

**COVINGTON INDEPENDENT
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013

- WITH INDEPENDENT AUDITORS' REPORT -

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JUNE 30, 2013**

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Independent Auditors' Report

To the Members of the Board of Education
Covington Independent School District
25 East Seventh Street
Covington, Kentucky 41011

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, 2013, 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.

Auditor's 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, 2013, 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.

Other Matters

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 on pages 4–9 and 16-17 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 introductory section, combining and individual nonmajor fund financial statements, and statistical section 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.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 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.



Crestview Hills, Kentucky
October 18, 2013

**COVINGTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013. 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 \$6,254,796.
- 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 has continued to look into ways to invest the District's money until the money is needed. The District opened up a Certificate of Deposit (CD) during the school year. This investment opportunity earned more interest for the District.
- The District refinanced Bond Series 2001 during the year saving the district \$45,500 over the life of the Bond.
- 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.
- 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. This trend has change over the past 4 years. From 2009 to 2013 the enrollment has actually increased each year (80 students in 2010, 55 students in 2011, 10 students in 2012, and 157 students in 2013). Our current enrollment this year shows that we are also showing an increase from the previous year. This helps create a more stable environment for budget purposes.
- The District administered \$1,304,261 in Federal, State and local grants during the year.
- The average teacher's salary in the District for 2013 was \$46,556. The Covington Board of Education remains committed to maintaining teachers' salaries at competitive levels.
- The General Fund had \$38,265,317 in revenue excluding interfund transfers of \$388,654. 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 \$37,005,177 in General Fund expenditures, excluding interfund transfers and including the on-behalf benefit payments made by the state.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)

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 10 and 11 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 12 through 20 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 21 through 34 of this report.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

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 exceeded liabilities by \$16,017,383 as of June 30, 2013.

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.

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, 2013 and 2012

The following is a summary of net position for the fiscal years ended June 30, 2013 and 2012.

| | 2013 | 2012 |
|--|-----------------------------|-----------------------------|
| Current assets | \$ 10,276,521 | \$ 9,051,978 |
| Noncurrent assets | <u>24,505,942</u> | <u>24,718,440</u> |
| Total assets | <u>\$ 34,782,463</u> | <u>\$ 33,770,418</u> |
| Current liabilities | \$ 3,530,258 | \$ 3,154,591 |
| Noncurrent liabilities | <u>15,234,822</u> | <u>15,727,125</u> |
| Total liabilities | <u>\$ 18,765,080</u> | <u>\$ 18,881,716</u> |
| Net position | | |
| Investment in capital assets (net of debt) | \$ 7,528,930 | \$ 7,346,841 |
| Committed | 7,491,127 | 6,528,333 |
| Restricted | 938,456 | 666,228 |
| Nonspendable | 57,999 | 69,423 |
| Assigned | 871 | 72,263 |
| Unassigned | <u>-</u> | <u>205,614</u> |
| Total net position | <u>\$ 16,017,383</u> | <u>\$ 14,888,702</u> |

**COVINGTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONT'D)

Comments on General Fund Budget Comparisons

- The District's total revenues in the General Fund for the fiscal year ended June 30, 2013, were \$38,265,317, net of inter-fund transfers, of \$386,654.
- General Fund budgeted revenue compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$7,830,651 more than budget or approximately 20% 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 \$37,005,177, net of inter-fund transfers of \$599,407.
- General Fund actual expenditures were more than budgeted expenditures by \$187,831.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONT'D)

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2013 and 2012.

| | 2013 | 2012 |
|---|---------------------|---------------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | \$ 293,235 | \$ 293,099 |
| Operating grants | 12,034,458 | 13,467,456 |
| Capital grants | <u>1,276,725</u> | <u>825,274</u> |
| Total grant revenues | <u>13,604,418</u> | <u>14,585,829</u> |
| General Revenues: | | |
| Property taxes | 16,853,581 | 16,852,182 |
| Grants and entitlements | 21,801,119 | 21,065,192 |
| Earnings on investments | 19,650 | 16,931 |
| Miscellaneous | <u>(78,283)</u> | <u>672,466</u> |
| Total general revenues | <u>38,596,067</u> | <u>38,606,771</u> |
| Total revenues | <u>52,200,485</u> | <u>53,192,600</u> |
| Expenses: | | |
| Instructional | 26,878,128 | 25,348,870 |
| Student support services | 2,996,141 | 3,288,751 |
| Staff support | 1,067,595 | 1,217,627 |
| District administration | 1,904,687 | 1,786,751 |
| School administration | 3,535,747 | 3,605,380 |
| Business support | 1,880,710 | 1,835,793 |
| Plant operations | 6,528,794 | 6,815,800 |
| Student transportation | 1,634,926 | 1,433,856 |
| Food service operation | 13,736 | 10,393 |
| Facilities acquisition and construction | 301,074 | 161,225 |
| Community service | 1,166,473 | 1,380,819 |
| Food service | 2,377,704 | 2,374,941 |
| Daycare | 231,014 | 297,195 |
| Interest on long-term debt | <u>555,075</u> | <u>640,165</u> |
| Total expenses | <u>51,071,804</u> | <u>50,197,466</u> |
| Excess of revenues over expenses | <u>\$ 1,128,681</u> | <u>\$ 2,995,134</u> |

**COVINGTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

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 \$2,375,665 in contingency (7.0%). The cash balance for the beginning of the fiscal year was \$6,254,796.

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 Bemmer, 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
AS OF JUNE 30, 2013**

| | <u>GOVERNMENTAL ACTIVITIES</u> | <u>BUSINESS-TYPE ACTIVITIES</u> | <u>TOTAL</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| CURRENT | | | |
| Cash and cash equivalents | \$ 7,018,595 | \$ 333,213 | \$ 7,351,808 |
| Accounts receivable | 2,569,279 | 297,435 | 2,866,714 |
| Inventories for consumption | - | 57,999 | 57,999 |
| | <u>9,587,874</u> | <u>688,647</u> | <u>10,276,521</u> |
| NONCURRENT | | | |
| Bond issuance cost - net | 160,290 | - | 160,290 |
| Construction in progress | 1,107,329 | - | 1,107,329 |
| Nondepreciated capital assets: | | | |
| Land | 1,393,260 | - | 1,393,260 |
| Depreciated capital assets: | | | |
| Land improvements | 781,134 | - | 781,134 |
| Buildings and improvements | 39,415,242 | - | 39,415,242 |
| Furniture and equipment | 6,003,397 | 820,983 | 6,824,380 |
| Less: accumulated depreciation | (24,637,763) | (537,930) | (25,175,693) |
| | <u>24,222,889</u> | <u>283,053</u> | <u>24,505,942</u> |
| Total assets | <u>\$ 33,810,763</u> | <u>\$ 971,700</u> | <u>\$ 34,782,463</u> |
| LIABILITIES | | | |
| CURRENT | | | |
| Current portion of bonds payable | \$ 1,558,541 | \$ - | \$ 1,558,541 |
| Accounts payable | 288,629 | 2,191 | 290,820 |
| Accrued interest | 59,560 | - | 59,560 |
| Accrued sick leave | 62,673 | - | 62,673 |
| Accrued payroll and related expenses | 592 | - | 592 |
| Assessed KISBIT liability | 213,109 | - | 213,109 |
| Deferred revenues | 1,344,963 | - | 1,344,963 |
| | <u>3,528,067</u> | <u>2,191</u> | <u>3,530,258</u> |
| NONCURRENT | | | |
| Accrued sick leave | 564,054 | - | 564,054 |
| Bond obligations | 14,670,768 | - | 14,670,768 |
| | <u>15,234,822</u> | <u>-</u> | <u>15,234,822</u> |
| Total liabilities | <u>18,762,889</u> | <u>2,191</u> | <u>18,765,080</u> |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 7,245,877 | 283,053 | 7,528,930 |
| Restricted for: | | | |
| Capital projects | 310,870 | - | 310,870 |
| Net position | - | 627,586 | 627,586 |
| Nonspendable | - | 57,999 | 57,999 |
| Assigned | - | 871 | 871 |
| Committed | | | |
| Other | 7,476,995 | - | 7,476,995 |
| Site-Based Carryforward | 14,132 | - | 14,132 |
| Unrestricted | - | - | - |
| | <u>15,047,874</u> | <u>969,509</u> | <u>16,017,383</u> |
| Total net position | <u>\$ 15,047,874</u> | <u>\$ 969,509</u> | <u>\$ 16,017,383</u> |
| Total liabilities and net position | <u>\$ 33,810,763</u> | <u>\$ 971,700</u> | <u>\$ 34,782,463</u> |

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES - DISTRICT WIDE
FOR THE YEAR ENDED JUNE 30, 2013**

| FUNCTION/PROGRAMS | PROGRAM REVENUES | | | | NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION | | |
|---------------------------------------|----------------------|-------------------------|---|--|---|-----------------------------|------------------------|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | GOVERNMENTAL ACTIVITIES | BUSINESS TYPE ACTIVITIES | TOTAL |
| Governmental Activities: | | | | | | | |
| Instructional | \$ 26,878,128 | \$ 2,197 | \$ 7,735,614 | \$ - | \$ (19,140,317) | \$ - | \$ (19,140,317) |
| Student support services | 2,996,141 | - | 150,015 | - | (2,846,126) | - | (2,846,126) |
| Staff support services | 1,067,595 | - | 15,083 | - | (1,052,512) | - | (1,052,512) |
| District administration | 1,904,687 | - | - | - | (1,904,687) | - | (1,904,687) |
| School administration | 3,535,747 | - | 134,451 | - | (3,401,296) | - | (3,401,296) |
| Business support services | 1,880,710 | - | - | - | (1,880,710) | - | (1,880,710) |
| Plant operation and maintenance | 6,528,794 | - | 29,697 | - | (6,499,097) | - | (6,499,097) |
| Student transportation | 1,634,926 | - | 136,227 | - | (1,498,699) | - | (1,498,699) |
| Food service operation | 13,736 | - | - | - | (13,736) | - | (13,736) |
| Community service operations | 1,166,473 | - | 1,166,288 | - | (185) | - | (185) |
| Facility acquisition and construction | 301,074 | - | - | 1,276,725 | 975,651 | - | 975,651 |
| Interest on long-term debt | 555,075 | - | - | - | (555,075) | - | (555,075) |
| Total governmental activities | 48,463,086 | 2,197 | 9,367,375 | 1,276,725 | (37,816,789) | - | (37,816,789) |
| Business-type Activities | | | | | | | |
| Food service | 2,377,704 | 168,709 | 2,629,497 | - | - | 420,502 | 420,502 |
| Daycare | 231,014 | 122,329 | 37,586 | - | - | (71,099) | (71,099) |
| Total business-type activities | 2,608,718 | 291,038 | 2,667,083 | - | - | 349,403 | 349,403 |
| Total school district | \$ 51,071,804 | \$ 293,235 | \$ 12,034,458 | \$ 1,276,725 | \$ (37,816,789) | \$ 349,403 | \$ (37,467,386) |
| | | | General revenues: | | | | |
| | | | Taxes | | \$ 16,853,581 | \$ - | \$ 16,853,581 |
| | | | State aid formula grants | | 21,801,119 | - | 21,801,119 |
| | | | Investment earnings | | 18,773 | 877 | 19,650 |
| | | | Miscellaneous | | 328,729 | - | 328,729 |
| | | | Special items: | | | | |
| | | | Loss on disposal of fixed assets | | (331,887) | - | (331,887) |
| | | | Underwriter's discount | | (22,426) | - | (22,426) |
| | | | KISBIT Assessment | | (213,109) | - | (213,109) |
| | | | Fund transfer | | 89,311 | 71,099 | 160,410 |
| | | | Total general and special revenues | | 38,524,091 | 71,976 | 38,596,067 |
| | | | Change in net position | | 707,302 | 421,379 | 1,128,681 |
| | | | Net position - beginning | | 14,340,572 | 548,130 | 14,888,702 |
| | | | Net position - ending | | \$ 15,047,874 | \$ 969,509 | \$ 16,017,383 |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF JUNE 30, 2013**

| | <u>GENERAL FUND</u> | <u>SPECIAL REVENUE FUND</u> | <u>CONSTRUCTION FUNDS</u> | <u>OTHER GOVERNMENTAL FUNDS</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|---------------------------------------|-------------------------|-------------------------------------|-------------------------------|---|---|
| ASSETS | | | | | |
| CURRENT | | | | | |
| Cash (overdraft) and cash equivalents | \$ 7,558,061 | \$ (850,336) | \$ 310,866 | \$ 4 | \$ 7,018,595 |
| Accounts receivable | 360,419 | 2,208,860 | - | - | 2,569,279 |
| Total current | <u>\$ 7,918,480</u> | <u>\$ 1,358,524</u> | <u>\$ 310,866</u> | <u>\$ 4</u> | <u>\$ 9,587,874</u> |
| LIABILITIES AND FUND BALANCE | | | | | |
| CURRENT | | | | | |
| Accounts payable | \$ 275,068 | \$ 13,561 | \$ - | \$ - | \$ 288,629 |
| Accrued payroll and related expenses | 592 | - | - | - | 592 |
| Deferred revenues | - | 1,344,963 | - | - | 1,344,963 |
| Total current | <u>275,660</u> | <u>1,358,524</u> | <u>-</u> | <u>-</u> | <u>1,634,184</u> |
| FUND BALANCE | | | | | |
| Restricted: | | | | | |
| Capital projects | - | - | 310,866 | 4 | 310,870 |
| Committed: | | | | | |
| Other | 7,628,688 | - | - | - | 7,628,688 |
| Site-Based carryforward | 14,132 | - | - | - | 14,132 |
| Total fund balance | <u>7,642,820</u> | <u>-</u> | <u>310,866</u> | <u>4</u> | <u>7,953,690</u> |
| Total liabilities and fund balance | <u>\$ 7,918,480</u> | <u>\$ 1,358,524</u> | <u>\$ 310,866</u> | <u>\$ 4</u> | <u>\$ 9,587,874</u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2013**

| | | | |
|---|---------------------|----|-------------------|
| Total governmental fund balance | | \$ | 7,953,690 |
| Unamortized bond issuance costs | | | 160,290 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. | | | |
| Construction in process | 1,107,329 | | |
| Cost of capital assets | 47,593,033 | | |
| Accumulated depreciation | <u>(24,637,763)</u> | | 24,062,599 |
| 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 | | | (16,229,309) |
| Accrued interest on bonds | | | (59,560) |
| Assessed KISBIT liability | | | (213,109) |
| Accrued sick leave | | | <u>(626,727)</u> |
| Total net position - governmental | | \$ | <u>15,047,874</u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

| | <u>GENERAL FUND</u> | <u>SPECIAL REVENUE FUND</u> | <u>CONSTRUCTION FUNDS</u> | <u>OTHER GOVERNMENTAL FUNDS</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|--|-------------------------|-------------------------------------|-------------------------------|---|---|
| REVENUES: | | | | | |
| Taxes | \$ 16,072,740 | \$ - | \$ - | \$ 780,841 | \$ 16,853,581 |
| Earnings on investments | 18,773 | 163 | - | - | 18,936 |
| State sources | 21,425,184 | 2,758,663 | - | 1,276,725 | 25,460,572 |
| Federal sources | 375,935 | 6,096,175 | - | - | 6,472,110 |
| Other sources | 330,926 | 512,374 | - | - | 843,300 |
| | <u>38,223,558</u> | <u>9,367,375</u> | <u>-</u> | <u>2,057,566</u> | <u>49,648,499</u> |
| Total revenues | | | | | |
| EXPENDITURES: | | | | | |
| Instructional | 18,890,279 | 7,910,939 | - | - | 26,801,218 |
| Student support services | 2,793,751 | 150,015 | - | - | 2,943,766 |
| Staff support services | 1,048,334 | 15,083 | - | - | 1,063,417 |
| District administration | 1,862,491 | - | - | - | 1,862,491 |
| School administration | 3,369,990 | 134,451 | - | - | 3,504,441 |
| Business support services | 1,780,199 | - | - | - | 1,780,199 |
| Plant operation and maintenance | 5,671,123 | 29,697 | - | - | 5,700,820 |
| Student transportation | 1,472,442 | 136,227 | - | - | 1,608,669 |
| Central office | - | - | - | - | - |
| Food service operation | 13,736 | - | - | - | 13,736 |
| Community service operations | - | 1,166,288 | - | - | 1,166,288 |
| Facility acquisition and construction | 102,832 | - | 1,256,314 | - | 1,359,146 |
| Debt service: | | | | | |
| Principal | - | - | - | 1,490,035 | 1,490,035 |
| Interest | - | - | - | 586,036 | 586,036 |
| | <u>37,005,177</u> | <u>9,542,700</u> | <u>1,256,314</u> | <u>2,076,071</u> | <u>49,880,262</u> |
| Total expenditures | | | | | |
| Excess (deficit) of revenues over expenditures | <u>1,218,381</u> | <u>(175,325)</u> | <u>(1,256,314)</u> | <u>(18,505)</u> | <u>(231,763)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Loan and bond proceeds | - | - | 1,049,192 | - | 1,049,192 |
| Proceeds from sale of assets | 41,759 | - | - | - | 41,759 |
| Operating transfers in | 386,654 | 192,099 | 313,844 | 1,580,970 | 2,473,567 |
| Operating transfers out | (599,407) | (16,774) | - | (1,768,075) | (2,384,256) |
| | <u>(170,994)</u> | <u>175,325</u> | <u>1,363,036</u> | <u>(187,105)</u> | <u>1,180,262</u> |
| Total other financing sources (uses) | | | | | |
| Net change in fund balance | 1,047,387 | - | 106,722 | (205,610) | 948,499 |
| Fund balance, July 1, 2012 | <u>6,595,433</u> | <u>-</u> | <u>204,144</u> | <u>205,614</u> | <u>7,005,191</u> |
| Fund balance, June 30, 2013 | <u>\$ 7,642,820</u> | <u>\$ -</u> | <u>\$ 310,866</u> | <u>\$ 4</u> | <u>\$ 7,953,690</u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

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

| | | |
|---|------------------|--------------------------|
| Net changes-governmental funds | | \$ 948,499 |
| Proceeds from sale of bonds | (1,049,192) | |
| Underwriter discount on bond sale | (22,426) | |
| Capitalized bond costs | <u>-</u> | |
| | | (1,071,618) |
| <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 | (1,580,172) | |
| Construction in progress | 1,107,329 | |
| Capital outlays | 353,794 | |
| Retirement of capital assets | <u>(373,646)</u> | |
| | | (492,695) |
| <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> | | |
| Principal paid | | 1,490,035 |
| <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>(166,919)</u> |
| Changes in net position of governmental activities | | <u><u>\$ 707,302</u></u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u> |
|---------------------------------------|----------------------------|-------------------------|---------------------|---|
| REVENUES: | | | | |
| Taxes | \$ 15,700,000 | \$ 15,700,000 | \$ 16,072,740 | \$ 372,740 |
| Other local sources | 355,000 | 355,000 | 349,699 | (5,301) |
| State sources | 13,313,442 | 14,276,470 | 21,425,184 | 7,148,714 |
| Federal sources | 455,000 | 455,000 | 375,935 | (79,065) |
| Other sources | 33,000 | 34,850 | 428,413 | 393,563 |
| | <u>29,856,442</u> | <u>30,821,320</u> | <u>38,651,971</u> | <u>7,830,651</u> |
| Total revenues | | | | |
| EXPENDITURES: | | | | |
| Instructional | 16,070,146 | 16,056,257 | 18,890,279 | (2,834,022) |
| Student support services | 2,333,826 | 2,389,074 | 2,793,751 | (404,677) |
| Staff support services | 856,194 | 849,810 | 1,048,334 | (198,524) |
| District administration | 3,311,123 | 3,861,385 | 1,862,491 | 1,998,894 |
| School administration | 2,636,275 | 2,724,944 | 3,369,990 | (645,046) |
| Business support services | 1,560,259 | 1,585,646 | 1,780,199 | (194,553) |
| Plant operation and maintenance | 5,681,239 | 5,744,483 | 5,671,123 | 73,360 |
| Student transportation | 1,056,731 | 1,122,462 | 1,472,442 | (349,980) |
| Food service operation | 19,300 | 19,300 | 13,736 | 5,564 |
| Community service operations | - | - | - | - |
| Facility acquisition and construction | 88,320 | 88,320 | 102,832 | (14,512) |
| Other | 2,725,940 | 2,975,072 | 599,407 | 2,375,665 |
| | <u>36,339,353</u> | <u>37,416,753</u> | <u>37,604,584</u> | <u>(187,831)</u> |
| Total expenditures | | | | |
| Net change in fund balance | (6,482,911) | (6,595,433) | 1,047,387 | 7,642,820 |
| Fund balance, July 1, 2012 | 6,482,911 | 6,595,433 | 6,595,433 | - |
| | <u>6,482,911</u> | <u>6,595,433</u> | <u>6,595,433</u> | <u>-</u> |
| Fund balance, June 30, 2013 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,642,820</u> | <u>\$ 7,642,820</u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u> |
|---------------------------------|----------------------------|-------------------------|------------------|---|
| REVENUES: | | | | |
| Other local sources | \$ 1,514 | \$ 202,509 | \$ 163 | \$ (202,346) |
| State sources | 2,664,281 | 2,700,274 | 2,758,663 | 58,389 |
| Federal sources | 4,754,628 | 5,421,595 | 6,096,175 | 674,580 |
| Other sources | 102,500 | 212,099 | 704,473 | 492,374 |
| | <u>7,522,923</u> | <u>8,536,477</u> | <u>9,559,474</u> | <u>1,022,997</u> |
| Total revenues | | | | |
| EXPENDITURES: | | | | |
| Instructional | 6,599,260 | 7,500,281 | 7,910,939 | (410,658) |
| Student support services | 121,320 | 33,716 | 150,015 | (116,299) |
| Staff support services | 14,217 | 26,763 | 15,083 | 11,680 |
| School administration | 112,201 | 112,201 | 134,451 | (22,250) |
| Plant operation and maintenance | - | - | 29,697 | (29,697) |
| Student transportation | 145,206 | 145,206 | 136,227 | 8,979 |
| Community service operations | 530,719 | 705,719 | 1,166,288 | (460,569) |
| Other | - | - | 16,774 | (16,774) |
| | <u>7,522,923</u> | <u>8,523,886</u> | <u>9,559,474</u> | <u>(1,035,588)</u> |
| Total expenditures | | | | |
| Net change in fund balance | - | 12,591 | - | (12,591) |
| Fund balance, July 1, 2012 | - | - | - | - |
| Fund balance, June 30, 2013 | <u>\$ -</u> | <u>\$ 12,591</u> | <u>\$ -</u> | <u>\$ (12,591)</u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
AS OF JUNE 30, 2013**

| | <u>FOOD SERVICE</u> | <u>DAY CARE FUNDS</u> | <u>TOTAL</u> |
|------------------------------------|-------------------------|---------------------------|-------------------|
| ASSETS | | | |
| CURRENT | | | |
| Cash and cash equivalents | \$ 333,205 | \$ 8 | \$ 333,213 |
| Accounts receivable | 297,435 | - | 297,435 |
| Inventories for consumption | 57,999 | - | 57,999 |
| | <u>688,639</u> | <u>8</u> | <u>688,647</u> |
| NONCURRENT | | | |
| Furniture and fixtures | 820,983 | - | 820,983 |
| Less: accumulated depreciation | (537,930) | - | (537,930) |
| | <u>283,053</u> | <u>-</u> | <u>283,053</u> |
| Total assets | <u>\$ 971,692</u> | <u>\$ 8</u> | <u>\$ 971,700</u> |
| LIABILITIES | | | |
| CURRENT | | | |
| Accounts payable | \$ 2,183 | \$ 8 | \$ 2,191 |
| | <u>2,183</u> | <u>8</u> | <u>2,191</u> |
| NET POSITION | | | |
| Invested in assets, net of debt | 283,053 | - | 283,053 |
| Nonspendable - inventories | 57,999 | - | 57,999 |
| Assigned | | | |
| Purchase obligations | 871 | - | 871 |
| Restricted | | | |
| Net position | <u>627,586</u> | <u>-</u> | <u>627,586</u> |
| Total net position | <u>969,509</u> | <u>-</u> | <u>969,509</u> |
| Total liabilities and net position | <u>\$ 971,692</u> | <u>\$ 8</u> | <u>\$ 971,700</u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

| | FOOD SERVICE | DAYCARE FUND | TOTAL |
|---|-------------------------|-------------------------|--------------------|
| OPERATING REVENUES: | | | |
| Lunchroom sales | \$ 168,709 | \$ - | \$ 168,709 |
| Other operating revenues | - | 122,329 | 122,329 |
| Total operating revenues | <u>168,709</u> | <u>122,329</u> | <u>291,038</u> |
| OPERATING EXPENSES: | | | |
| Salaries and benefits | 1,333,129 | 213,055 | 1,546,184 |
| Contract services | 48,391 | 485 | 48,876 |
| Materials and supplies | 966,686 | 16,849 | 983,535 |
| Depreciation | 9,498 | - | 9,498 |
| Other operating expenses | - | 625 | 625 |
| Total operating expenses | <u>2,357,704</u> | <u>231,014</u> | <u>2,588,718</u> |
| Operating loss | <u>(2,188,995)</u> | <u>(108,685)</u> | <u>(2,297,680)</u> |
| NONOPERATING REVENUES: | | | |
| Federal grants | 2,316,310 | - | 2,316,310 |
| State grants | 181,819 | 37,586 | 219,405 |
| Donated commodities and other donations | 131,368 | - | 131,368 |
| Transfers | (20,000) | 71,099 | 51,099 |
| Loss on disposal of capital assets | - | - | - |
| Interest income | 877 | - | 877 |
| Total nonoperating revenues | <u>2,610,374</u> | <u>108,685</u> | <u>2,719,059</u> |
| Net income | 421,379 | - | 421,379 |
| Total net position, July 1, 2012 | <u>548,130</u> | <u>-</u> | <u>548,130</u> |
| Total net position, June 30, 2013 | <u>\$ 969,509</u> | <u>\$ -</u> | <u>\$ 969,509</u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

| | FOOD SERVICE FUND | DAY CARE FUNDS | TOTAL |
|---|----------------------------------|---------------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from lunchroom sales | \$ 168,709 | \$ - | \$ 168,709 |
| Cash received from other activities | - | 123,553 | 123,553 |
| Cash payments to employees for services | (1,333,129) | (213,047) | (1,546,176) |
| Cash payments to suppliers for goods and services | (1,001,470) | (17,959) | (1,019,429) |
| Net cash used in operating activities | <u>(2,165,890)</u> | <u>(107,453)</u> | <u>(2,273,343)</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | | |
| Transfers | (20,000) | - | (20,000) |
| Purchase of capital assets | (281,091) | - | (281,091) |
| Net cash used in capital financing activities | <u>(301,091)</u> | <u>-</u> | <u>(301,091)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Non-operating revenues received | 2,418,519 | 108,685 | 2,527,204 |
| Net cash provided by noncapital financing activities | <u>2,418,519</u> | <u>108,685</u> | <u>2,527,204</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest on investments | 877 | - | 877 |
| Net cash flows provided by investing activities | <u>877</u> | <u>-</u> | <u>877</u> |
| Net increase (decrease) in cash and cash equivalents | (47,585) | 1,232 | (46,353) |
| Cash (overdraft) and cash equivalents - beginning | 380,790 | (1,224) | 379,566 |
| Cash (overdraft) and cash equivalents - ending | <u>\$ 333,205</u> | <u>\$ 8</u> | <u>\$ 333,213</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES | | | |
| Operating loss | \$ (2,188,995) | \$ (108,685) | \$ (2,297,680) |
| ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES | | | |
| Depreciation | 9,498 | - | 9,498 |
| Changes in assets and liabilities: | | | |
| (Decrease) increase in accounts payable | 2,183 | 8 | 2,191 |
| (Increase) decrease in accounts receivable | - | 1,224 | 1,224 |
| (Increase) decrease in inventories | 11,424 | - | 11,424 |
| Net cash used in operating activities | <u>\$ (2,165,890)</u> | <u>\$ (107,453)</u> | <u>\$ (2,273,343)</u> |
| SCHEDULE OF NON-CASH TRANSACTIONS: | | | |
| Donated commodities received from federal government | <u>\$ 131,368</u> | <u>\$ -</u> | <u>\$ 131,368</u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - 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 (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

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 pages 42. This is a major fund of the District.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

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.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

IV. Fiduciary Fund Type (Agency and Trust Funds) (cont'd)

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.

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.

Deferred Revenue – Deferred 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 deferred 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.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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 (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets (cont'd)

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 |
| Audio-visual equipment | 15 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 (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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 nonoperating 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.

NOTE B - 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 C - CASH AND CASH EQUIVALENTS

At year end, the District had on deposit cash and cash equivalents totaling \$9,075,528. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance Corporation (FDIC), with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2013, consisted of the following:

| | <u>Bank Balance</u> | <u>Book Balance</u> | |
|------------------|---------------------|---------------------|--|
| Bank of Kentucky | \$ 9,075,528 | \$ 7,674,379 | |
| Total | \$ 9,075,528 | \$ 7,674,379 | |

Allocation per financial statements:

| | |
|--------------------|--------------|
| Governmental funds | \$ 7,018,595 |
| Proprietary funds | 333,213 |
| Activity funds | 322,571 |
| | \$ 7,674,379 |

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE D - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

| <u>Governmental Activities</u> | Balance June 30, 2012 | Additions | Deductions | Balance June 30, 2013 |
|--|--------------------------|---------------------|-------------------|--------------------------|
| Land | \$ 1,465,705 | \$ - | \$ 72,445 | \$ 1,393,260 |
| Land improvements | 1,040,949 | - | 259,815 | 781,134 |
| Buildings and improvements | 36,945,507 | 2,852,387 | 382,652 | 39,415,242 |
| Technology equipment | 2,826,005 | 283,755 | 341,394 | 2,768,366 |
| Vehicles | 2,171,585 | 28,067 | 59,253 | 2,140,399 |
| General equipment | <u>2,071,343</u> | <u>91,229</u> | <u>1,067,940</u> | <u>1,094,632</u> |
| Totals at historical cost | <u>46,521,094</u> | <u>3,255,438</u> | <u>2,183,499</u> | <u>47,593,033</u> |
| Less: accumulated depreciation | | | | |
| Land improvements | 965,314 | 22,909 | 263,873 | 724,350 |
| Buildings and improvements | 19,081,172 | 992,289 | 143,249 | 19,930,212 |
| Technology equipment | 1,632,305 | 405,823 | 316,431 | 1,721,697 |
| Vehicles | 1,413,658 | 95,733 | 59,253 | 1,450,138 |
| General equipment | <u>1,774,995</u> | <u>63,418</u> | <u>1,027,047</u> | <u>811,366</u> |
| Total accumulated depreciation | <u>24,867,444</u> | <u>1,580,172</u> | <u>1,809,853</u> | <u>24,637,763</u> |
| Governmental activities capital assets - net | <u>\$ 21,653,650</u> | <u>\$ 1,675,266</u> | <u>\$ 373,646</u> | <u>\$ 22,955,270</u> |
| <u>Business - Type Activities</u> | | | | |
| General equipment | \$ 689,826 | \$ 281,091 | \$ 153,134 | \$ 817,783 |
| Technology equipment | <u>8,200</u> | <u>-</u> | <u>5,000</u> | <u>3,200</u> |
| Totals at historical cost | <u>698,026</u> | <u>281,091</u> | <u>158,134</u> | <u>820,983</u> |
| Less: accumulated depreciation | | | | |
| General equipment | 681,033 | 8,858 | 153,134 | 536,757 |
| Technology equipment | <u>5,533</u> | <u>640</u> | <u>5,000</u> | <u>1,173</u> |
| Total accumulated depreciation | <u>686,566</u> | <u>9,498</u> | <u>158,134</u> | <u>537,930</u> |
| Business - type activities capital assets - net | <u>\$ 11,460</u> | <u>\$ 271,593</u> | <u>\$ -</u> | <u>\$ 283,053</u> |

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE E - 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, 2013 this amount totaled approximately \$657,182 for those employees with twenty-seven or more years of experience.

NOTE F - 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:

| Issue Date | <u>Proceeds</u> | <u>Rates</u> |
|-------------------|-----------------|----------------|
| November 1, 2002 | \$ 4,240,000 | 3.00% - 3.600% |
| January 1, 2004 | \$ 71,476 | 1.00% - 3.500% |
| January 1, 2005 | \$ 126,934 | 3.00% - 3.625% |
| January 1, 2005 | \$ 545,000 | 3.350% |
| October 1, 2005 | \$ 1,195,000 | 3.00% - 4.200% |
| January 1, 2006 | \$ 214,714 | 3.00% - 4.200% |
| September 1, 2006 | \$ 154,177 | 3.50% - 3.875% |
| April 1, 2007 | \$ 4,255,000 | 3.50% - 3.800% |
| May 1, 2008 | \$ 3,760,000 | 2.20% - 3.300% |
| May 15, 2008 | \$ 1,030,000 | 2.60% - 3.300% |
| January 1, 2009 | \$ 83,609 | 2.00% - 3.900% |
| June 1, 2009 | \$ 1,255,000 | 1.40% - 4.400% |
| April 1, 2010 | \$ 2,275,000 | 1.50% - 5.700% |
| December 1, 2010 | \$ 3,000,000 | 1.20% - 6.120% |
| July 1, 2010 | \$ 176,764 | 1.00% - 3.300% |
| July 1, 2012 | \$ 265,448 | 2.000% |
| October 1, 2012 | \$ 1,090,000 | 1.10% - 2.250% |

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, 2013 for debt service (principal and interest) are reported in Note P.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE G - RETIREMENT PLANS

Kentucky Teachers Retirement System

The Kentucky Local School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education. Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

Funding policy – Contribution rates are established by Kentucky Revised Statutes. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. The contribution requirement for KTRS for the year ended June 30, 2013, was \$2,934,556, which consisted of \$603,614 from the District and \$2,330,942 from the employees. Total contributions for the year ended June 30, 2012 and 2011 were \$2,767,394 and \$2,519,280, respectively. The contributions have been contributed in full for fiscal years 2013, 2012 and 2011.

County Employees Retirement System

Classified employees who work an average of 80 hours per month over the actual days worked during the school year participate in the County Employees Retirement System (CERS). This is a cost sharing, multiple-employer, public employers retirement plan created and maintained by Kentucky legislature and provides retirement, death and disability benefits to Plan members.

Participating employees contribute 5% of creditable compensation. Participants hired after August 31, 2008 are required to contribute 6%. Matching contributions are made by the state at a rate as required by the Board of Trustees to be necessary for the actuarial soundness per Kentucky Revised Statute 61.565. The contribution requirement for CERS for the year ended June 30, 2012, was \$2,005,355, which consisted of \$1,589,713 from the District and \$415,642 from the employees. Total contributions for the year ended June 30, 2012 and 2011 were \$1,911,819 and \$1,327,296 respectively. The contributions have been contributed in full for fiscal years 2013, 2012 and 2011.

The District's total payroll for the year was \$29,655,631. The payroll for employees covered under KTRS was \$21,473,319 and for CERS was \$8,131,534.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligations for individual employers. KTRS and CERS both issue a publicly available financial report that includes all financial statements and required supplementary information. The reports can be obtained in writing from the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 and the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE H - 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 I - 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.

NOTE J - 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 K - 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, not including interfund transfers. Debt Service fund deficit was supplemented with transfers from the General, Capital Outlay and Building funds.

| | |
|----------------------------------|--------------|
| Debt Service Fund | \$ 1,580,970 |
| Holmes High School | \$ 8,236 |
| Covington Adult High School | \$ 458 |
| Sixth District Elementary School | \$ 1,422 |
| Glenn O. Swing Elementary School | \$ 495 |

**COVINGTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2013**

NOTE L - 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 M - 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, 2013, the District has been notified of a deficit in the trust and has been given a preliminary assessment of its portion of the deficit of \$213,109. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Governmental Financial Statements.

NOTE N - 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> |
|------------------|----------------|---------------------------|---------------|
| 1 | 360 | Construction | \$ 173,434 |
| 1 | 2 | Matching | \$ 192,099 |
| 1 | 50 | Operations | \$ 71,099 |
| 1 | 400 | Debt Service | \$ 162,774 |
| 51 | 1 | Indirect | \$ 20,000 |
| 2 | 1 | Indirect | \$ 16,774 |
| 320 | 1 | Operating | \$ 349,880 |
| 310 | 400 | Debt Service | \$ 337,830 |
| 320 | 400 | Debt Service | \$ 1,080,365 |
| 360 | 360 | To close out old projects | \$ 140,410 |

NOTE O - ON-BEHALF PAYMENTS

For the year ended June 30, 2013 total payments of \$7,078,208 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 | \$ 6,398,932 |
| Debt Service | 495,101 |
| Day Care | 25,404 |
| Food Service | <u>158,771</u> |
| Total On-Behalf | <u><u>\$ 7,078,208</u></u> |

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE P - SCHEDULE OF LONG-TERM OBLIGATIONS

2002R, 2005B, 2007, 2008, 2008B, 2009, 2010, 2010B, 2012 and KISTA Bus Loans

| FISCAL YEAR | COVINGTON INDEPENDENT SCHOOL DISTRICT | | | KY SCHOOL FACILITIES CONSTRUCTION COMMISSION | | | TOTAL REQUIREMENTS |
|-------------|---------------------------------------|---------------------|----------------------|--|---------------------|---------------------|----------------------|
| | PRINCIPAL | INTEREST | TOTAL | PRINCIPAL | INTEREST | TOTAL | |
| 2013-2014 | \$ 1,240,873 | \$ 338,600 | \$ 1,579,473 | \$ 317,668 | \$ 211,055 | \$ 528,723 | \$ 2,108,196 |
| 2014-2015 | 1,275,042 | 299,204 | 1,574,246 | 321,714 | 202,009 | 523,723 | 2,097,969 |
| 2015-2016 | 1,229,628 | 258,767 | 1,488,395 | 330,897 | 192,329 | 523,226 | 2,011,621 |
| 2016-2017 | 1,244,616 | 219,240 | 1,463,856 | 348,032 | 181,845 | 529,877 | 1,993,733 |
| 2017-2018 | 1,267,938 | 178,158 | 1,446,096 | 358,327 | 170,599 | 528,926 | 1,975,022 |
| 2018-2019 | 1,310,622 | 135,704 | 1,446,326 | 331,948 | 158,477 | 490,425 | 1,936,751 |
| 2019-2020 | 342,586 | 88,383 | 430,969 | 284,418 | 146,664 | 431,082 | 862,051 |
| 2020-2021 | 335,789 | 79,791 | 415,580 | 294,211 | 136,322 | 430,533 | 846,113 |
| 2021-2022 | 250,075 | 70,032 | 320,107 | 304,925 | 125,057 | 429,982 | 750,089 |
| 2022-2023 | 258,910 | 62,854 | 321,764 | 316,090 | 113,342 | 429,432 | 751,196 |
| 2023-2024 | 266,813 | 55,187 | 322,000 | 333,187 | 100,352 | 433,539 | 755,539 |
| 2024-2025 | 278,880 | 47,300 | 326,180 | 346,120 | 86,183 | 432,303 | 758,483 |
| 2025-2026 | 283,867 | 39,039 | 322,906 | 346,133 | 71,882 | 418,015 | 740,921 |
| 2026-2027 | 258,597 | 30,484 | 289,081 | 291,403 | 58,214 | 349,617 | 638,698 |
| 2027-2028 | 265,729 | 22,532 | 288,261 | 299,271 | 45,253 | 344,524 | 632,785 |
| 2028-2029 | 259,432 | 14,420 | 273,852 | 240,568 | 31,730 | 272,298 | 546,150 |
| 2029-2030 | 226,109 | 6,706 | 232,815 | 178,891 | 20,219 | 199,110 | 431,925 |
| 2030-2031 | 79,134 | 559 | 79,693 | 185,866 | 11,537 | 197,403 | 277,096 |
| 2031-2032 | - | - | - | 65,000 | 2,428 | 67,428 | 67,428 |
| 2032-2033 | - | - | - | 60,000 | 788 | 60,788 | 60,788 |
| | <u>\$ 10,674,640</u> | <u>\$ 1,946,960</u> | <u>\$ 12,621,600</u> | <u>\$ 5,554,669</u> | <u>\$ 2,066,285</u> | <u>\$ 7,620,954</u> | <u>\$ 20,242,554</u> |

NOTE Q - SUBSEQUENT EVENTS

Subsequent events were considered through November 15, 2013, which represents the release date of our report.

NOTE R - CONTINGENT LIABILITY

Over the past years the District has been a participant in the Kentucky School Board Insurance Trust in which the District purchased general liability and workers' compensation insurance. As of June 30, 2013, the District has been notified of a deficit in the trust and has been given a preliminary assessment of its portion of the deficit of \$213,019. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Government Financial Statements.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 AS OF JUNE 30, 2013**

| | CAPITAL OUTLAY FUND | BUILDING FUND | DEBT SERVICE FUND | TOTAL NON-MAJOR GOVERNMENT FUNDS |
|--|--------------------------------|--------------------------|----------------------------------|---|
| ASSETS | | | | |
| CURRENT | | | | |
| Cash and cash equivalents | \$ - | \$ 4 | \$ - | \$ 4 |
| Accounts receivable | - | - | - | - |
| | | | | |
| Total current | \$ - | \$ 4 | \$ - | \$ 4 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - |
| | | | | |
| Total current | - | - | - | - |
| FUND BALANCES | | | | |
| Restricted: | | | | |
| Capital projects fund | - | 4 | - | 4 |
| Prior year encumbrances | - | - | - | - |
| Debt service fund | - | - | - | - |
| Unrestricted | - | - | - | - |
| | | | | |
| Total fund balances | - | 4 | - | 4 |
| Total liabilities and fund balances | \$ - | \$ 4 | \$ - | \$ 4 |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

| | <u>CAPITAL OUTLAY FUND</u> | <u>BUILDING FUND</u> | <u>DEBT SERVICE FUND</u> | <u>TOTAL NONMAJOR GOVERNMENT FUNDS</u> |
|--|--------------------------------|--------------------------|----------------------------------|--|
| REVENUES: | | | | |
| Taxes | \$ - | \$ 780,841 | \$ - | \$ 780,841 |
| Earnings on investments | - | - | - | - |
| State sources | 337,830 | 443,794 | 495,101 | 1,276,725 |
| Federal sources | - | - | - | - |
| Other sources | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 337,830 | 1,224,635 | 495,101 | 2,057,566 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| EXPENDITURES: | | | | |
| Instructional | - | - | - | - |
| Student support services | - | - | - | - |
| Staff support services | - | - | - | - |
| District administration | - | - | - | - |
| School administration | - | - | - | - |
| Business support services | - | - | - | - |
| Plant operation and maintenance | - | - | - | - |
| Student transportation | - | - | - | - |
| Central office | - | - | - | - |
| Food service | - | - | - | - |
| Community service operations | - | - | - | - |
| Facility acquisition and construction | - | - | - | - |
| Debt service: | | | | |
| Principal | - | - | 1,490,035 | 1,490,035 |
| Interest | - | - | 586,036 | 586,036 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures | - | - | 2,076,071 | 2,076,071 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Excess (deficit) of revenues over expenditures | 337,830 | 1,224,635 | (1,580,970) | (18,505) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| OTHER FINANCING SOURCES(USES): | | | | |
| Proceeds from sale of bonds | - | - | - | - |
| Proceeds from sale of assets | - | - | - | - |
| Operating transfers in | - | - | 1,580,970 | 1,580,970 |
| Operating transfers out | (337,830) | (1,430,245) | - | (1,768,075) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total other financing sources(uses) | (337,830) | (1,430,245) | 1,580,970 | (187,105) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net change in fund balance | - | (205,610) | - | (205,610) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund balance, July 1, 2012 | - | 205,614 | - | 205,614 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund balance, June 30, 2013 | <u>\$ -</u> | <u>\$ 4</u> | <u>\$ -</u> | <u>\$ 4</u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
BOND AND INTEREST REDEMPTION FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

| | <u>ISSUE OF 2002R</u> | <u>ISSUE OF 2004 KISTA</u> | <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> |
|--|---------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|--------------------------------|------------------------------------|--------------------------|--------------------------|
| Cash at July 1, 2012 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Receipts: | | | | | | | | | |
| Transfers and miscellaneous deposits | 839,160 | 6,922 | 66,198 | 15,046 | 86,045 | 25,871 | 18,885 | 212,555 | 250,740 |
| Disbursements: | | | | | | | | | |
| Bonds paid | 810,000 | 6,468 | 60,000 | 13,715 | 50,000 | 22,583 | 15,903 | 70,000 | 150,000 |
| Interest coupons | 29,160 | 454 | 6,198 | 1,331 | 36,045 | 3,288 | 2,982 | 142,555 | 100,740 |
| Transfers and miscellaneous | - | - | - | - | - | - | - | - | - |
| Call fee | - | - | - | - | - | - | - | - | - |
| Total disbursements | 839,160 | 6,922 | 66,198 | 15,046 | 86,045 | 25,871 | 18,885 | 212,555 | 250,740 |
| Excess of receipts over disbursements | - | - | - | - | - | - | - | - | - |
| Cash at June 30, 2013 | - | - | - | - | - | - | - | - | - |
| Accounts Receivable and Payable | | | | | | | | | |
| Matured interest and bonds outstanding | - | - | - | - | - | - | - | - | - |
| Due from other funds | - | - | - | - | - | - | - | - | - |
| Due to other funds | - | - | - | - | - | - | - | - | - |
| Total accounts receivable and payable | - | - | - | - | - | - | - | - | - |
| Fund Balance at June 30, 2013 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

| | <u>ISSUE OF 2008B</u> | <u>ISSUE OF 2009</u> | <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>Total</u> |
|--|---------------------------|--------------------------|--------------------------------|--------------------------|---------------------------|--------------------------------|--------------------------|--------------------------------|--------------|
| Cash at July 1, 2012 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Receipts: | | | | | | | | | |
| Transfers and miscellaneous deposits | 72,250 | 93,025 | 9,879 | 170,915 | 168,217 | 19,975 | 8,721 | 11,667 | 2,076,071 |
| Disbursements: | | | | | | | | | |
| Bonds paid | 40,000 | 50,000 | 7,957 | 105,000 | 65,000 | 16,609 | - | 6,800 | 1,490,035 |
| Interest coupons | 32,250 | 43,025 | 1,922 | 65,915 | 103,217 | 3,366 | 8,721 | 4,867 | 586,036 |
| Transfers and miscellaneous | - | - | - | - | - | - | - | - | - |
| Call fee | - | - | - | - | - | - | - | - | - |
| Total disbursements | 72,250 | 93,025 | 9,879 | 170,915 | 168,217 | 19,975 | 8,721 | 11,667 | 2,076,071 |
| Excess of receipts over disbursements | - | - | - | - | - | - | - | - | - |
| Cash at June 30, 2013 | - | - | - | - | - | - | - | - | - |
| Accounts Receivable and Payable | | | | | | | | | |
| Matured interest and bonds outstanding | - | - | - | - | - | - | - | - | - |
| Due from other funds | - | - | - | - | - | - | - | - | - |
| Due to other funds | - | - | - | - | - | - | - | - | - |
| Total accounts receivable and payable | - | - | - | - | - | - | - | - | - |
| Fund Balance at June 30, 2013 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
HOLMES HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

| | FUND BALANCE JULY 1, 2012 | RECEIPTS | DISBURSEMENTS | FUND BALANCE JUNE 30, 2013 |
|-------------------------------|--|-----------------|----------------------|---|
| A P book fund | \$ 2,233 | \$ - | \$ 2,233 | \$ - |
| A P human geography | - | 528 | - | 528 |
| A P soft drink fund | 865 | - | 865 | - |
| A P teacher fund | 400 | - | 400 | - |
| Academic all stars | 450 | - | 450 | - |
| Academic team | - | 1,265 | 750 | 515 |
| Advanced placement | 2,959 | 205 | 3,164 | - |
| Alumni fund | 3,803 | 10 | 533 | 3,280 |
| Annual | 201 | 1,761 | 1,300 | 662 |
| Art department | - | 150 | - | 150 |
| Athletic deposits | 2,011 | 28,733 | 30,744 | - |
| Athletic expenses | - | 33,236 | 33,236 | - |
| Athletics | 4,159 | 26,846 | 23,293 | 7,712 |
| Auto body VICA | 1,130 | - | 582 | 548 |
| Auto mechanics VICA | 493 | - | - | 493 |
| Baseball fundraiser | 1,320 | 100 | - | 1,420 |
| Basketball fundraiser | 2,414 | 7,848 | 7,039 | 3,223 |
| Bulldog leadership | 19,550 | 2,366 | 10,732 | 11,184 |
| Carpentry VICA | 476 | - | - | 476 |
| CAS account | 743 | - | - | 743 |
| Chapman principal | 1,590 | 4,198 | 5,220 | 568 |
| Chapman shop | 30 | - | 30 | - |
| Cheerleaders - senior | 75 | 1,584 | 1,659 | - |
| Cheerleaders 8/9/JV | 119 | 2,656 | 2,567 | 208 |
| Chemistry | 156 | - | 156 | - |
| Chess club | 153 | - | 153 | - |
| Child care development center | 162 | 77 | - | 239 |
| Choir | - | 100 | 100 | - |
| Class of 1997 | 2,255 | - | 2,255 | - |
| Class of 1999 | 239 | - | 239 | - |
| Class of 2000 | 654 | - | 654 | - |
| Class of 2002 | 273 | - | 273 | - |
| Class of 2003 | 2,381 | - | 2,381 | - |
| Class of 2004 | 1,913 | - | 1,913 | - |
| Class of 2005 | 696 | - | 696 | - |
| Class of 2006 | 283 | - | 283 | - |
| Class of 2007 | 868 | - | 868 | - |
| Class of 2008 | 661 | - | 661 | - |
| Class of 2010 | 129 | - | 129 | - |
| Class of 2011 | 78 | - | 78 | - |
| Class of 2013 | 77 | 2,103 | 2,143 | 37 |
| Class of 2014 | 80 | 6,696 | 6,115 | 661 |
| Clinton Harvey | 7,986 | - | - | 7,986 |
| Crimsonettes | 7 | - | 7 | - |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
HOLMES HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

| | FUND BALANCE JULY 1, 2012 | RECEIPTS | DISBURSEMENTS | FUND BALANCE JUNE 30, 2013 |
|-------------------------------|--|-----------------|----------------------|---|
| Cross country fundraiser | \$ 4,491 | \$ 2,423 | \$ 1,831 | \$ 5,083 |
| Don Conrad family scholarship | 22,500 | 40,000 | 22,500 | 40,000 |
| Eighth Grade Girls Basketball | 351 | - | 350 | 1 |
| Faculty lounge Sr. | 759 | - | 435 | 324 |
| FCCLA | 1,291 | - | 1,291 | - |
| FGB fundraiser | 12 | - | 12 | - |
| Fine arts enrichment | 550 | 316 | 107 | 759 |
| Flower fund | 350 | 500 | 675 | 175 |
| Football fundraiser | - | 563 | 538 | 25 |
| Forensics | - | 1,170 | 1,170 | - |
| French club | 761 | - | - | 761 |
| Future business | 3 | - | - | 3 |
| Future educator | - | 3,080 | 1,402 | 1,678 |
| G & R Reed scholarship | 3,465 | - | - | 3,465 |
| Gear up summer | 13 | - | 13 | - |
| General fund | 6,697 | 24,693 | 13,295 | 18,095 |
| Gifted and talented | 26 | - | 26 | - |
| Girls' soccer fundraiser | 277 | - | - | 277 |
| GTN fundraiser | 792 | - | 792 | - |
| Hall of distinction | 152 | - | 152 | - |
| Heisel, DR medallion | 4,606 | - | - | 4,606 |
| HMS postage | 899 | - | 899 | - |
| Holmes alternative | 711 | - | 700 | 11 |
| Holmes broadcasting | 643 | - | - | 643 |
| Holmes marching band | 1,234 | 8,316 | 8,940 | 610 |
| Holmespun | 124 | - | - | 124 |
| Honor Society - Sr. | - | 125 | 85 | 40 |
| Horizons | 512 | - | - | 512 |
| Industrial electrical VICA | 300 | - | - | 300 |
| John R Sheshull Fine | 53 | - | 53 | - |
| Kentucky college coaches | - | 22 | 22 | - |
| Key fob | 100 | 20 | 120 | - |
| Library | 632 | 275 | 520 | 387 |
| Lift-a-Thon | 25 | - | 25 | - |
| Lockers - Sr. | 147 | - | 147 | - |
| Marine Corp adm | 5,285 | 3,938 | 5,332 | 3,891 |
| Math club | 509 | - | 509 | - |
| Math dept calculators | 73 | - | 73 | - |
| Mitchell, H & S scholarship | 9,184 | 1,500 | - | 10,684 |
| NAACP | 36 | - | - | 36 |
| National Art Honor | 2 | - | - | 2 |
| Needy student fund | 577 | 95 | 95 | 577 |
| Petty cash | 50 | - | - | 50 |
| R&J Sargent scholarship | 2,000 | - | - | 2,000 |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
HOLMES HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

| | FUND BALANCE JULY 1, 2012 | RECEIPTS | DISBURSEMENTS | FUND BALANCE JUNE 30, 2013 |
|------------------------------|--|-------------------|----------------------|---|
| Records office | \$ 768 | \$ 690 | \$ - | \$ 1,458 |
| Rex's choir | 8,172 | 2,497 | 10,175 | 494 |
| Roth-Morgan scholarship | 2,610 | - | - | 2,610 |
| Save the Nordheim | 100 | - | 100 | - |
| Skills USA executive | 577 | 7,038 | 6,887 | 728 |
| Softball fast fundraiser | 3,653 | 6,897 | 4,189 | 6,361 |
| Softball slow pitch | 661 | - | 661 | - |
| Spanish club | 234 | - | - | 234 |
| Student behavior mod | 2,536 | 1,924 | 2,096 | 2,364 |
| Student council | 3,112 | - | - | 3,112 |
| Students in transition | 14 | - | - | 14 |
| Student tech leader | 355 | - | - | 355 |
| Supply store | 16,796 | 14,510 | 17,016 | 14,290 |
| Swimming fundraiser | 748 | 829 | 598 | 979 |
| Teacher incentive | 349 | 1,133 | 1,020 | 462 |
| Tech lab | 28 | - | 28 | - |
| Textbooks | 17,333 | 2,318 | 9,067 | 10,584 |
| TLC-Service Learning | 1,227 | - | - | 1,227 |
| Track fundraiser | 110 | - | - | 110 |
| Tudor scholarship | 9,726 | - | - | 9,726 |
| Varsity club | 7,363 | 18,140 | 16,300 | 9,203 |
| Virginia Chapman scholarship | - | 500 | - | 500 |
| Vogt family scholarship | - | 1,500 | - | 1,500 |
| Volleyball fundraiser | 756 | - | - | 756 |
| Washington DC | - | 18,915 | 18,272 | 643 |
| Welding | 103 | - | 6 | 97 |
| Wrestling fundraiser | 143 | - | - | 143 |
| Youth service center | 2,069 | - | 53 | 2,016 |
| Youth strings | 137 | - | 137 | - |
| YSC Sr. welfare | 1,448 | - | 10 | 1,438 |
| YSC tobacco education | 711 | - | - | 711 |
| Total | \$ 216,103 | \$ 284,389 | \$ 292,625 | \$ 207,867 |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

| | 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, 2012 | \$ 1,114 | \$ 16,038 | \$ 19,278 | \$ 12,986 | \$ 12,255 |
| Add: receipts | 21 | 26,095 | 11,091 | 15,373 | 41,024 |
| Less: disbursements | <u>(479)</u> | <u>(20,664)</u> | <u>(12,513)</u> | <u>(14,867)</u> | <u>(34,362)</u> |
| Fund balances at June 30, 2013 | <u>\$ 656</u> | <u>\$ 21,469</u> | <u>\$ 17,856</u> | <u>\$ 13,492</u> | <u>\$ 18,917</u> |

| | GLENN O. SWING ELEMENTARY SCHOOL | LATONIA ELEMENTARY SCHOOL | JAMES E. BIGGS EARLY CHILDHOOD EDUCATION CENTER | TOTAL |
|--------------------------------|---|--|--|-------------------|
| Fund balances at July 1, 2012 | \$ 10,513 | \$ 24,806 | \$ 4,148 | \$ 101,138 |
| Add: receipts | 9,709 | 16,716 | 6,416 | 126,445 |
| Less: disbursements | <u>(10,204)</u> | <u>(13,564)</u> | <u>(6,226)</u> | <u>(112,879)</u> |
| Fund balances at June 30, 2013 | <u>\$ 10,018</u> | <u>\$ 27,958</u> | <u>\$ 4,338</u> | <u>\$ 114,704</u> |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

| | CFDA NUMBER | PASS- THROUGH GRANTOR'S NUMBER | EXPENDITURES | PROGRAM/ CLUSTER TOTALS |
|---|----------------|---|--------------|-------------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | | |
| Fund for the Improvement of Education | 84.215 | N/A | \$ 144,578 | |
| Fund for the Improvement of Education | 84.215 | N/A | 52,122 | |
| Fund for the Improvement of Education | 84.215 | N/A | 453,678 | |
| Fund for the Improvement of Education | 84.215 | N/A | 367 | \$ 650,745 |
| Safe and Drug-Free Schools and Communities - National Program | 84.184 | N/A | 77 | |
| Safe and Drug-Free Schools and Communities - National Program | 84.184 | N/A | 31,193 | 31,270 |
| <i>Passed through the Kentucky Department of Education:</i> | | | | |
| Race to the Top | 84.413 | 3960002 11 | 36,926 | 36,926 |
| Twenty-First Century Community Learning Centers | 84.287 | 3400002 12 | 35,867 | |
| Twenty-First Century Community Learning Centers | 84.287 | 3400002 10 | 126,627 | |
| Twenty-First Century Community Learning Centers | 84.287 | 3400002 11 | 470,973 | 633,467 |
| Title I - Grants to Local Educational Agencies | 84.010 | 3100002 12 | 2,119,262 | |
| Title I - Grants to Local Educational Agencies | 84.010 | 3100002 10 | 27,450 | |
| Title I - Grants to Local Educational Agencies | 84.010 | 3100002 11 | 691,203 | |
| Title I - Grants to Local Educational Agencies | 84.010 | 3100202 11 | 22,201 | 2,860,116 |
| Career and Technical Education - Basic Grants to States | 84.048 | 4621032 12 | 68,310 | 68,310 |
| Improving Teacher Quality State Grant | 84.367 | 3230002 12 | 377,275 | |
| Improving Teacher Quality State Grant | 84.367 | 3230002 11 | 61,440 | |
| Improving Teacher Quality State Grant | 84.367 | 3230002 10 | 12,567 | 451,282 |
| Education Technology State Grant | 84.318 | 3210002 10 | 16,341 | 16,341 |
| Education Jobs Fund | 84.410 | EJOB00 10 | 14,604 | 14,604 |
| Education for Homeless Children and Youth | 84.196 | 3990002 10 | 59,117 | |
| Education for Homeless Children and Youth | 84.196 | 3990002 11 | 15,698 | 74,815 |
| Special Education Cluster: | | | | |
| Special Education Grants to States | 84.027 | 3810002 11 | 291,067 | |
| Special Education Grants to States | 84.027 | 3810002 12 | 849,096 | |
| Special Education Preschool Grants | 84.173 | 3800002 12 | 59,400 | 1,199,563 |
| Total U.S. Department of Education | | | 6,037,439 | 6,037,439 |
| U.S. DEPARTMENT OF AGRICULTURE | | | | |
| <i>Passed through the Kentucky Department of Education</i> | | | | |
| Fresh Fruit and Vegetable Program | 10.582 | 7720012 12 | 3,457 | |
| Fresh Fruit and Vegetable Program | 10.582 | 7720012 13 | 30,926 | 34,383 |
| Child and Adult Care Food Program | 10.558 | 7790021 13 | 9,763 | |
| Child and Adult Care Food Program | 10.558 | 7790021 12 | 1,744 | |
| Child and Adult Care Food Program | 10.558 | 7800016 13 | 770 | |
| Child and Adult Care Food Program | 10.558 | 7800016 12 | 158 | 12,435 |
| Child Nutrition Cluster: | | | | |
| National School Lunch Program | 10.555 | 7750002 13 | 1,375,390 | |
| National School Lunch Program | 10.555 | 7750002 12 | 276,870 | |
| School Breakfast Program | 10.553 | 7760005 13 | 500,021 | |
| School Breakfast Program | 10.553 | 7760005 12 | 100,797 | |
| Summer Food Service Program for Children | 10.559 | 7690024 12 | 7,489 | |
| Summer Food Service Program for Children | 10.559 | 7740023 12 | 72,330 | |
| <i>Passed through the Kentucky Department of Agriculture</i> | | | | |
| National School Lunch Program - Food Donation | 10.555 | 059-0201 | 131,368 | 2,464,265 |
| Total U.S. Department of Agriculture | | | 2,511,083 | 2,511,083 |
| Total Expenditures of Federal Awards | | | \$ 8,548,522 | \$ 8,548,522 |

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A – 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, 2013, 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 B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. For the year ended June 30, 2013, the District reported food commodities expended in the amount of \$131,368.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unmodified opinion on the basic financial statements of the Covington Independent School District.
2. No significant deficiencies were disclosed during the audit of the financial statements or reported in the 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. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Covington Independent School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal control over the major federal award programs disclosed during the audit are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. No material weaknesses are reported.
5. The Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for Covington Independent School District expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any audit findings required to be reported under section 510 (a) of OMB Circular A-133.
7. The programs tested as major programs were: National School Lunch Program, CFDA #10.555; School Breakfast Program, CFDA #10.553; Summer Food Service Program for Children, CFDA #10.559; National School Lunch Program - Donated Commodities, CFDA #10.555; Special Education Grants to States, CFDA #84.027; Special Education Preschool Grants, CFDA #84.173; Fund for the Improvement of Education, CFDA #84.215; Race to the Top, CFDA #84.413; Improving Teacher Quality State Grants, CFDA #84.367; and Education Jobs Fund, CFDA #84.410.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Covington Independent School District does not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

**COVINGTON INDEPENDENT SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
FOR THE YEAR ENDED JUNE 30, 2013**

BOARD MEMBERS

Joyce Baker
Term Expires - December 31, 2016

Glenda Huff
Term Expires - December 31, 2016

Julie Scheper
Term Expires - December 31, 2014

Kerry Holleran
Term Expires - December 31, 2016

Jerry Avery
Term Expires – December 31, 2014

ADMINISTRATIVE PERSONNEL

Alvin L. Garrison
Superintendent of Schools

Annette Bemmerer
Executive Director of Finance
and Treasurer to the Board of Education

Janice Wilkerson
Executive Director of Student Services

Rick Ross
Executive Director of Learning Support

Bill Grein
Executive Director of Assessment/IB Programs

Eric Neff
Executive Director Personnel and Administration

Taryn Stewart
Director of Nutrition Services

INDEPENDENT AUDITOR’S 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
25 East Seventh Street
Covington, Kentucky 41011

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Covington Independent School District, as of and for the year ended June 30, 2013, 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 October 18, 2013.

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*.

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.



Crestview Hills, Kentucky
October 18, 2013

**INDEPENDENT AUDITOR'S 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
25 East Seventh Street
Covington, Kentucky 41011

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, 2013. Covington Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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, 2013.

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. 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.



Crestview Hills, Kentucky
October 18, 2013

**COVINGTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

In planning and performing our audit of the financial statements of Covington Independent School District for the year ended June 30, 2013, 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 October 18, 2013 contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated October 18, 2013, on the financial statements of the Covington Independent School District.

CURRENT YEAR RECOMMENDATIONS

CENTRAL OFFICE

Any exception noted during testing appeared to be isolated incidents only.

ACTIVITY FUNDS

Holmes High School

Any exceptions noted during testing appeared to be isolated incidents only.

Holmes Middle School

Any exceptions noted during testing appeared to be isolated incidents only.

Covington Independent Adult High School

Any exceptions noted during testing appeared to be isolated incidents only.

Sixth District Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

Ninth District Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

John G. Carlisle Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

Latonia Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

Glenn O. Swing Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

James E. Biggs Early Childhood Education Center

Any exceptions noted during testing appeared to be isolated incidents only.

**COVINGTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

STATUS OF PRIOR YEAR RECOMMENDATIONS

CENTRAL OFFICE

Any exception noted during testing appeared to be isolated incidents only.

ACTIVITY FUNDS

Holmes High School

Any exceptions noted during testing appeared to be isolated incidents only.

Holmes Middle School

Any exceptions noted during testing appeared to be isolated incidents only.

Covington Independent Adult High School

Any exceptions noted during testing appeared to be isolated incidents only.

Sixth District Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

Ninth District Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

John G. Carlisle Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

Latonia Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

Glenn O. Swing Elementary

Any exceptions noted during testing appeared to be isolated incidents only.

James E. Biggs Early Childhood Education Center

Any exceptions noted during testing appeared to be isolated incidents only.