586	87,076	21,596	19,013	607,830	673,840	74,615	85,550
Disbursements:									
Bonds paid	65,000	12,146	55,000	20,004	17,208	485,000	595,000	45,000	45,000
Interest coupons	2,178	440	32,076	1,592	1,805	122,830	78,840	29,615	40,550
Total disbursements	67,178	12,586	87,076	21,596	19,013	607,830	673,840	74,615	85,550
Excess of receipts over disbursements	-	-	-	-	-	-	-	-	-
Cash at June 30, 2014	-	-	-	-	-	-	-	-	-
Fund Balance at June 30, 2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>Issue of 2009 KISTA</u>	<u>Issue of 2010</u>	<u>Issue of 2010B</u>	<u>Issue of 2010 KISTA</u>	<u>Issue of 2012</u>	<u>Issue of 2012 KISTA</u>	<u>Issue of 2014</u>	<u>Issue of 2015</u>	<u>Total</u>
Cash at July 1, 2013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:									
Transfers and miscellaneous deposits	9,908	126,501	79,475	20,278	64,386	32,017	113,171	-	2,095,020
Disbursements:									
Bonds paid	8,450	95,000	-	17,400	45,000	26,548	95,000	-	1,626,756
Interest coupons	1,458	31,501	79,475	2,878	19,386	5,469	18,171	-	468,264
Total disbursements	9,908	126,501	79,475	20,278	64,386	32,017	113,171	-	2,095,020
Excess of receipts over disbursements	-	-	-	-	-	-	-	-	-
Cash at June 30, 2014	-	-	-	-	-	-	-	-	-
Fund Balance at June 30, 2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Holmes High School Activity Funds
Year Ended June 30, 2015**

	Fund Balance July 1, 2014	Receipts	Disbursements	Fund Balance June 30, 2015
Academic team	\$ 190	\$ -	\$ -	\$ 190
Alumni fund	3,055	120	900	2,275
Annual	1,636	4,003	5,238	401
Art department	150	-	-	150
Athletic deposits	-	30,338	30,338	-
Athletic expenses	-	31,513	31,513	-
Athletic office	8,030	29,630	11,592	26,068
Auto body VICA	308	-	-	308
Auto mechanics VICA	493	-	-	493
Baseball fundraiser	1,420	784	-	2,204
Basketball fundraiser	1,060	2,248	2,143	1,165
Bulldog leadership	4,344	378	4,722	-
Capano Advoc Day of Serv	-	228	225	3
Carpentry VICA	476	-	476	-
CAS account	743	-	743	-
Chapman principal	32	157	189	-
Child care development center	314	188	279	223
Class of 2013	37	-	37	-
Class of 2014	219	-	219	-
Class of 2015	-	4,118	3,685	433
Class of 2016	94	7,138	6,888	344
Clinton Harvey	6,986	-	1,000	5,986
Concession	-	35,191	31,681	3,510
Cross country fundraiser	5,339	190	300	5,229
Dawgs against drugs	-	350	-	350
Don Conrad family scholarship	55,000	51,250	44,220	62,030
Eighth Grade Girls Basketball	1	-	-	1
Faculty lounge Sr.	324	-	138	186
Fine arts enrichment	624	-	-	624
Flower fund	512	-	266	246
Football fundraiser	25	-	-	25
French club	761	-	761	-
Future business	3	-	3	-
Future educator	-	1,013	1,013	-
G & R Reed scholarship	2,465	-	1,000	1,465
Gear up summer	-	-	-	-
General fund	3,432	13,485	7,528	9,389
Girls' soccer fundraiser	277	-	-	277
Heisel, DR medallion	4,606	-	-	4,606
Holmes alternative	11	-	11	-

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Holmes High School Activity Funds
Year Ended June 30, 2015
(Continued)**

	Fund Balance July 1, 2014	Receipts	Disbursements	Fund Balance June 30, 2015
Holmes broadcasting	\$ 1,643	\$ -	\$ 1,360	\$ 283
Holmes marching band	5,456	1,138	4,421	2,173
Holmespun	124	-	124	-
Homecoming	-	1,237	-	1,237
Honor Society - Sr.	40	372	240	172
Horizons	512	-	512	-
Industrial electrical VICA	300	-	300	-
Library	350	384	135	599
Marine Corp adm	3,657	300	1,601	2,356
Mitchell, H & S scholarship	13,284	10,367	-	23,651
MS sweats	855	-	-	855
NAACP	36	-	36	-
National Art Honor	2	-	2	-
Needy student fund	577	7	-	584
Nurse office	200	-	196	4
Parking permits	-	-	-	-
Petty cash	50	-	-	50
R&J Sargent scholarship	4,000	4,000	2,000	6,000
Records office	2,073	1,075	-	3,148
Rex's choir	39	1,000	1,039	-
Roth-Morgan scholarship	2,110	-	500	1,610
Seventh Grade Boys Basketball	13	-	-	13
Skills executive council	563	1,474	766	1,271
Skills USA executive	658	5,276	5,362	572
Softball fast fundraiser	5,536	3,525	3,650	5,411
Spanish club	234	-	-	234
Staff social committee	137	-	32	105
Student behavior mod	787	6,734	-	7,521
Student council	3,112	-	-	3,112
Students in transition	14	-	14	-
Student tech leader	355	-	355	-
Supply store	16,759	8,224	5,087	19,896
Swimming fundraiser	430	65	230	265
Teacher incentive	135	697	-	832
Textbooks	2,224	1,855	1,779	2,300
TLC-Service Learning	1,227	-	1,227	-
Track fundraiser	110	1,577	1,049	638
Tudor scholarship	8,926	-	800	8,126

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Holmes High School Activity Funds
Year Ended June 30, 2015
(Continued)**

	Fund Balance July 1, 2014	Receipts	Disbursements	Fund Balance June 30, 2015
Varsity club	\$ 8,355	\$ 552	\$ 5,089	\$ 3,818
Virginia Chapman scholarship	-	1,000	-	1,000
Vogt family scholarship	1,200	-	1,200	-
Volleyball fundraiser	756	-	-	756
Washington DC	643	-	-	643
Welding	97	-	-	97
Wrestling fundraiser	143	-	-	143
Youth service center	2,013	-	474	1,539
YSC Sr. welfare	1,701	-	11	1,690
YSC tobacco education	711	-	-	711
Total	\$ 195,114	\$ 263,181	\$ 226,699	\$ 231,596

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances – School Activity Funds
Year Ended June 30, 2015**

	Covington Adult High School	Holmes Middle School	Sixth District Elementary School	Ninth District Elementary School	John G. Carlisle Elementary School
Fund balances at July 1, 2014	\$ 135	\$ 26,225	\$ 9,839	\$ 10,439	\$ 20,287
Add: receipts	-	14,773	6,980	5,895	18,140
Less: disbursements	<u>(135)</u>	<u>(8,310)</u>	<u>(5,395)</u>	<u>(8,199)</u>	<u>(23,086)</u>
Fund balances at June 30, 2015	<u><u>\$ -</u></u>	<u><u>\$ 32,688</u></u>	<u><u>\$ 11,424</u></u>	<u><u>\$ 8,135</u></u>	<u><u>\$ 15,341</u></u>
	Glenn O. Swing Elementary School	Latonia Elementary School	James E. Biggs Early Childhood Education Center	Total	
Fund balances at July 1, 2014	\$ 3,678	\$ 36,415	\$ 1	\$ 107,019	
Add: receipts	16,167	21,350	-	83,305	
Less: disbursements	<u>(9,479)</u>	<u>(27,205)</u>	<u>(1)</u>	<u>(81,810)</u>	
Fund balances at June 30, 2015	<u><u>\$ 10,366</u></u>	<u><u>\$ 30,560</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 108,514</u></u>	

COVINGTON INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability – KTRS

	Last 10 Fiscal Years*									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
District's proportion of the net pension liability	0%	*	*	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ -	*	*	*	*	*	*	*	*	*
State's proportionate share of the net pension liability associated with the District	141,611,269	*	*	*	*	*	*	*	*	*
Total	\$ 141,611,269	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 21,596,543	\$ 21,473,319	\$ 20,714,102	*	*	*	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%	*	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	45.59%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms: None

Changes of assumption: In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Table rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

COVINGTON INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions – KTRS

	Last 10 Fiscal Years*									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 807,615	\$ 629,373	\$ 603,614	\$ 593,963	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	(807,615)	(629,373)	(603,614)	(593,963)	*	*	*	*	*	*
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	*	*	*	*	*	*
District's covered-employee payroll	\$ 21,828,578	\$ 21,596,543	\$ 21,473,319	\$ 20,714,102	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	3.70%	2.91%	2.81%	2.87%	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

COVINGTON INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability – CERS

	Last 10 Fiscal Years*									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
District's proportion of net pension liability	0.347687%	*	*	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ 11,280,000	*	*	*	*	*	*	*	*	*
Total net pension liability	\$ 3,244,377,000	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 8,098,732	\$ 8,131,534	\$ 8,842,053	*	*	*	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	139.3%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tired structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2006: The assumptions were updated as the result of an experience study for the five year period ending June 30, 2005.

2007: Amortization bases have been combined and will be amortized over a single 30 year closed period beginning June 30, 2007.

2009: The assumptions were updated as the result of an experience study for the three year period ending June 30, 2008.

2013: The amortization period of the unfunded accrued liability was reset to a closed 30 years period.

COVINGTON INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions – CERS

	Last 10 Fiscal Years*									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	1,447,873	\$1,529,852	\$1,589,713	\$1,508,323	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	<u>(1,447,873)</u>	<u>(1,529,852)</u>	<u>(1,589,713)</u>	<u>(1,508,323)</u>	*	*	*	*	*	*
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	*	*	*	*	*	*
District's covered-employee payroll	\$ 8,195,123	\$ 8,098,732	\$ 8,131,534	\$ 8,842,053	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	17.67%	18.89%	19.55%	17.06%	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Agreement Number	Federal Expenditures for FYE 6/30/2015
<u>U.S. Department of Education</u>			
<i>Passed through Kentucky Department of Education</i>			
Special Education Cluster			
Special Education_Grants to States	84.027	3810002 14	\$ 717,097
Special Education_Grants to States	84.027	3810002 13	365,237
Special Education_Grants to States	84.027	3810002 12	212
Special Education_Preschool Grants	84.173	3800002 14	50,294
Special Education_Preschool Grants	84.173	3800002 13	11,497
Total Special Education Cluster			<u>1,144,337</u>
Title I Grants to Local Educational Agencies	84.010A	3100002 14	1,498,239
Title I Grants to Local Educational Agencies	84.010A	3100002 13	1,134,221
Title I Grants to Local Educational Agencies	84.010A	3100002 12	250,200
Total for CFDA #84.010			<u>2,882,660</u>
Career and technical Education -Basic Grants to States	84.048	4621332 13	1,407
Career and technical Education -Basic Grants to States	84.048	4621310 14	1,306
Career and technical Education -Basic Grants to States	84.048	3710006 14	360
Career and technical Education -Basic Grants to States	84.048	3710002 14	34,557
Career and technical Education -Basic Grants to States	84.048	3710002 13	5,305
Total for CFDA #84.048			<u>42,935</u>
Education for Homeless Children and Youth	84.196	3990002 14	37,447
Education for Homeless Children and Youth	84.196	3990002 13	37,860
Total for CFDA #84.196			<u>75,307</u>
Title II Improving Teacher Quality State Grants	84.367	3230002 14	17,006
Title II Improving Teacher Quality State Grants	84.367	3230002 13	166,507
Title II Improving Teacher Quality State Grants	84.367	3230002 12	26,308
Total for CFDA #84.367			<u>209,821</u>
School Improvement Grants	84.377	3100202 12	
Race to the Top	84.413	3960002 11	25,228
English Language Acquisition State Grants	84.365	3300002 14	7,495
Twenty-First Century Community Learning Centers	84.287C	3400002 13	200,882
Twenty-First Century Community Learning Centers	84.287C	3400002 12	248,682
Total for CFDA #84.287			<u>449,564</u>
Total U.S. Department of Education			<u>4,837,347</u>
<u>U.S. Department of Agriculture</u>			
<i>Passed through Kentucky Department of Education</i>			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002 15	1,529,938
National School Lunch Program	10.555	7750002 14	371,926
School Breakfast Program	10.553	7760005 15	526,917
School Breakfast Program	10.553	7760005 14	129,302
Summer Food Program	10.559	7740023 14	83,137
Total U.S. Department of Education			<u>2,641,220</u>
<i>Passed through Kentucky Department of Agriculture</i>			
National School Lunch Program - Food Donation	10.555	059-0203	161,533
Total Child Nutrition Cluster			<u>2,802,753</u>
Other			
<i>Passed through Kentucky Department of Agriculture</i>			
Child and Adult Care Food Program	10.558	7800016 15	878
Child and Adult Care Food Program	10.558	7800016 14	181
Child and Adult Care Food Program	10.558	7790021 15	10,355
Child and Adult Care Food Program	10.558	7790021 14	2,080
Total for CFDA #10.558			<u>13,494</u>
Fresh Fruit and Vegetable Program	10.582	7720012 15	95,279
Fresh Fruit and Vegetable Program	10.582	7720012 14	18,202
Total for CFDA #10.582			<u>113,481</u>
Total U.S. Department of Agriculture			<u>126,975</u>
Total Expenditures of Federal Awards			<u>\$ 7,767,075</u>

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015**

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Covington Independent School District under programs of the federal government for the year ended June 30, 2015, and is reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Covington Independent School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2 FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. For the year ended June 30, 2015, the District reported food commodities expended in the amount of \$161,533.



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

To the Members of the Board of Education
Covington Independent School District
Covington, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Covington Independent School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Covington Independent School District's basic financial statements, and have issued our report thereon dated November 13, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted other matters that we reported to management of the District in a separate letter dated November 13, 2015.

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

(Continued)

Purpose of this Report

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

Barnes, Dennig & Co., Ltd.

Crestview Hills, Kentucky
November 13, 2015



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Members of the Board of Education
Covington Independent School District
Covington, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Covington Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Covington Independent School District's major federal programs for the year ended June 30, 2015. 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Covington Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Covington Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our 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 June 30, 2015.

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 our audit of compliance, we considered Covington Independent School 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

(Continued)

Report on Internal Control Over Compliance (Continued)

Accordingly, we do not express an opinion on the effectiveness of Covington Independent School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Barnes, Dennig & Co., Ltd.

Crestview Hills, Kentucky
November 13, 2015

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2015**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None noted

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs

CFDA No.	Name of Federal Program or Clusters
84.287	Twenty-First Century Community Learning Centers
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters are reportable

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COST

No matters are reportable

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2015**

Reference Number	Summary of Findings	Status
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No matters are reportable

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments
Year Ended June 30, 2015**

In planning and performing our audit of the financial statements of Covington Independent School District for the year ended June 30, 2015, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

This letter summarizes our comments and suggestions regarding those matters. A separate report dated November 13, 2015 contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 13, 2015, on the financial statements of the Covington Independent School District.

CURRENT YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable

ACTIVITY FUNDS

Holmes High School

No matters are reportable

Holmes Middle School

No matters are reportable

Covington Independent Adult High School

No matters are reportable

Sixth District Elementary

No matters are reportable

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2015**

Ninth District Elementary

2015-01: Monthly financial statements not prepared and reviewed timely

Criteria – Per best practices recommended by the Kentucky Department of Education, schools should have a process in place to prepare and review the monthly financial reports each month.

Condition – During the testing of the Activity Funds, it was noted that several of the monthly reports were prepared late.

Effect – Proper documentation of the monthly financial process was not followed.

Cause – Internal controls were not properly followed as designed by the District.

Recommendation – We recommend that the financial secretary prepare and submit the monthly financial reports to the principal for review each month. Further, we recommend the district finance officer to work with the financial secretary to ensure the monthly reports are being prepared timely.

Board Response – The finance officer has provided additional training to the proper employees to strengthen the controls over preparation and review the monthly financials reports each month in a timely manner.

John G. Carlisle Elementary

No matters are reportable.

Latonia Elementary

No matters are reportable

Glenn O. Swing Elementary

No matters are reportable

James E. Biggs Early Childhood Education Center

No matters are reportable

COVINGTON INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2015**

STATUS OF PRIOR YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable

ACTIVITY FUNDS

Holmes High School

No matters are reportable

Holmes Middle School

Statement of prior year deficiency: Invoices not marked paid.

Current year follow-up: No such instances in current year.

Covington Independent Adult High School

No matters are reportable

Sixth District Elementary

No matters are reportable

Ninth District Elementary

No matters are reportable

John G. Carlisle Elementary

No matters are reportable

Latonia Elementary

No matters are reportable

Glenn O. Swing Elementary

No matters are reportable

James E. Biggs Early Childhood Education Center

Statement of prior year deficiency: Monthly bank reconciliations not prepared and reviewed timely.

Current year follow-up: No such instances in current year.