

GRAVES COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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**GRAVES COUNTY SCHOOL DISTRICT
JUNE 30, 2015**

BOARD OF EDUCATION

Ronnie Holmes, Chairman
Jim Wurth, Vice Chairman
Kelly Whitaker, Member
Julie Moffitt, Member
Susan Barton, Member

ADMINISTRATIVE STAFF

Kim Dublin, Superintendent
Jimmilyn Hancock, Finance Director

MICHAEL A. KEM, CPA
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WALTER G. CUMMINGS, CPA



INDEPENDENT AUDITORS' REPORT

Kentucky State Committee
for School District Audits
Members of the Board of Education
Graves County School District
Mayfield, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*. 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 District'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 District'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 Graves County School District as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, in fiscal year 2015, the District adopted GASB 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB 50, *Pension Disclosures*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 4–14, 57–60 and 61-65 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 District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and combining and individual school activity fund financial statements, 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, combining and individual school activity 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

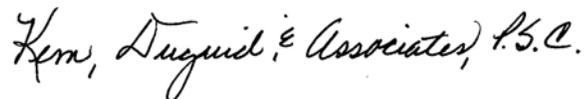
procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, combining and individual school activity 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 section has 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 November 12, 2015, on our consideration of Graves County 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 Graves County School District's internal control over financial reporting and compliance.

Kem, Duguid & Associates, P.S.C.

A handwritten signature in cursive script that reads "Kem, Duguid & Associates, P.S.C.".

Certified Public Accountants
Hopkinsville, Kentucky

November 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

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

FINANCIAL HIGHLIGHTS

- The ending cash and investments balance for the District was \$8,350,305, as compared with the beginning cash balance of \$3,361,644. The ending cash and investments balance consists of General Fund of \$2,954,771, Special Revenue Fund of (\$130,264), Construction Fund of \$4,218,780, District Activity Fund (\$1,182), Food Service Fund of \$608,110, Private Purpose Trust Fund of \$198,608 and School Activity Funds of \$501,482.
- Excluding interfund transfers, the General Fund had \$34,063,032 in revenue, which primarily consisted of the state program (SEEK) funds, property, utilities, motor vehicle, and in lieu of taxes, and on-behalf payments for fringe benefits from the Commonwealth of Kentucky. General Fund revenues increased \$736,044 in comparison to prior year of \$33,326,988. Excluding interfund transfers, there were General Fund expenditures totaling \$33,838,009. This is an increase of \$1,596,015 compared to \$32,241,994 in General Fund expenditures for the prior year.
- During FY15, the District received \$17,860,613 in state Support Education Excellence in Kentucky (SEEK) funds, a reduction of \$188,642 from the previous year. This reduction is a result of a decline of 65 students in average daily attendance, and a \$60,789,292 increase in property assessments that netted an additional \$182,368 withholding at the state level for our 30-cent local effort.
- While transportation was once funded by the state at 100% of the District cost, the SEEK calculation in FY15 included transportation funding at only 59% of total cost, reducing our SEEK funding by \$80,755. The District purchased 3 new 72-passenger buses with FY15 funds; however, this is not sufficient numbers to offset fleet retirements in future years. The District will be forced to allocate additional funds in future years to properly maintain its fleet.
- A two percent salary increase was implemented during FY15 along with normal step increases and rank changes. A three percent pay increase was mandated by the state, but was not funded.
- The District expense for “matching” contributions to the Kentucky Teacher Retirement System for FY15 increased 1.5% to 2.25% for all certified employees to a total General Fund District cost of \$345,188. This burden will increase to 3.0% in FY16, when it is projected to cost the District in excess of \$460,000 in Fund 1 alone. These are funds that districts must cover without any additional state reimbursement.

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

- The financial statements reflect a total of \$8,454,427 of revenues and aid from the state for payments made by the state on-behalf of District employees for retirement contributions, health insurance, debt service and technology. A like amount of expenses is also recorded in the financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-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.

Government-wide financial statements – The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the District’s assets and deferred outflows of resources and liabilities and deferred inflows. All of the current year’s revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s net position and how it has changed. Net position – the difference between the District’s assets and deferred outflows, and liabilities and deferred inflows – is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, the reader needs to consider additional non-financial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, all the District’s activities are reported as governmental activities.

- **Governmental activities** – All of the District’s basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of the activities.

The fund financial statements provide more detailed information about the District’s *funds*, focusing on its most significant or “major” funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like federal grants).

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

The District has three kinds of funds:

- *Governmental funds* – Most of the District’s basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, the District provides additional information with the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – The District’s proprietary fund is food service. The proprietary fund statements are the same as the business-type activities in the government-wide statements, but provide more detail and additional information, such as cash flows.
- *Fiduciary funds* – The District is fiduciary for assets that belong to others and is responsible for ensuring that assets reported in the fiduciary funds are used only for their intended purposes. The District’s fiduciary funds consist of student activities funds and Private Purpose Trust Fund. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information – In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information, as well as combining and individual fund statements and schedules beginning on page 66.

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$17,971,782 as of June 30, 2015.

A significant portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress) less any outstanding related debt used to acquire those assets. 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 June 30, 2015 and 2014

	Governmental Activities		Business-type Activities		District Total	
	2015	2014	2015	2014	2015	2014
Current assets and other assets	\$ 7,920,535	\$ 3,336,234	\$ 674,790	\$ 339,013	\$ 8,595,325	\$ 3,675,247
Capital assets	44,260,391	40,848,428	2,464,790	2,605,712	46,725,181	43,454,140
Total assets	52,180,926	44,184,662	3,139,580	2,944,725	55,320,506	47,129,387
Deferred outflows	1,424,773	652,403	147,456	-	1,572,229	652,403
Current liabilities	1,259,502	641,637	5,451	1,998	1,264,953	643,635
Noncurrent liabilities	35,772,025	22,464,556	1,227,175	28,353	36,999,200	22,492,909
Total liabilities	37,031,527	23,106,193	1,232,626	30,351	38,264,153	23,136,544
Deferred inflows	552,960	-	103,840	-	656,800	-
Investment in capital assets (net of debt)	15,280,084	18,779,413	2,464,790	2,605,712	17,744,874	21,385,125
Restricted	4,217,598	314,148	-	-	4,217,598	314,148
Unrestricted	(3,476,470)	2,637,311	(514,220)	308,662	(3,990,690)	2,945,973
Total net position	\$ 16,021,212	\$ 21,730,872	\$ 1,950,570	\$ 2,914,374	\$ 17,971,782	\$ 24,645,246

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Change in net position. The District’s governmental activities net position decreased by \$5,709,660. The components of the net change are a current increase of \$678,677 and a prior period adjustment of (\$6,388,337) for the implementation of GASB 68. The business-type activities net position decreased by \$963,804. The components of the net change are a current year increase of \$235,859 and a prior period adjustment of (\$1,199,663) for the implementation of GASB 68.

The Kentucky School Facilities Construction Commission (SFCC) makes direct payments of principal and interest on District bonds issued for construction of facilities. The bonds payable are included in the long-term obligations for the District, and the payments are recorded as revenue from the State. The result is an increase in net position from the direct payment of principal and interest by the SFCC of \$900,008. Another increase is the expenditure of current revenues on capital assets, an expenditure that does not reduce net position on the government-wide statements.

The District’s financial position is the product of many factors. For example, the determination of the District’s investment in capital assets, net of related debt, involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables such as estimated depreciable lives or capitalization policies may produce significant differences in the calculated amounts.

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Following is a summary of schedule of changes in the District's net position for the years ended June 30, 2015 and 2014:

Changes in Net Position for the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities		Business-type Activities		District Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for services	\$ -	\$ -	\$ 744,491	\$ 1,009,590	\$ 744,491	\$ 1,009,590
Operating grants and contributions	11,434,296	10,483,825	2,130,165	1,913,649	13,564,461	12,397,474
Capital grants and contributions	900,008	963,964	-	-	900,008	963,964
General revenues						
Property taxes	5,989,641	5,660,738	-	-	5,989,641	5,660,738
Other taxes	2,977,151	3,051,391	-	-	2,977,151	3,051,391
State aid	19,358,430	19,501,777	262,909	250,401	19,621,339	19,752,178
Investment earnings	49,444	36,011	2,735	582	52,179	36,593
Other	45,754	(108,836)	(30,847)	(3,967)	14,907	(112,803)
Total revenues	40,754,724	39,588,870	3,109,453	3,170,255	43,864,177	42,759,125
Expenses						
Instruction	23,366,638	23,025,822	-	-	23,366,638	23,025,822
Support services:						
Student	2,518,763	2,201,326	-	-	2,518,763	2,201,326
Instructional support	1,895,361	1,609,162	-	-	1,895,361	1,609,162
District administration	1,829,344	1,140,517	-	-	1,829,344	1,140,517
School administration	2,156,221	2,196,217	-	-	2,156,221	2,196,217
Business	583,428	526,899	-	-	583,428	526,899
Plant operations	3,641,440	3,699,541	-	-	3,641,440	3,699,541
Student transportation	2,768,065	2,901,168	-	-	2,768,065	2,901,168
Community services	424,203	419,352	-	-	424,203	419,352
Interest on long-term debt	795,018	681,241	-	-	795,018	681,241
Bond issuance costs	89,291	60,503	-	-	89,291	60,503
Food service	-	-	2,881,869	3,109,786	2,881,869	3,109,786
Total expenses	40,067,772	38,461,748	2,881,869	3,109,786	42,949,641	41,571,534
Change in net position before transfers	686,952	1,127,122	227,584	60,469	914,536	1,187,591
Transfers in (out)	(8,275)	-	8,275	-	-	-
Change in net position after transfers	\$ 678,677	\$ 1,127,122	\$ 235,859	\$ 60,469	\$ 914,536	\$ 1,187,591

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, The District’s governmental funds reported combined ending fund balances of \$7,009,346, an increase of \$4,094,733 in comparison to the prior year. The following schedule indicates the fund balances and the total changes in fund balances by major fund and other governmental (nonmajor) funds as reported in the basic financial statements for the fiscal years ended June 30, 2015 and 2014.

The main sources of the General Fund’s revenues are state aid in the form of SEEK allocations and locally assessed taxes. The majority of the District’s activities are accounted for in the General Fund. The Special Revenue Fund consists of grant revenues, mostly state funds and federal funds administered through the state and expenditures of those grants for specific programs in accordance with the grants’ guidelines.

The SEEK Capital Outlay Fund’s revenues are derived from state SEEK allowances based upon student enrollment. The FSPK Building Fund’s revenues are produced by a five-cent special property tax assessment and matching state funds. The use of both funds’ resources is generally restricted to facilities acquisition or improvement and payment of the related debt on facilities. The Construction Fund is used to account for facility construction and improvement projects funded by other funds or borrowing.

The Debt Service Fund is used to account for all activities related to long-term obligations.

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Following is a summary of fund balances for the fiscal years ended June 30, 2015 and 2014:

Governmental Funds Balances as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Governmental Funds			
General Fund	\$ 2,791,748	\$ 2,600,465	\$ 191,283
Special Revenue Fund	-	-	-
Building Fund	-	-	-
Construction Fund	4,218,780	239,063	3,979,717
Debt Service Fund	-	-	-
Capital Outlay	-	75,085	(75,085)
District Activity Fund	(1,182)	-	(1,182)
	<u> </u>	<u> </u>	<u> </u>
Total governmental funds	<u>\$ 7,009,346</u>	<u>\$ 2,914,613</u>	<u>\$ 4,094,733</u>

General Fund – The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned fund balance of the General Fund is \$2,642,748, while total fund balance reached \$2,791,748. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 7.81% of the total General Fund expenditures, while total fund balance represents 8.25% of that same amount.

During the current fiscal year, the total fund balance of the General Fund increased by \$191,283. Revenues, transfers in, and proceeds from disposal of fixed assets totaling \$34,217,551 increased \$844,519, while expenditures and transfers out totaling \$34,026,268 increased \$1,714,602.

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District’s funds budgets are prepared to account for most transactions on a cash receipt/cash disbursement basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. By law, the budget must have a minimum 2% contingency. The District adopted a General Fund budget with a contingency of 4.56%. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by DOE.

The note accompanying the Budgetary Comparison Schedules in the Required Supplementary Information, indicates the General Fund budget included \$7,316,339 of state payments on-behalf of District employees for retirement and health benefits, technology and debt service. These payments are reflected as state program revenues and in each type of expenditure in relation to wages paid, with the major portion contained in instructional expenditures. Local revenues are budgeted conservatively resulting in a favorable variance of local revenues for the year.

- The District’s total revenues for General Fund activities for the fiscal year ended June 30, 2015, excluding interfund transfers, and beginning balances were \$34,063,032; compared to the total budgeted revenues of \$32,896,726.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2015, excluding interfund transfers \$33,838,009; compared to the total budgeted expenditures of \$35,260,567.

Significant Board action that impacts the finances includes no salary increase for district employees, staffing reductions, reduction in bus purchases, elimination of textbook purchases, and limiting facility improvements and major purchases throughout the District.

Fund 2 is made up of state, local, and federal grants. These grants include Title programs, IDEA B special education and preschool funding, Flex Focus state dollars and others. These funds have restricted use, according to the guidelines for each. Expenses include salaries and benefits, supplies, programming costs, and travel and training costs.

Funds 310 and 320 are restricted funds for capital projects. The District has used those funds for debt service payments. The State contributes to those funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2015, the District had \$46,725,181 invested in capital assets net of depreciation: historical cost totaled \$72,106,894 with accumulated depreciation totaling \$25,381,713. These assets include school, athletic, and support facilities, as well as technology, food service, and other equipment. Funds in the amount of \$5,698,959 were expended on acquisition and improvements during the year. Depreciation charged to expense during the year totaled \$1,845,376, the majority of which was charged to governmental functions. More detailed information relating to capital assets may be found in Note 3 to the financial statements.

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2015 and 2014.

Net Capital Assets for the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities		Business-type Activities		District Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 1,473,208	\$ 1,473,208	\$ -	\$ -	\$ 1,473,208	\$ 1,473,208
Construction in progress	5,252,720	-	-	-	5,252,720	-
Buildings and improvements	34,833,626	36,433,284	2,177,325	2,264,192	37,010,951	38,697,476
Land improvements	101,279	109,483	-	-	101,279	109,483
Technology equipment	109,055	188,301	1,825	2,424	110,880	190,725
Vehicles	1,596,759	1,575,629	-	-	1,596,759	1,575,629
General equipment	780,010	887,690	285,640	339,097	1,065,650	1,226,787
Infrastructure	70,734	120,633	-	-	70,734	120,633
Property under capital lease	43,000	60,200	-	-	43,000	60,200
	<u>\$ 44,260,391</u>	<u>\$ 40,848,428</u>	<u>\$ 2,464,790</u>	<u>\$ 2,605,713</u>	<u>\$ 46,725,181</u>	<u>\$ 43,454,141</u>

Long-Term Debt – The District’s long-term general obligation bonds outstanding at June 30, 2015 were \$29,070,000. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest payment under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to pay \$10,191,923 of the bonds leaving the District to pay \$18,878,077. The liability for compensated absences remained steady for the fiscal year. Other long-term obligations, mostly leases on buses and office equipment, will decrease as the leases are paid down.

The State must approve the issuance of any new bonds of the District.

More detailed information about the District’s long-term liabilities may be found in Note 4 to the financial statements.

OUTLOOK FOR THE FUTURE

The most crucial aspect in the financial future of the District is continued adequate funding from the state. The District’s major source of revenue is state aid, primarily Kentucky SEEK funding. A factor in that SEEK formula is base funding driven by average daily attendance, and the District faces the challenges of a declining population linked to the struggling local economy.

The District’s financial position is contingent upon legislation and factors related to property taxation in conjunction with decisions made by the District’s Board management. Though local property assessments continue to rise, the SEEK reduction based upon the required 30-cent local levy on those assessments and our low property tax rate – currently 9th lowest in the state – have produced little significant, additional revenue on which the District can strengthen its financial position substantially.

**GRAVES COUNTY SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

The District remains committed to utilizing resources to provide the maximum benefit to students and provide them with a quality education. This involves closely monitoring legislation, effectively managing our grant resources, controlling expenditures, and seeking new sources of revenues. The District has several critical facility needs that exceed its short term bonding potential, providing a challenge to maintain quality facilities with available resources. The Superintendent and Finance Officer work with the members of the Board to insure there are controlled expenditures for capital outlay that may arise without causing a decrease to the funding for the education and safety of our students.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances, comply with finance-related laws and regulations, and demonstrate the District’s commitment to public accountability. Questions regarding this report should be directed to Kim Dublin, Superintendent, at (270.328.1554) or to Jimmilyn Hancock, Finance Officer, (270.328.1544) or by mail at 2290 State Route 121 North, Mayfield, KY 42066.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and cash equivalents	\$ 7,042,105	\$ 608,110	\$ 7,650,215
Accounts receivable:			
Taxes	344,761	-	344,761
Other	105,384	-	105,384
Intergovernmental - indirect federal	428,285	-	428,285
Inventory	-	66,680	66,680
Capital assets:			
Non-depreciable	6,725,928	-	6,725,928
Depreciable (net)	37,534,463	2,464,790	39,999,253
Total assets	52,180,926	3,139,580	55,320,506
Deferred Outflows of Resources			
Deferred pension amounts	785,218	147,456	932,674
Deferred amount on debt refundings	639,555	-	639,555
Total deferred outflows of resources	1,424,773	147,456	1,572,229
Liabilities			
Accounts payable	271,940	5,451	277,391
Unearned revenue	361,193	-	361,193
Accrued interest	216,114	-	216,114
Long term obligations			
Portion due or payable within one year:			
Bonds payable	2,095,000	-	2,095,000
Capital leases	17,926	-	17,926
Compensated absences	29,030	-	29,030
Claims	410,255	-	410,255
Portion due or payable after one year			
Bonds payable	26,867,381	-	26,867,381
Capital leases	-	-	-
Compensated absences	431,432	38,231	469,663
Net pension liability	6,331,256	1,188,944	7,520,200
Total liabilities	37,031,527	1,232,626	38,264,153
Deferred Inflows of Resources			
Deferred pension amounts	552,960	103,840	656,800
Total deferred inflows of resources	552,960	103,840	656,800
Net Position			
Invested in capital assets, net of related debt	15,280,084	2,464,790	17,744,874
Restricted	4,217,598	-	4,217,598
Unrestricted	(3,476,470)	(514,220)	(3,990,690)
Total net position	\$ 16,021,212	\$ 1,950,570	\$ 17,971,782

See accompanying notes to financial statements

**GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Program Revenues			Net (Expenses) Revenues	
	Expenses	Charges for Services	Operating Grants & Contributions		Capital Grants & Contributions
Governmental Activities:					
Current:					
Instruction	\$23,366,638	\$ -	\$ 8,016,749	\$ -	\$ (15,349,889)
Support services:					
Student	2,518,763	-	788,342	-	(1,730,421)
Instructional staff	1,895,361	-	967,151	-	(928,210)
District administrative	1,829,344	-	96,640	-	(1,732,704)
School administrative	2,156,221	-	559,447	-	(1,596,774)
Business	583,428	-	80,798	-	(502,630)
Plant operation and maintenance	3,641,440	-	239,216	-	(3,402,224)
Student transportation	2,768,065	-	271,913	-	(2,496,152)
Community service activities	424,203	-	414,040	-	(10,163)
Interest on long-term debt	795,018	-	-	900,008	104,990
Bond issuance costs	89,291	-	-	-	(89,291)
Total governmental activities	40,067,772	-	11,434,296	900,008	(27,733,468)
Business-Type Activities:					
Food service	2,881,869	744,491	2,130,165	-	(7,213)
Total business-type activities	2,881,869	744,491	2,130,165	-	(7,213)
Total activities	\$42,949,641	\$ 744,491	\$ 13,564,461	\$ 900,008	\$ (27,740,681)
			Governmental Activities	Business-Type Activities	Total
Changes in Net Position					
Net revenues (expenses)			\$ (27,733,468)	\$ (7,213)	\$ (27,740,681)
General Revenues					
Taxes:					
Property			5,989,641	-	5,989,641
Motor vehicle			1,022,434	-	1,022,434
Utilities			1,633,439	-	1,633,439
Other			321,278	-	321,278
Investment earnings			49,444	2,735	52,179
State aid and formula grants			19,358,430	262,909	19,621,339
Gain (loss) on sale of fixed assets			(398,189)	(37,242)	(435,431)
Miscellaneous			443,943	6,395	450,338
Total general revenues			28,420,420	234,797	28,655,217
Change in net position			686,952	227,584	914,536
Transfers in (out)			(8,275)	8,275	-
Change in net position after transfers			678,677	235,859	914,536
Net position, July 1, 2014			21,730,872	2,914,374	24,645,246
Implementation of GASB 68 (Note 16)			(6,388,337)	(1,199,663)	(7,588,000)
Net position, July 1, 2014, restated			15,342,535	1,714,711	17,057,246
Net position, June 30, 2015			\$ 16,021,212	\$ 1,950,570	\$ 17,971,782

See accompanying notes to financial statements

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**GRAVES COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,954,771	\$ -	\$ 4,218,780	\$ -	\$ 7,173,551
Accounts receivable:					
Taxes	344,761	-	-	-	344,761
Other	105,384	-	-	-	105,384
Intergovernmental - indirect federal	-	428,285	-	-	428,285
Total assets	\$ 3,404,916	\$ 428,285	\$ 4,218,780	\$ -	\$ 8,051,981
LIABILITIES AND FUND BALANCES					
Liabilities					
Cash overdraft	\$ -	\$ 130,264	\$ -	\$ 1,182	\$ 131,446
Accounts payable	202,913	69,027	-	-	271,940
Claims	410,255	-	-	-	410,255
Unearned revenue	-	228,994	-	-	228,994
Total liabilities	613,168	428,285	-	1,182	1,042,635
Fund balances					
Nonspendable	-	-	-	-	-
Spendable:					
Restricted	-	-	4,218,780	(1,182)	4,217,598
Committed	149,000	-	-	-	149,000
Assigned	-	-	-	-	-
Unassigned	2,642,748	-	-	-	2,642,748
Total fund balances	2,791,748	-	4,218,780	(1,182)	7,009,346
Total liabilities and fund balances	\$ 3,404,916	\$ 428,285	\$ 4,218,780	\$ -	\$ 8,051,981

See accompanying notes to financial statements

**GRAVES COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total fund balance per fund financial statements	\$ 7,009,346
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$67,998,769, and the accumulated depreciation is \$23,738,378.	44,260,391
Governmental funds record losses on debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are included on the government-wide financial statements as a deferred outflow of resources	639,555
Advance payments received from the Murray Head Start program for building and equipment costs are not due and payable in the current period and, therefore, are not reported as liabilities in the funds, but are reported as unearned revenue in the statement of net position	(132,199)
Pension related items:	
Deferred outflow	785,218
Deferred inflow	(552,960)
Unfunded pension liability	(6,331,256)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:	
Bond obligations	(28,962,381)
Capital lease obligations	(17,926)
Accrued interest on bonds	(216,114)
Noncurrent portion of accumulated sick leave	(460,462)
	<u>(29,656,883)</u>
Net position for governmental activities	<u><u>\$ 16,021,212</u></u>

See accompanying notes to financial statements

**GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
From local sources:					
Taxes					
Property	\$ 5,183,784	\$ -	\$ -	\$ 805,857	\$ 5,989,641
Motor vehicle	1,022,434	-	-	-	1,022,434
Utilities	1,633,439	-	-	-	1,633,439
Other	321,278	-	-	-	321,278
Student activities	19,730	-	-	-	19,730
Earnings on investments	26,620	-	22,824	-	49,444
Other local revenues	416,802	7,412	-	-	424,214
Intergovernmental - state	25,299,118	1,717,920	-	2,056,712	29,073,750
Intergovernmental - indirect federal	139,827	-	-	-	139,827
Intergovernmental - federal	-	2,479,156	-	-	2,479,156
Total revenues	34,063,032	4,204,488	22,824	2,862,569	41,152,913
EXPENDITURES					
Current:					
Instruction	19,512,755	2,856,842	-	-	22,369,597
Support services:					
Student	2,413,439	112,382	-	-	2,525,821
Instructional staff	1,048,791	873,654	-	1,182	1,923,627
District administration	1,750,230	2,711	-	-	1,752,941
School administration	2,172,791	-	-	-	2,172,791
Business	574,145	7,804	-	-	581,949
Plant operation and maintenance	3,646,967	-	-	-	3,646,967
Student transportation	2,718,891	21,478	-	-	2,740,369
Community service activities	-	424,091	-	-	424,091
Building improvements	-	-	5,252,720	-	5,252,720
Debt service	-	-	-	4,429,497	4,429,497
Total expenditures	33,838,009	4,298,962	5,252,720	4,430,679	47,820,370
Excess (deficit) of revenues over (under) expenditures	225,023	(94,474)	(5,229,896)	(1,568,110)	(6,667,457)
Other financing sources (uses)					
Proceeds from disposal of fixed assets	119,303	27,809	-	-	147,112
Net bond proceeds	-	-	9,023,626	1,599,727	10,623,353
Operating transfers in	35,216	101,881	185,987	1,929,763	2,252,847
Operating transfers out	(188,259)	(35,216)	-	(2,037,647)	(2,261,122)
Total other financing sources (uses)	(33,740)	94,474	9,209,613	1,491,843	10,762,190
Net changes in fund balances	191,283	-	3,979,717	(76,267)	4,094,733
Fund balances, July 1, 2014	2,600,465	-	239,063	75,085	2,914,613
Fund balances, June 30, 2015	\$ 2,791,748	\$ -	\$ 4,218,780	\$ (1,182)	\$ 7,009,346

See accompanying notes to financial statements

**GRAVES COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net change in total fund balances per fund financial statements \$ 4,094,733

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets are allocated over estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

Capital outlay	\$ 5,698,959	
Depreciation expense	<u>(1,741,695)</u>	3,957,264

In the statement of activities, only the gain (loss) on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the remaining book value of the asset sold. (545,301)

Advance payments received in prior year from the Murray Head Start program recorded as unearned revenue 8,560

Inventories reported on governmental funds in the prior year

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 bond principal is an expenditure in the governmental funds financial statements but is a reduction of the liability in the statement of net position.

Bond proceeds	(10,623,353)	
Cost of issuance on bonds	(89,291)	
Gain/loss on refunding of debt	59,727	
Bond payments	3,790,000	
Capital lease payments	<u>17,168</u>	(6,845,749)

Some items reported in the statement of activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds. These activities are:

Deferred pension amounts	289,339	
Amortization of bond discount	(5,996)	
Amortization of gain/loss on debt refunding	(72,575)	
Amortization of bond premium	181	
Decrease in accrued interest payable	(136,857)	
Increase in compensated absences	<u>(64,922)</u>	<u>9,170</u>

Change in net position of governmental activities \$ 678,677

See accompanying notes to financial statements

PROPRIETARY FUND FINANCIAL STATEMENTS

**GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015**

	School Food Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 608,110
Inventory	66,680
Total current assets	674,790
Noncurrent assets	
Capital assets	4,108,125
Less: accumulated depreciation	(1,643,335)
Total noncurrent assets	2,464,790
Total assets	3,139,580
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension amounts	147,456
LIABILITIES	
Current liabilities	
Accounts payable	5,451
Total current liabilities	5,451
Noncurrent liabilities	
Compensated absences	38,231
Net pension liability	1,188,944
Total noncurrent liabilities	1,227,175
Total liabilities	1,232,626
DEFERRED INFLOWS OF RESOURCES	
Deferred pension amounts	103,840
NET POSITION	
Invested in capital assets, net of related debt	2,464,790
Unrestricted	(514,220)
Total net position	\$ 1,950,570

See accompanying notes to financial statements

**GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>School Food Service Fund</u>
OPERATING REVENUES	
Lunchroom sales	\$ 744,491
Other revenue	<u>6,395</u>
Total operating revenues	<u>750,886</u>
OPERATING EXPENSES	
Salaries and wages	1,334,587
Materials and supplies	1,427,499
Depreciation	103,681
Contract services	<u>16,102</u>
Total operating expenses	<u>2,881,869</u>
Operating income (loss)	<u>(2,130,983)</u>
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	1,984,774
Donated commodities	145,391
State grants	24,829
State on-behalf payments	238,080
Operating transfers in (out)	8,275
Gain (loss) disposal of equipment	(37,242)
Interest income	<u>2,735</u>
Total non-operating revenues (expenses)	<u>2,366,842</u>
Change in net position	235,859
Net position, July 1, 2014	2,914,374
Implementation of GASB 68 (Note 16)	<u>(1,199,663)</u>
Net position, July 1, 2014, restated	<u>1,714,711</u>
Net position, June 30, 2015	<u><u>\$ 1,950,570</u></u>

See accompanying notes to financial statements

**GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>School Fund Service Fund</u>
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	\$ 744,491
Other activities	6,395
Cash paid to/for:	
Employees	(1,140,964)
Supplies	(1,292,516)
Other activities	(16,103)
	<u>(1,698,697)</u>
Net cash provided (used) by operating activities	<u>(1,698,697)</u>
Cash flows from noncapital financing activities	
Operating transfers in (out)	8,275
Government grants	2,009,603
	<u>2,017,878</u>
Net cash provided (used) by noncapital financing activities	<u>2,017,878</u>
Cash flows from investing activities	
Receipt of interest income	2,735
	<u>2,735</u>
Net cash provided (used) by investing activities	<u>2,735</u>
Net increase (decrease) in cash and cash equivalents	321,916
Balances, beginning of year	<u>286,194</u>
Balances, end of year	<u>\$ 608,110</u>

See accompanying notes to financial statements

**GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS, continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>School Fund Service Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (2,130,983)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	103,681
Donated commodities	145,391
State on-behalf payments	238,080
Change in assets and liabilities:	
Deferred pension amounts	(54,335)
Accounts receivable	-
Inventory	(13,861)
Compensated absences	9,878
Accounts payable	3,452
Net cash provided (used) by operating activities	<u>\$ (1,698,697)</u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	\$ 145,391
On-behalf payments	238,080

See accompanying notes to financial statements

FIDUCIARY FUNDS FINANCIAL STATEMENTS

**GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 198,608	\$ 501,482
Total assets	<u>198,608</u>	<u>501,482</u>
 LIABILITIES		
Accounts payable	2,265	-
Due to grantors	196,343	-
Due to student groups	<u>-</u>	<u>501,482</u>
Total liabilities	<u>198,608</u>	<u>501,482</u>
 NET POSITION	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>

See accompanying notes to financial statements

**GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2015**

	<u>Private Purpose Trust Funds</u>
Additions:	
Interest income	\$ 600
Contributions received	<u>146,274</u>
Total additions	<u>146,874</u>
Deductions:	
Community services	<u>134,893</u>
Total deductions	<u>134,893</u>
Change in net position	11,981
Net position, July 1, 2014	<u>184,362</u>
Net position, June 30, 2015	<u><u>\$ 196,343</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Graves County 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 education within the jurisdiction of the Graves County 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 a component unit of any other governmental "reporting entity". 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 District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the District, have not originated within the District itself such as band boosters, parent-teacher associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. 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. The Board authorized the establishment of the 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 Graves County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-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. Interfund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-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 government-wide statements and the statements for governmental funds.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The government-wide statement of net position presents the financial condition of the governmental and business-type activities of the District at year-end. The government-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 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 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 Governmental Funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Fund is accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Net Position for the Proprietary Fund reports increases and decreases in total economic net worth.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

Governmental Funds

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income. The following are the District's Governmental Funds:

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The *General Fund* is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

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.

The *Special Revenue (Grant) Fund* 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. This is a major fund of the District.

The *Special Revenue District Activity Fund* includes funds restricted to expenditures for purposes specified by Redbook requirements. Project accounting is employed to maintain integrity for the various sources of funds.

Capital Projects 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).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is generally restricted for use in financing projects identified in the District's facility plan.

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.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, bonded debt and lease obligations, interest and related costs.

Proprietary Funds

Proprietary funds are used to account for ongoing organizations and activities which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The funds' principal operating revenues are food service charges and daycare fees. Operating expenses include salaries, benefits, supplies and depreciation on capital assets. All items not meeting this definition are reported as nonoperating revenues and expenses. The District has one proprietary fund:

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA and for on-behalf payments for retirement and health insurance paid by the State of Kentucky. This is a major fund of the District.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District.

Agency Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Kentucky Department of Education *Uniform Program of Accounting for School Activity Funds*. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Accounting

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

Revenue Recognition

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party gives and 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 60 days after year-end.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants entitlements and donations are 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 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 specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Donated Commodities

The fair value of donated commodities received during the year is reported in the proprietary fund statement of revenues, expenses and changes in net position as an expense and as a donated commodities revenue (nonoperating revenue).

Expenses/Expenditures

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Property taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are levied on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes become delinquent after December 31.

The property tax rates for the year ended June 30, 2015, to finance the General Fund operations were \$.395 per \$100 valuation for real property, \$.395 per \$100 valuation for business tangible personal property, and \$.464 per \$100 valuation for motor vehicles.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from furnishings, within the District, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Estimates

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

Interfund Activity

Flows of cash 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 after nonoperating revenues/expenses in proprietary funds.

Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2015. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Assets, Liabilities and Equity

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and time deposits that are nonnegotiable, to be cash and cash equivalents, for governmental, proprietary and fiduciary funds. This definition is also used for the proprietary fund's statements of cash flows.

Prepaid Expenditures

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventories

Inventories are valued at cost, which approximates market. The food service fund uses the specific identification method and the General Fund uses the first-in, first-out method. The District's inventories include various items consisting of school supplies, paper, books, maintenance items, transportation items, commodities, etc. USDA commodities received from the Federal government are recorded at the value established by the Federal government using the average cost method.

Restricted Assets

Certain assets of the General Fund are classified as restricted assets because their use is restricted by KRS 157.420(3).

Interfund Balances

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

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 government-wide statement of net position 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 government-wide statement of net position and in the respective funds.

All capital assets greater than \$5,000 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 does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the value of the asset or materially extend an asset's life are not. Improvements are depreciated over the remaining useful lives of the related capital assets.

All reported capital assets except land and construction in progress 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:

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

<u>Description</u>	<u>Estimated Lives For Depreciation</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	12 years
General equipment	10-20 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-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, and contractually required pension contributions 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.

Debt Premiums and Discounts

Unamortized premiums and discounts associated with bond issues are amortized over the lives of the related bonds using the straight-line method and are an addition (premium) or deduction (discount) to the debt balances in the government-wide statements.

Compensated Absences

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon termination or retirement at 30% of the current rate of pay on the date of termination or retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (“CERS”) and Teacher’s Retirement System of the State of Kentucky (“KTRS”) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category: the deferred outflows of resources relate to the net pension liability described in Note 10 and deferred amount on refunding of debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category: the deferred inflows of resources relate to the net pension liability as described in Note 10.

Fund Balances

In the fund financial statements, governmental fund balances as classified as follows:

Non-spendable – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

Restricted – Amounts which can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts which can be used only for specific purposes determined by the Board of Education’s formal action through a resolution.

Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board or Management. The board adopted a resolution establishing the authority to assign funds.

Unassigned – All amounts not included in other spendable classifications.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed, assigned, and then unassigned fund balances.

Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the district-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Subsequent Events

Subsequent events have been evaluated through November 12, 2015, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

The District maintained deposits of public funds with depository institutions insured by FDIC as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. As stipulated by KRS 41.240(4), all deposits are collateralized with eligible securities or other obligations having aggregate current face value or current quoted market value at least equal to the deposits. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

As fiscal year end, the carrying amount of the District's deposits was \$8,350,305 and the bank balance was \$8,853,859. Of the District's bank balance, \$8,353,859 was collateralized as discussed above because it was uninsured, while \$500,000 was covered by Federal Deposit Insurance.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 –CASH AND CASH EQUIVALENTS, continued

The carrying amounts are reflected in the financial statements as follows:

Reconciliation to Government-wide Statement of Net Position:

Unrestricted cash	\$ 7,650,215
Fiduciary fund cash (not included in government-wide statement)	<u>700,090</u>
	<u>\$ 8,350,305</u>

These amounts are reported in the financial statements, as follows:

Governmental activities	\$ 7,042,105
Business-type activities	608,110
Fiduciary funds	<u>700,090</u>
	<u>\$ 8,350,305</u>

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 – CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Capital assets not depreciated:				
Land	\$ 1,473,208	\$ -	\$ -	\$ 1,473,208
Construction in progress	-	5,252,720	-	5,252,720
Total nondepreciable historical cost	1,473,208	5,252,720	-	6,725,928
Capital assets depreciated:				
Building and improvements	51,597,625	-	1,512,317	50,085,308
Land improvements	164,075	-	-	164,075
Technology equipment	1,267,768	-	274,437	993,331
Vehicles	5,898,327	361,195	12,500	6,247,022
General equipment	3,060,598	85,044	59,707	3,085,935
Infrastructure	170,676	-	62,833	107,843
Property under capital lease	589,327	-	-	589,327
Total depreciable historical cost	62,748,396	446,239	1,921,794	61,272,841
Less: accumulated depreciation				
Building and improvements	15,164,341	1,100,594	1,013,253	15,251,682
Land improvements	54,592	8,204	-	62,796
Technology equipment	1,079,467	80,911	276,102	884,276
Vehicles	4,322,698	340,065	12,500	4,650,263
General equipment	2,172,908	186,187	53,170	2,305,925
Infrastructure	50,043	8,534	21,468	37,109
Property under capital lease	529,127	17,200	-	546,327
Total accumulated depreciation	23,373,176	1,741,695	1,376,493	23,738,378
Total depreciable historical cost - net	39,375,220	(1,295,456)	545,301	37,534,463
Governmental activities capital assets - net	\$ 40,848,428	\$ 3,957,264	\$ 545,301	\$ 44,260,391

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 – CAPITAL ASSETS, continued

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

Governmental Activities

Support services:

Instruction	\$ 1,343,865
Student	1,502
Instructional staff	27,108
District administration	11,482
School administration	598
Business	1,479
Plant operation and maintenance	22,032
Student transportation	333,517
Community service activities	<u>112</u>
	<u><u>\$ 1,741,695</u></u>

Business-Type Activities	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Capital assets depreciated:				
Buildings and improvements	\$ 3,147,257	\$ -	\$ 112,611	\$ 3,034,646
Technology equipment	16,364	-	544	15,820
General equipment	<u>1,156,389</u>	<u>-</u>	<u>98,730</u>	<u>1,057,659</u>
Total depreciable historical cost	<u>4,320,010</u>	<u>-</u>	<u>211,885</u>	<u>4,108,125</u>
Less: accumulated depreciation				
Buildings and improvements	883,065	49,705	75,449	857,321
Technology equipment	13,940	599	544	13,995
General equipment	<u>817,292</u>	<u>53,377</u>	<u>98,650</u>	<u>772,019</u>
Total accumulated depreciation	<u>1,714,297</u>	<u>103,681</u>	<u>174,643</u>	<u>1,643,335</u>
Business-type activities, capital assets - net	<u><u>\$ 2,605,713</u></u>	<u><u>\$ (103,681)</u></u>	<u><u>\$ 37,242</u></u>	<u><u>\$ 2,464,790</u></u>

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 – LONG-TERM OBLIGATIONS

The amount shown in the accompanying financial statements as lease and bonded debt obligations represents the District’s future obligations to make payments related to school building revenue bonds issued by the Graves County School District Finance Corporation on behalf of the District for purposes of school facility construction. These amounts are not reflected in the fund financial statements.

<u>Issue Date</u>	<u>Proceeds</u>	<u>Maturity Dates</u>	<u>Rates</u>	<u>Balance June 30, 2015</u>
2006	\$ 2,575,000	2026	3.50% - 4.20%	\$ 120,000
2009R	1,525,000	2020	2.50% - 3.70%	875,000
2011R	10,965,000	2023	2.00% - 3.125%	9,545,000
2013	8,395,000	2029	1.20% - 4.00%	7,775,000
2014	9,135,000	2035	1.00% - 3.55%	9,135,000
2015	1,620,000	2026	.45% - 2.10%	1,620,000

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund), is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Graves County School District Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become property of the District. The District is obligated to maintain property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

In 1991, the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table that follows 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 outstanding has been recorded in the financial statements.

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

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 – LONG-TERM OBLIGATIONS, continued

Year	Graves County School District		Kentucky School Facility Construction Commission		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 1,379,853	\$ 530,846	\$ 715,147	\$ 286,335	\$ 2,095,000	\$ 817,181
2017	1,449,907	472,842	740,093	256,406	2,190,000	729,248
2018	1,480,285	446,385	749,715	242,543	2,230,000	688,928
2019	1,535,683	419,451	764,317	228,422	2,300,000	647,873
2020	1,577,870	387,029	782,130	210,483	2,360,000	597,512
2021-2025	6,326,327	1,293,258	2,958,673	802,730	9,285,000	2,095,988
2026-2030	2,786,328	662,481	2,443,672	400,031	5,230,000	1,062,512
2031-2035	2,341,824	257,741	1,038,176	111,507	3,380,000	369,248
	<u>\$ 18,878,077</u>	<u>\$ 4,470,033</u>	<u>\$ 10,191,923</u>	<u>\$ 2,538,457</u>	<u>\$ 29,070,000</u>	<u>\$ 7,008,490</u>

On December 1, 2014, the District issued \$9,135,000 in Energy Conservation Revenue Bonds with interest rates of 1.00% - 3.55%. The District issued the bonds to replace the HVAC unit at Graves County High School. The net proceeds of \$9,023,626 (after payment of \$61,040 in underwriting fees, insurance and other issuance costs) were transferred to the Construction Fund.

On February 1, 2015, the District issued \$1,620,000 in Revenue Refunding Revenue Bonds with interest rates of .450% - 2.100%. The District issued the bonds to refund \$1,540,000 of outstanding 2006 Series with interest rates of 3.50% - 4.20%. The net proceeds of \$1,599,727 (after payment of \$28,251 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide future debt service payments. Payments due on and after September 1, 2015 will be paid from the escrow account. The bonds will be called March 1, 2016. As a result, the refunded bonds were considered to be defeased and the liability was removed from the government-wide financial statements. The refund reduced total debt service payments over the next fifteen years by \$138,438, with a net present value savings of 8.0630%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$59,727. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2026 using the effective interest method.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 – LONG-TERM OBLIGATIONS, continued

Changes in the bond issues during the year are summarized below:

Bonds payable:	Balance July 1, 2014	New Issues/ Adjustments	Debt Payments/ Refunds	Balance June 30, 2015	Due within One Year
Revenue bonds	\$ 22,105,000	\$ 10,755,000	\$ 3,790,000	\$ 29,070,000	\$ 2,095,000
Less premium(discount)	<u>(71,079)</u>	<u>(42,356)</u>	<u>(5,816)</u>	<u>(107,619)</u>	<u>-</u>
Total bonds payable	<u>22,033,921</u>	<u>10,712,644</u>	<u>3,784,184</u>	<u>28,962,381</u>	<u>2,095,000</u>
Other liabilities:					
Capital leases	35,094	-	17,168	17,926	17,926
Compensated absences					
Governmental	395,541	64,921	-	460,462	29,030
Business-type	<u>28,353</u>	<u>9,878</u>	<u>-</u>	<u>38,231</u>	<u>-</u>
Total other liabilities	<u>458,988</u>	<u>74,799</u>	<u>17,168</u>	<u>516,619</u>	<u>46,956</u>
Totals	<u>\$ 22,492,909</u>	<u>\$ 10,787,443</u>	<u>\$ 3,801,352</u>	<u>\$ 29,479,000</u>	<u>\$ 2,141,956</u>

As explained in Note 1, payments on the District's bonds are made by the Debt Service Fund. The compensated absences and lease obligations will be liquidated by the General Fund. In the past, these liabilities have been paid each year by the General Fund.

Leases meeting certain criteria are treated as financings and, according to generally accepted accounting principles, are recorded as capitalized leases. The District leases technology equipment pursuant to these types of leases and, as such, the cost is included with property and equipment. The related capital lease obligation reflects the present value of future lease payments less an interest amount implicit in the lease.

Future minimum payments under capital lease obligations, together with the present value of the net minimum lease payments as of June 30, 2015:

Year ending June 30,	Capital Leases Payable
2016	<u>\$ 18,718</u>
Total minimum lease payments	18,718
Less: Amount representing interest	<u>(792)</u>
Present value of net minimum lease payments	<u>\$ 17,926</u>

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 – COMPENSATED ABSENCES

Upon retirement from the school system, employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be funded with current year’s economic financial resources. These amounts are recorded in the account “accrued sick leave payable” in the General Fund. Management has estimated the amount for governmental activities will be approximately \$460,462 with \$29,030 considered the short-term portion. Management has estimated the amount for business type activities will be approximately \$38,231 with \$0 considered the short-term portion.

NOTE 6 – FUND BALANCE REPORTING

The following is a summary of designations of Fund Balance at June 30, 2015:

	General Fund	Construction Fund	Special Revenue Fund	Other Governmental Funds	Total
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:					
Construction	-	4,218,780	-	-	4,218,780
District Activity Fund				(1,182)	(1,182)
Assigned:					
Site based carry forward	-	-	-	-	-
Committed:					
Sick leave	149,000	-	-	-	149,000
Unassigned	<u>2,642,748</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,642,748</u>
	<u>\$ 2,791,748</u>	<u>\$ 4,218,780</u>	<u>\$ -</u>	<u>\$ (1,182)</u>	<u>\$ 7,009,346</u>

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 – 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>
General	Special Revenue	Matching funds	\$ 99,267
General	Special Revenue	Transfer to Community Ed	2,614
General	Construction	Construction	78,102
General	Food Service	Paid lunch	8,275
Special Revenue	General Fund	Indirect cost transfer	35,216
Capital Outlay	Debt Service	Debt payments	413,606
Capital Outlay	Construction	HVAC project	53,120
Capital Outlay	Construction	Energy grant	21,966
Building	Debt Service	Debt payments	1,516,156
Building	Construction	Energy grant	32,800
			<u>\$ 2,261,122</u>

NOTE 8 – DEFICIT OPERATING FUND BALANCES

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

Capital Outlay	\$ (75,085)
District Activity Fund	(1,182)

NOTE 9 – ON-BEHALF PAYMENTS

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2015:

Health insurance	\$ 4,614,402
Life insurance	7,929
Administrative fee	54,474
Health reimbursement account- HRA/dental/vision	227,679
	<u>4,904,484</u>
Federal reimbursements of health benefits	(143,501)
	<u>4,760,983</u>
Kentucky Teacher's Retirement System	2,714,315
Technology	79,121
SFCC debt service	900,008
	<u>\$ 8,454,427</u>

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

The District is not legally responsible for these contributions. These payments are not required to be budgeted by the District. The total of these payments has been included in revenues and the applicable expenditure functions in these financial statements as follows:

Governmental activities:	
General Fund	\$ 7,316,339
Debt Service Fund	900,008
Business-type activities:	
Food Service Fund	<u>238,080</u>
	<u><u>\$ 8,454,427</u></u>

NOTE 10 – PENSION PLANS

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

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

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

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

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 10 – PENSION PLANS, continued

Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

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

Contributions – Required contributions by the employee are based on the tier:

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

General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")

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

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

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

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 10 – PENSION PLANS, continued

Employees who retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2.0% of their final average salary for each year of service if, upon retirement, their total service was less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

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

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

Contributions – Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

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

Medical Insurance Plan

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

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 10 – PENSION PLANS, continued

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

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

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

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ 7,520,200
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>115,182,631</u>
	<u><u>\$ 122,702,831</u></u>

The net pension liability of the plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was .226742%.

For the year ended June 30, 2015, the District recognized pension expense of (\$343,674) related to CERS and \$2,714,315 related to KTRS. The District also recognized revenue of \$2,714,315 for KTRS support provided by the Commonwealth. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 10 – PENSION PLANS, continued

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change of assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	-	821,000
Changes in proportion and difference between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>982,627</u>	<u>-</u>
Total	<u><u>\$ 982,627</u></u>	<u><u>\$ 821,000</u></u>

The amount of \$932,674 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 164,200
2017	164,200
2018	164,200
2019	164,200
2020	-

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

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.5%	3.5%
Projected salary increases	4.5%	4.0-8.2%
Investment rate of return, net of investment expense and inflation	7.8%	7.5%

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 10 – PENSION PLANS, continued

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

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

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

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S equity	45.00%	6.4%
Non U.S. equity	17.00%	6.5%
Fixed income	24.00%	1.6%
High yield bonds	4.00%	3.1%
Real estate	4.00%	5.8%
Alternatives	4.00%	6.8%
Cash	2.00%	1.5%
Total	<u>100.00%</u>	

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 10 – PENSION PLANS, continued

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

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

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate – The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	\$ 9,680,484	7,520,200	\$ 5,302,951
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	\$ -	\$ -	\$ -

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

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – CONTINGENCIES AND COMMITMENTS

Grant Programs

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, based on the grantor's review, the funds are considered not to have been used for the intended purpose, the grantor 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 their programs.

KSBIT

The District was notified in fiscal year 2014 by the Kentucky School Board Insurance Trust of a \$592,117 liability for workers compensation losses incurred by the Trust. The District made a down payment of \$181,842 in August 2014. The District chose to pay the remaining liability of \$410,275 in six installments beginning August 15, 2015. The entire unpaid balance of the assessment is due and payable in full on August 15, 2020. The unpaid balance of \$410,255 is recorded as a liability of the District.

NOTE 12 – RISK MANAGEMENT AND LITIGATION

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 worker's compensation, errors and omissions and general liability coverage, the District purchases commercial insurance.

The District purchases unemployment insurance through the Kentucky School Boards' Insurance Trust Unemployment Compensation Fund; however, the risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks to loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

From time to time, the District is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the District's financial statements.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 13 – COBRA

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

The District has notified all terminated employees of available continuing insurance coverage as mandated by COBRA.

NOTE 14 – LEASE AGREEMENT

The District (“Lessor”) entered into a lease agreement with the Murray Head Start Program (“Lessee”), whereby the lessee agreed to pay the lessor \$212,000 as an advance for the term of the lease. These funds were received by the District in fiscal year ended June 30, 2004 and were reported as current revenues in the General Fund financial statements and unearned revenue in the government-wide financial statements.

The initial term of the lease agreement began on August 1, 2004, and ended on July 31, 2005. It is automatically renewable for 29 consecutive one year options at no additional cost. Under its terms, the lessor shall provide space including maintenance, utilities, insurance, and custodial services, for all children participating in the Murray Head Start Program. The intent of the parties is for the Murray Head Start Program to conduct activities over the stated 29 year period. Accordingly, rental income is being recognized annually over this period of time.

NOTE 15 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2015

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

Effective July 1, 2014, the District was required to adopt Government Accounting Standards Board (GASB) Statement No.68, *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 replaced the requirements of GASB 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers such as the District are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. Refer to the Defined Benefit section of Note 10 for further details.

As a result of implementing this statement, the following line items have been added to the Statements of Net Position.

<u>Item</u>	<u>Government Wide</u>	<u>School Food Service</u>	<u>Total</u>
<u>June 30, 2015</u>			
Deferred outflows - pension plan	\$ 785,218	\$ 147,456	\$ 932,674
Deferred inflows - pension plan	552,960	103,840	656,800
Net pension liability	6,331,256	1,188,944	7,520,200
<u>June 30, 2014</u>			
Deferred outflows - pension plan	\$ 827,274	\$ 155,353	\$ 982,627
Deferred inflows - pension plan	691,199	129,801	821,000
Net pension liability	7,215,610	1,355,017	8,570,627

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES, continued

As this statement is applied retroactively, the financial statement for the year ended June 30, 2014 has been restated to apply the changes noted associated with the net pension liability.

The effect of this change is as follows:

	<u>Government Wide</u>	<u>School Food Service</u>	<u>Total</u>
Net position - June 30, 2014 as originally reported	\$ 21,730,872	\$ 2,914,374	\$ 24,645,246
GASB 68 adjustment to record net pension liability as of June 30, 2014	<u>(6,388,337)</u>	<u>(1,199,663)</u>	<u>(7,588,000)</u>
Net position - June 30, 2014, restated	<u>\$ 15,342,535</u>	<u>\$ 1,714,711</u>	<u>\$ 17,057,246</u>
Change in net position - June 30, 2015 as originally reported	\$ 389,338	\$ 181,524	\$ 570,862
GASB 68 adjustment to record net pension expense for the year ended June 30, 2015 (recorded in employee benefits)	<u>289,339</u>	<u>54,335</u>	<u>343,674</u>
Change - June 30, 2015, restated	<u>\$ 678,677</u>	<u>235,859</u>	<u>\$ 914,536</u>

NOTE 17 – UPCOMING PRONOUNCEMENTS

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2016 fiscal year.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 17 – UPCOMING PRONOUNCEMENTS, continued

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the District will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The District is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB 75 is effective one year later.

NOTE 18 – ANNUAL FINANCIAL REPORT DIFFERENCES

The proprietary fund financial statements reflect the implementation of GASB 68 (See Note 16). The District has not recorded the implementation entries on their Audited Annual Financial Report (AFR) submitted to Kentucky Department of Education.

REQUIRED SUPPLEMENTARY INFORMATION

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From local sources:				
Taxes				
Property	\$ 4,862,369	\$ 5,029,000	\$ 5,183,784	\$ 154,784
Motor vehicle	928,000	988,000	1,022,434	34,434
Utilities	1,640,865	1,655,865	1,633,439	(22,426)
Other	373,400	322,000	321,278	(722)
Student activities	26,000	15,000	19,730	4,730
Earnings on investments	18,000	22,000	26,620	4,620
Other local revenues	367,544	393,640	416,802	23,162
Intergovernmental - state	24,235,502	24,386,221	25,299,118	912,897
Intergovernmental - indirect federal	55,000	85,000	139,827	54,827
Total revenues	<u>32,506,680</u>	<u>32,896,726</u>	<u>34,063,032</u>	<u>1,166,306</u>
EXPENDITURES				
Current:				
Instruction	18,490,853	18,652,143	19,512,755	(860,612)
Support services:				
Student	2,052,100	2,213,583	2,413,439	(199,856)
Instructional staff	919,167	1,133,700	1,048,791	84,909
District administration	2,492,263	3,588,370	1,750,230	1,838,140
School administration	1,953,203	1,987,510	2,172,791	(185,281)
Business	627,029	649,310	574,145	75,165
Plant operation and maintenance	3,691,541	3,873,548	3,646,967	226,581
Student transportation	2,981,722	3,130,903	2,718,891	412,012
Land/site acquisitions	100,000	31,500	-	31,500
Total expenditures	<u>33,307,878</u>	<u>35,260,567</u>	<u>33,838,009</u>	<u>1,422,558</u>
Excess (deficit) of revenues over (under) expenditures	<u>(801,198.00)</u>	<u>(2,363,841)</u>	<u>225,023</u>	<u>2,588,864</u>
Other financing sources (uses)				
Proceeds from sale of fixed assets	8,000	1,000	119,303	118,303
Operating transfers in	30,968	35,179	35,216	37
Operating transfers out	(65,000)	(105,889)	(188,259)	(82,370)
Total other financing sources (uses)	<u>(26,032)</u>	<u>(69,710)</u>	<u>(33,740)</u>	<u>35,970</u>
Net change in fund balance	(827,230)	(2,433,551)	191,283	2,624,834
Fund balance, July 1, 2014	<u>827,230</u>	<u>2,433,551</u>	<u>2,600,465</u>	<u>166,914</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,791,748</u>	<u>\$ 2,791,748</u>

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SPECIAL REVENUE
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amount</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
From local sources:				
Other local revenues	\$ 3,250	\$ 3,250	\$ 7,412	\$ 4,162
Intergovernmental - state	1,866,774	1,771,282	1,717,920	(53,362)
Intergovernmental - federal	2,348,845	2,485,630	2,479,156	(6,474)
Total revenues	<u>4,218,869</u>	<u>4,260,162</u>	<u>4,204,488</u>	<u>(55,674)</u>
EXPENDITURES				
Current:				
Instruction	2,862,217	2,866,358	2,856,842	9,516
Support services:				
Student	96,868	108,511	112,382	(3,871)
Instructional staff	872,051	871,138	873,654	(2,516)
District administration	-	-	2,711	(2,711)
Business	10,266	13,198	7,804	5,394
Student transportation	19,924	19,924	21,478	(1,554)
Community services	419,784	443,430	424,091	19,339
Total expenditures	<u>4,281,110</u>	<u>4,322,559</u>	<u>4,298,962</u>	<u>23,597</u>
Excess (deficit) of revenues over (under) expenditures	<u>(62,241)</u>	<u>(62,397)</u>	<u>(94,474)</u>	<u>(32,077)</u>
Other financing sources (uses)				
Proceeds from disposal of fixed assets	-	-	27,809	27,809
Operating transfers in	97,614	97,614	101,881	4,267
Operating transfers out	(35,373)	(35,217)	(35,216)	1
Total other financing sources (uses)	<u>62,241</u>	<u>62,397</u>	<u>94,474</u>	<u>32,077</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2014	-	-	-	-
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CONSTRUCTION FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Earnings on investments	\$ -	\$ 111,374	\$ 22,824	\$ (88,550)
Other local revenues	-	-	-	-
Total revenues	-	111,374	22,824	(88,550)
EXPENDITURES				
Building improvements	-	9,320,987	5,252,720	4,068,267
Total expenditures	-	9,320,987	5,252,720	4,068,267
Excess (deficit) of revenues over (under) expenditures	-	(9,209,613)	(5,229,896)	3,979,717
Other financing sources (uses)				
Bond issuance		9,023,626	9,023,626	-
Operating transfers in	-	185,987	185,987	-
Total other financing sources (uses)	-	9,209,613	9,209,613	-
Net change in fund balance	-	-	3,979,717	3,979,717
Fund balance, July 1, 2014	-	-	239,063	239,063
Fund balance, June 30, 2015	\$ -	\$ -	\$ 4,218,780	\$ 4,218,780

**GRAVES COUNTY SCHOOL DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

NOTE 1 – BUDGETARY INFORMATION

The District's budgetary process accounts for certain transactions on a basis other than GAAP. Differences between the budgetary accounting method and GAAP are not material.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

The General Fund FY 15 budget included \$7,316,339 of state payments on behalf of District employees for retirement and health benefits, technology, and debt service.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
County Employees Retirement System**

	Year Ended June 30, 2015
District's proportion of the net pension liability	0.226742%
District's proportionate share of the net pension liability	\$ 7,520,200
State's proportionate share of the net pension liability associated with the District	-
Total	\$ 7,520,200
District's covered-employee payroll	\$ 5,278,202
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	70.19%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF REQUIRED CONTRIBUTIONS
County Employees Retirement System**

	Year Ended June 30, 2015
Contractually required contribution	\$ 932,674
Contributions in relation to the contractually required contribution	932,674
Contribution deficiency	\$ -
District's covered-employee payroll	\$ 5,278,202
Contributions as a percentage of covered-employee payroll	17.67%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Kentucky Teachers' Retirement System**

	<u>Year Ended June 30, 2015</u>
District's proportion of the net pension liability	0%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	<u>115,182,631</u>
Total	<u>\$ 115,182,631</u>
District's covered-employee payroll	\$ 17,925,102
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	15.56%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF REQUIRED CONTRIBUTIONS
Kentucky Teachers' Retirement System**

	<u>Year Ended June 30, 2015</u>
Contractually required contribution - On behalf payments - KDE	\$ 2,714,315
Contributions in relation to the contractually required contribution	<u>2,714,315</u>
Contribution deficiency	<u>\$ -</u>
District's covered-employee payroll	\$ 17,925,102
Contributions as a percentage of covered-employee payroll	15.14%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLANS
FOR THE YEAR ENDED JUNE 30, 2015**

Changes of benefit terms – None.

Changes of assumptions – None.

OTHER SUPPLEMENTARY INFORMATION

**GRAVES COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	District Activity Fund	Total Nonmajor Governmental Funds
ASSETS AND RESOURCES					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Total assets and resources	\$ -	\$ -	\$ -	\$ -	\$ -
LIABILITIES AND FUND BALANCES					
Liabilities					
Cash overdraft	\$ -	\$ -	\$ -	\$ 1,182	\$ 1,182
Total liabilities	-	-	-	1,182	1,182
Fund Balances					
Nonspendable	-	-	-	-	-
Spendable:					
Restricted	-	-	-	(1,182)	(1,182)
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	-	-	-	(1,182)	(1,182)
Total liabilities and fund balances	\$ -	\$ -	\$ -	\$ -	\$ -

**GRAVES COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	District Activity Fund	Total Nonmajor Governmental Funds
REVENUES					
From local sources:					
Taxes					
Property	\$ 805,857	\$ -	\$ -	\$ -	\$ 805,857
Intergovernmental - state	743,098	413,606	900,008	-	2,056,712
Total revenues	<u>1,548,955</u>	<u>413,606</u>	<u>900,008</u>	<u>-</u>	<u>2,862,569</u>
EXPENDITURES					
Supporting Services	-	-	-	-	-
Instructional staff	-	-	-	1,182	1,182
Debt service	-	-	4,429,497	-	4,429,497
Bond issuance costs	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>4,429,497</u>	<u>1,182</u>	<u>4,430,679</u>
Excess (deficit) of revenues over (under) expenditures	<u>1,548,955</u>	<u>413,606</u>	<u>(3,529,489)</u>	<u>(1,182)</u>	<u>(1,568,110)</u>
Other financing sources (uses)					
Net bond proceeds	-	-	1,599,727	-	1,599,727
Operating transfer in	1	-	1,929,762	-	1,929,763
Operating transfer out	(1,548,956)	(488,691)	-	-	(2,037,647)
Total other financing sources (uses)	<u>(1,548,955)</u>	<u>(488,691)</u>	<u>3,529,489</u>	<u>-</u>	<u>1,491,843</u>
Net change in fund balances	-	(75,085)	-	(1,182)	(76,267)
Fund balances, July 1, 2014	<u>-</u>	<u>75,085</u>	<u>-</u>	<u>-</u>	<u>75,085</u>
Fund balances, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,182)</u>	<u>\$ (1,182)</u>

**GRAVES COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
 SCHOOL ACTIVITY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance July 1, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2015
Central Elementary	\$ 19,461	\$ 74,084	\$ 64,603	\$ 28,942	\$ -	\$ -	\$ 28,942
Cuba Elementary	11,795	-	11,795	-	-	-	-
Fancy Farm Elementary	9,523	25,329	26,953	7,899	-	-	7,899
Farmington Elementary	16,219	40,067	36,769	19,517	-	-	19,517
Lowe's Elementary	21,945	41,743	37,888	25,801	-	-	25,801
Sedalia Elementary	6,679	27,646	27,679	6,646	-	-	6,646
Symsonia Elementary	50,923	39,601	36,337	54,188	-	-	54,188
Wingo Elementary	10,502	54,197	58,053	6,646	-	-	6,646
Graves County Middle School	42,158	124,504	119,757	46,905	-	-	46,905
Graves County High School	307,299	982,624	984,984	304,940	-	-	304,940
Totals	<u>\$ 496,504</u>	<u>\$ 1,409,796</u>	<u>\$ 1,404,818</u>	<u>\$ 501,482</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 501,482</u>

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
SCHOOL ACTIVITY FUNDS - GRAVES COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015

	Cash Balance July 1, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2015
GRAVES COUNTY HIGH SCHOOL:							
General administration	\$ 22,737	\$ 18,358	\$ 22,788	\$ 18,307	\$ -	\$ -	\$ 18,307
Credit recovery	135	750	885	-	-	-	-
Youth Service Center	86	2,193	2,279	-	-	-	-
Graves County Board of Education	-	-	-	-	-	-	-
School security	15	-	-	15	-	-	15
Counselors' activity	634	410	240	804	-	-	804
Senior fees	9,591	17,811	27,403	-	-	-	-
West Nest	40	55	-	95	-	-	95
AP funds	6,247	-	1,333	4,914	-	-	4,914
Book rent	10,783	10	-	10,793	-	-	10,793
Lost and damaged books	4,055	995	25	5,025	-	-	5,025
Testing fees	9,140	31,043	28,627	11,556	-	-	11,556
Science - field trips	436	909	793	552	-	-	552
Language Arts - field trips	254	3,988	4,167	75	-	-	75
Calculator rental	8,275	2,435	1,225	9,485	-	-	9,485
Senior Focus - field trips	1,614	553	577	1,590	-	-	1,590
FAHS activity fund	19	-	-	19	-	-	19
Lead Mentoring-YSC	-	2,893	2,834	59	-	-	59
Student concessions	23,417	12,419	23,068	12,768	-	-	12,768
Staff concessions	20,542	853	9,940	11,454	-	-	11,454
General (fees)	42,588	32,539	34,675	40,452	-	-	40,452
Bank charges	1,004	747	1,748	3	-	-	3
Bingo	-	-	-	-	-	-	-
Performing Arts Center	5,785	7,100	8,224	4,661	-	-	4,661
Sport's Concessions	-	57,160	57,160	-	-	-	-
Athletic administration	-	7,614	7,614	-	-	-	-
Athletic reserves	154	10,866	11,020	-	-	-	-
General athletics	-	4,680	4,680	-	-	-	-
Tournament account	-	48,567	48,567	-	-	-	-
Sports revenue	-	105,425	105,425	-	-	-	-
Special projects	-	42,211	25,689	16,522	-	-	16,522

continued

**GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
SCHOOL ACTIVITY FUNDS - GRAVES COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance July 1, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2015
GRAVES COUNTY HIGH SCHOOL, continued							
Baseball	-	10,123	10,123	-	-	-	-
Boys' basketball activity	-	14,348	14,348	-	-	-	-
Boys basketball Activity	-	5,665	5,565	100	-	-	100
Elementary basketball	-	48,632	48,632	-	-	-	-
Girls' basketball activity	2,371	11,084	8,254	5,200	-	-	5,200
Cheerleaders coed	312	20,747	19,835	1,224	-	-	1,224
Cheerleaders all girls	755	25,138	25,072	822	-	-	822
Cross country activity	312	2,657	2,683	286	-	-	286
Feds	-	1,622	1,085	537	-	-	537
Football	2,958	22,873	25,781	50	-	-	50
Football (elem/middle)	7,718	23,876	29,321	2,274	-	-	2,274
Golf	972	8,039	9,011	-	-	-	-
Girls' soccer	-	12,134	12,134	-	-	-	-
Boys' soccer	-	4,343	3,662	680.89	-	-	681
Softball	3,673	8,492	5,474	6,691	-	-	6,691
Swim team	-	-	-	-	-	-	-
Tennis	1,691	3,489	3,447	1,732	-	-	1,732
Boys' track	694	5,738	6,432	-	-	-	-
Girls' track	1,470	3,895	4,069	1,296	-	-	1,296
Bowling	3,659	19,640	17,557	5,742	-	-	5,742
Volleyball	7,016	10,230	16,414	832	-	-	832
Archery	2,838	14,349	13,427	3,760	-	-	3,760
Elementary volleyball	1,265	2,223	1,808	1,680	-	-	1,680
Wrestling	3,187	-	-	3,187	-	-	3,187
Academic Team	149	-	122	27	-	-	27
Agape Club	254	472	553	173	-	-	173
Art	413	558	555	416	-	-	416
Beta Club	948	2,678	2,350	1,277	-	-	1,277
Bookstore	10,920	7,175	8,303	9,792	-	-	9,792
Drama	2,893	1,215	3,476	632	-	-	632
JKG	1,704	-	-	1,704	-	-	1,704
Calculus Club	156	-	-	156	-	-	156

continued

**GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
SCHOOL ACTIVITY FUNDS - GRAVES COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance July 1, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2015
GRAVES COUNTY HIGH SCHOOL, continued							
FBLA	199	26,131	25,078	1,252	-	-	1,252
DECA	1,747	49,739	50,774	712	-	-	712
FCA	540	-	-	540	-	-	540
Chess Club	1,033	9,118	7,256	2,895	-	-	2,895
Curtain Call	-	-	-	-	-	-	-
FFA	17,747	59,761	68,480	9,028	-	-	9,028
Equine	5,520	17,135	16,664	5,991	-	-	5,991
Future Educators of America	107	-	-	107	-	-	107
FCCLA	4,309	11,847	14,108	2,048	-	-	2,048
STOP	699	500	60	1,139	-	-	1,139
Horticulture	9,475	22,875	13,730	18,620	-	-	18,620
Engineering Club	358	-	309	49	-	-	49
Interact Club	2,580	420	413	2,587	-	-	2,587
Foreign language - French	191	528	54	665	-	-	665
Library	1,201	2,470	1,738	1,933	-	-	1,933
Match Club	2	889	890	1	-	-	1
Newspaper	55	1,368	553	870	-	-	870
Key Club	72	505	387	190	-	-	190
Pep Club	-	1,004	999	5	-	-	5
Prom	3,999	8,994	11,602	1,391	-	-	1,391
Science Club	798	285	405	678	-	-	678
Forensics (Speech)	-	7,549	7,549	-	-	-	-
Student Council	-	1,150	1,148	3	-	-	3
Chemistry/NWEA	1,158	-	658	500	-	-	500
Spanish Club	1,244	1,003	322	1,926	-	-	1,926
GCHS Special Olympics	53	-	-	53	-	-	53
WGCE	4,662	3,883	440	8,105	-	-	8,105
Science Department	12	-	-	12	-	-	12
Yearbook	684	71,750	72,234	200	-	-	200
Young Democrats	16	-	14	2	-	-	2
Young Republicans	164	-	-	164	-	-	164
Agriculture	-	1,136	437	699	-	-	699

continued

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
SCHOOL ACTIVITY FUNDS - GRAVES COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015

	Cash Balance July 1, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2015
GRAVES COUNTY HIGH SCHOOL, continued							
AP Music Theory fee	84	-	-	84	-	-	84
Art	544	1,030	1,165	409	-	-	409
Anatomy & Physiology	388	590	763	215	-	-	215
Business Principles	272	482	553	201	-	-	201
Advanced Computer Tech	1,157	20	-	1,177	-	-	1,177
Instrument maintenance	48	-	48	-	-	-	-
Sports & event management	999	2,806	2,877	928	-	-	928
Principles of & Fashion Mkt	503	1,123	1,040	586	-	-	586
Engineering Design/Prin Eng	302	1,083	606	779	-	-	779
GC Publishing	293	5	-	298	-	-	298
Band	23	32,496	21,096	11,423	-	-	11,423
Culinary class	427	-	-	427	-	-	427
Guitar class	20	-	20	-	-	-	-
Choir class fees	-	80	80	-	-	-	-
Choral	-	7,598	6,363	1,235	-	-	1,235
Environmental Science	323	-	-	323	-	-	323
Heart of the Purchase	243	-	-	243	-	-	243
Home Economics	1,546	7,463	5,425	3,584	-	-	3,584
Special Life Skills	3,776	5,368	3,560	5,584	-	-	5,584
Social Studies	185	-	-	185	-	-	185
Physics	140	-	-	140	-	-	140
Industrial Arts	-	-	-	-	-	-	-
Language Arts books	2,057	5	580	1,482	-	-	1,482
Photojournalism	1,007	-	-	1,007	-	-	1,007
Photography	1,223	505	-	1,728	-	-	1,728
Foreign language fees	2,119	5,314	2,684	4,748	-	-	4,748
Orchestra	4,180	13,946	13,250	4,876	-	-	4,876
Science novels	17	-	-	17	-	-	17
Project Lead the Way	919	700	585	1,034	-	-	1,034
ROTC	-	1,136	691	445	-	-	445
Savings	-	-	-	-	-	-	-
Relay for Life	-	9,003	9,003	-	-	-	-
	307,299	1,094,811	1,097,171	347,125	-	-	347,125
		(215,727)	(215,727)				
	<u>\$ 307,299</u>	<u>\$ 879,084</u>	<u>\$ 881,444</u>	<u>\$ 347,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 347,125</u>

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	
U.S. Department of Education				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies	84.010	310000214	\$ 811,650	
		310000213	249,991	
		310010213	<u>3,671</u>	\$ 1,065,312
Special Education Grants to States	** 84.027	381000214	806,923	
		381000213	70,945	
		381000212	<u>199</u>	878,067
Vocational Education Basic Grants to States	84.048	371000214	39,917	
		371000213	<u>1,529</u>	41,446
Special Education Preschool Grants	** 84.173	380000214		42,015
Rural Education	84.358	314000214		95,841
English Language Acquisition State Grants	84.365	330000214		16,902
Improving Teacher Quality State Grants	84.367	323000214	162,518	
		323000213	<u>38,500</u>	201,018
Investing in Innovation	84.411	491A		3,887
Race to the Top	84.413	396000211		4,862
Passed through KCTCS				
Migrant Education - State Grant Program	84.011	311000214	67,209	
		311000213	37,122	
		311000212	<u>2,122</u>	106,453
Passed through State Department of Juvenile Justice				
Title 1 State Agency Program for Neglected and Delinquent Children and Youth	84.013	313A, 313AT		<u>25,325</u>
Total U. S. Department of Education				<u>2,481,128</u>
U.S. Department of Agriculture				
Passed through State Department of Education:				
School Breakfast Program	* 10.553***	776000514	148,388	
		776000515	<u>506,944</u>	655,332
National School Lunch Program	* 10.555***	775000214	302,433	
		775000215	1,027,008	
Noncash Assistance - Commodities (Note 4)		Fund 51	<u>145,391</u>	1,474,832
Total U.S. Department of Agriculture				<u>2,130,164</u>
Total Expenditures of Federal Awards				<u>\$ 4,611,292</u>

*Child Nutrition Cluster

**Special Education Cluster

***Major Program

**GRAVES COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Graves County School District (the "District") under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (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 the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

NOTE 4 – COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the USDA food commodities received and disbursed.

INTERNAL CONTROL AND COMPLIANCE

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



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

Kentucky State Committee
for School District Audits
Members of the Board of Education
Graves County School District
Mayfield, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *the Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Graves County School District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2015.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2015-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

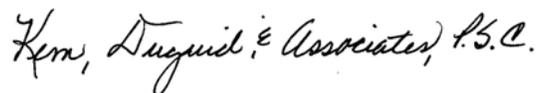
Graves County School District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Kem, Duguid & Associates, P.S.C.



Certified Public Accountants
Hopkinsville, Kentucky

November 12, 2015

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



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

Kentucky State Committee
for School District Audits
Members of the Board of Education
Graves County School District
Mayfield, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Graves County School District's (the "District") 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 Graves County School District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *the Independent Auditor's Contract*. 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 Graves County 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 the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Graves County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

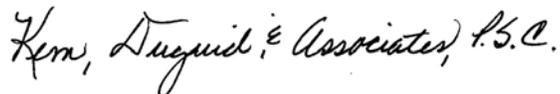
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 the District's internal control over compliance.

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

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 requirements of OMB Circular A-133. Accordingly, this report is not suitable of any other purpose.

Kem, Duguid & Associates, P.S.C.



Certified Public Accountants
Hopkinsville, Kentucky

November 12, 2015

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___ yes X no

Significant deficiency(ies) identified? X yes ___ none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___ yes X no

Significant deficiency(ies) identified ___ yes X none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 ___ yes X no

Identification of major federal programs:

<u>Program Title</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559

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

Auditee qualified as a low-risk auditee? X yes ___ no

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Section II – Financial Statement Findings

Reference 2015-001

Condition – The District does not have control over the preparation of the financial statements, including footnote disclosures, which would prevent or detect a misstatement in the financial statements. The independent auditor cannot be a compensating control for the client.

Criteria – Statement on Auditing Standards (SAS 115) states that a control deficiency exists when an entity does not have controls in place which would prevent or detect a misstatement in the financial statements.

Effect – Lack of accountability and possible misstatement of financial statements, including footnote disclosures.

Recommendation – The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

Response – It is not feasible for the District to invest the resources for a member of the financial accounting staff to obtain the training necessary to obtain the knowledge related to Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) pronouncements and to remain current with this knowledge. Management does not consider the deficiency to be imperative to the daily internal control operations of the District.

Section III – Federal Award Findings and Questioned Costs

None reported

**GRAVES COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

2014-001 Adjustment for Sick Leave

Condition – In order to issue complete and fairly presented government-wide financial statements, a material audit adjustment was required to adjust the beginning balance of sick leave payable.

Recommendation – The District should include in the sick leave liability only those employees who meet the age requirement for retirement and have more than five years of service.

Current Status – The finding was not repeated for fiscal year ending June 30, 2015.

2014-002 Internal Controls

Condition – The District does not have control over the preparation of the financial statements, including footnote disclosures, which would prevent or detect a misstatement in the financial statements. The independent auditor cannot be a compensating control for the client.

Recommendation – The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

Current Status – The finding was repeated for the fiscal year ending June 30, 2015.

MANAGEMENT COMMENTS FOR AUDIT

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



November 12, 2015

Members of the Board of Education
Graves County School District
Mayfield, Kentucky

In planning and performing our audit of the financial statements of Graves County School District (the "District") for the year ended June 30, 2015, we considered the District's internal control 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.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 12, 2015, contains our report on the District's internal control. This letter does not affect our report dated November 12, 2015, on the financial statements of the Graves County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We performed a follow up on the prior year findings with the status of these findings on pages 86-88 of this report.

This report is intended solely for the information and use of the management, the members of the Graves County Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

Kem, Duguid & Associates, P.S.C.

Certified Public Accountants
Hopkinsville, Kentucky

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

GRAVES COUNTY HIGH SCHOOL

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed several instances of the Multiple Receipt Form not being completed properly. Students remitting money to teachers or sponsors were not signing the Multiple Receipt Form. Treasurer also did not sign the Multiple Receipt Form when money was remitted from teacher/sponsor. Money and the multiple receipt form were not remitted to the treasurer in a timely manner.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) requires that students third grade and above must sign the Multiple Receipt Form. When Multiple Receipt Forms are used, the form should be completed correctly with signatures and dates from both the treasurer and person remitting the money. Both money and the Multiple Receipt Form should be remitted to the treasurer on the day collected or in a timely manner.

Cause – Oversight.

Effect – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

Recommendation – The person using the Multiple Receipt Form should require all students third grade and above remitting money to sign the form. The treasurer and teacher/sponsor should ensure that the Multiple Receipt Form be completed properly and money remitted to the treasurer in a timely fashion.

Response – The school will comply with the recommendation.

- II. **Condition** – Cash receipts testing of a randomly chosen sample revealed an instance of a check payable to Graves County Booster Club deposited into the High School checking account.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) requires that an external support/booster organization must use external bank accounts and shall obtain its own Federal Employer Identification Number specifically and only for its use.

Cause – Oversight.

Effect – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

Recommendation – Any checks payable to Graves County Booster Club should be deposited in the external booster organization's checking account.

Response – The school will comply with the recommendation.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

GRAVES COUNTY HIGH SCHOOL, continued

- III. **Condition** – Ticket Sales testing of a randomly chosen sample revealed several instances of the Ticket Requisition Form not being completed properly and procedures from Red Book not being followed. There were multiple instances in which the number of “tickets sold” column was not completed, person in charge of sales and ticket taker were same person, Ticket Requisition Form and money collected were not remitted to treasurer on the first business day following the event, and total cash collected did not reconcile to the deposit amount.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) requires that two people (ticket seller, ticket taker) are required to work the gate. Money collected after school business hours for evening events shall be processed for deposit the following business day by the school treasurer. The Requisition and Report of Ticket Sales is to be used to report and reconcile the number of tickets sold and the funds collected from the event.

Cause – Oversight.

Effect – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

Recommendation – Graves County High School should review all procedures relating to ticket sales and implement what is not in place in order to follow Red Book guidelines.

Response – The school will comply with the recommendation.

FANCY FARM ELEMENTARY

- I. **Condition** – Cash disbursements testing of a randomly chosen sample revealed an instance in which 21 coaches shirts were purchased.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) states that any other “uniform” must be required by board policy and school activity funds shall not be used to make the purchase. Examples include: shirt with or without the school/group logo, jackets with or without logos, caps, footwear.

Cause – Oversight.

Effect – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

Recommendation – Any clothing purchase for coaches or teachers should not be paid out of school activity funds.

Response – The school will comply with the recommendation.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

LOWES ELEMENTARY

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed several instances of Red Book procedures not being following in regard to cash receipts. When Multiple Receipt Form was used, it was completed incorrectly. Treasurer did not sign Multiple Receipt Form, teacher/sponsor remitting money did not date the Multiple Receipt Form, and students did not sign the form. It also appears that only 2-3 deposits took place each month which causes money to not be deposited in a timely fashion.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) requires that students third grade and above must sign the Multiple Receipt Form. When Multiple Receipt Forms are used, the form should be completed correctly with signatures and dates from both the treasurer and person remitting the money. Both money and the Multiple Receipt Form should be remitted to the treasurer on the day collected or in a timely manner.

Cause – Oversight.

Effect – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

Recommendation – Lowes Elementary should review all procedures relating to cash receipts and implement procedures in order to follow Red Book guidelines.

Response – The school will comply with the recommendation.

- II. **Condition** – Cash disbursements testing of a randomly chosen sample revealed instances in which only one check signer signed the check.

Criteria – *Accounting Procedures for Kentucky School Activity Funds* (Red Book) states that all checks shall contain the signatures of the principal's designee, and the school treasurer. The principal designee must be someone who has administrative approving authority.

Cause – Oversight.

Effect – Noncompliance with *Accounting Procedures for Kentucky School Activity Funds* (Red Book).

Recommendation – Any check written shall have two signatures, the school treasurer and a principal's designee.

Response – The school will comply with the recommendation

**GRAVES COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

SCHOOL ACTIVITY FUNDS

CUBA ELEMENTARY SCHOOL

- I. **Condition** – Purchase orders were dated after the invoice date or not dated at all.

Recommendation – Purchase orders should be completed and approved prior to placing the order for merchandise or services.

Current Status – The finding was not repeated for the fiscal year ended June 30, 2015.

FANCY FARM ELEMENTARY SCHOOL

- I. **Condition** – Fundraiser worksheet for deposits was not used.

Recommendation – Fundraiser worksheet, Form F-SA-2B, should be prepared for each fundraiser.

Current Status – The finding was repeated for the fiscal years ended June 30, 2015 and June 30, 2014.

FARMINGTON ELEMENTARY SCHOOL

- I. **Condition** – Fundraiser worksheet for deposits was not used.

Recommendation – Fundraiser worksheet, Form F-SA-2B, should be prepared for each fundraiser.

Current Status – The finding was repeated for the fiscal years ended June 30, 2015 and June 30, 2014.

LOWES ELEMENTARY SCHOOL

- I. **Condition** – Teachers or other staff members are holding funds and remitting money on a daily basis, or the treasurer is not giving the person who remits the funds a receipt at the time the funds are turned in and only prints receipt tickets when the funds are taken to the bank.

Recommendation – All staff should be instructed to remit funds to the treasurer on a daily basis and to wait until funds are counted and a receipt is given to them before leaving.

Current Status – The finding was repeated for the fiscal years ended June 30, 2015 and June 30, 2014.

**GRAVES COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

LOWES ELEMENTARY SCHOOL, continued

- II. **Condition** – Fundraiser worksheet for deposits was not used.

Recommendation – Fundraiser worksheet, Form F-SA-2B, should be prepared for each fundraiser.

Current Status – The finding was repeated for the fiscal years ended June 30, 2015 and June 30, 2014.

- III. **Condition** – Approval signatures of the sponsor were not always obtained for interfund transfers.

Recommendation – Proper signatures should be obtained. If there is no sponsor for a particular activity, it would be helpful to note on the signature line that there is no sponsor.

Current Status – The finding was not repeated for the fiscal year ended June 30, 2015.

SEDALIA ELEMENTARY SCHOOL

- I. **Condition** – Purchase orders were dated after the invoice date.

Recommendation – Purchase orders should be completed and approved prior to placing the order for merchandise or services.

Current Status – The finding was repeated for the fiscal years ended June 30, 2015 and June 30, 2014.

GRAVES COUNTY HIGH SCHOOL

- I. **Condition** – In a test of controls over ticket sales for athletic events, it was noted that the amount listed as cash collected and the amount of over/short was marked out on three forms. A scan of all forms F-SA-1 (Requisition and Report of Ticket Sales) indicated most all the forms for the year had been changed.

Recommendation – The forms should not be altered to force the total collections to equal the amount deposited.

Current Status – The finding was repeated during the fiscal years June 30, 2015 and June 30, 2014.

**GRAVES COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

GRAVES COUNTY HIGH SCHOOL, continued

- II. **Condition** – The athletic director signed the form as both the person in charge of sales and as the ticket taker.

Recommendation – There should be two people at each gate, and each person should sign the form. The treasurer should also sign each form when the funds are remitted.

Current Status – The finding was repeated during the fiscal years June 30, 2015 and June 30, 2014.

- III. **Condition** – Checks signed by only one individual.

Recommendation – Checks should be signed by two authorized individuals.

Current Status – The finding was not repeated during the fiscal year June 30, 2015.

- IV. **Condition** – Approval signatures of the sponsor were not always obtained for interfund transfers.

Recommendation – Proper signatures should be obtained. If there is no sponsor for a particular activity, it would be helpful to note on the signature line that there is no sponsor.

Current Status – The finding was not repeated for the fiscal year ended June 30, 2015.

- V. **Condition** – Fundraiser worksheet for deposits was not used.

Recommendation – Fundraiser worksheet, Form F-SA-2B should be prepared for each fundraiser.

Current Status – The finding was repeated for the fiscal years ended June 30, 2015 and June 30, 2014.