

**GRAYSON COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Grayson County School District
Leitchfield, 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 **Grayson County School 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Grayson 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.

Emphasis of Matter

As discussed in Note V to the financial statements, in 2015 the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. 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 on pages 3 through 5, the budgetary comparison information on pages 40 through 41, schedule of the District's proportionate share of the net pension liability on page 42, and the schedule of District contributions on page 43 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 Grayson County School District's basic financial statements. The introductory section, and combining and individual nonmajor 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 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and *OMB Circular A-133*, we have also issued our report dated October 1, 2015, on our consideration of the Grayson 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* and *OMB Circular A-133* in considering Grayson County School District's internal control over financial reporting and compliance.

Respectfully submitted,

Buckles, Travis, VanMeter & Hart

Buckles, Travis, VanMeter & Hart, PLLC

Certified Public Accountants

Leitchfield, Kentucky

October 1, 2015

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

As management of the Grayson County School District (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 beginning cash balance for the District general fund was \$7,304,741.
- The board started the High School Phase II Plumbing Renovation project totaling \$1,307,322 with restricted bond funds.
- The board completed construction of a new central office with restricted bond funds of \$3,645,849.
- The general fund had \$31,863,477 in revenue, which primarily consisted of the state program (SEEK), property, local, utilities, and motor vehicle taxes. There was \$31,404,985 in general fund expenditures. (Page 10)
- Board also started and completed a new HVAC units for the GCMS gym for \$271,917.
- The district invested \$219,284 for technology enhancements for SY 15, excluding KETS.

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) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

District-wide financial statements

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

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

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

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The district-wide financial statements can be found on pages 6 and 7 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. It should be noted that our district migrated to "cloud based" services March SY 12. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories:

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015**

governmental, proprietary, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service operations and daycare. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 8 through 16 of this report.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 39 of this report.

DISTRICT-WIDE FINANCIAL STATEMENTS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$17,512,850 of June 30, 2015. (Page 6)

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

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. It should be noted the District adopted provisions of GASB Statement 68 (see Note G to the financial statements). The adoption of this statement resulted in a restatement to beginning net position of \$(318,206) for our business-type activities. The District will continue to monitor the charges and costs of business activities. If it becomes necessary, the District will make adjustments to the operations of these activities.

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

	<u>06/30/14</u>	<u>06/30/15</u>
Current assets	\$10,728,428	\$9,004,070
Non-current assets	46,848,760	47,049,307
Total assets	<u>57,577,188</u>	<u>56,053,377</u>
Current liabilities	3,750,436	3,277,351
Non-current liabilities	28,546,017	34,445,177
Total liabilities	<u>32,296,453</u>	<u>37,722,528</u>
Deferred Inflows	<u>0</u>	<u>817,999</u>
Net position		
Invested in capital assets (net of debt)	17,708,760	19,329,307
Restricted	7,571,975	(1,816,457)
Total net position	<u>\$25,280,735</u>	<u>\$17,512,850</u>

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2015, were \$31,863,477.

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2015**

- General Fund revenue accounted for 82% of all governmental revenues. Program specific revenues in the form of grants accounted for 12% of total revenues. Other, financing sources, and construction accounted for 6%. (Page 10)
- The School District had expenditures of \$36,155,177 related to General Fund and Special Revenue Fund activities. Instruction comprised 65% of these expenses. Support service expenses make up 35% of these expenditures. Debt service and bond issue costs were \$2,480,838 and \$0 respectively.

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

Revenues	06/30/14	06/30/15
Charges for services	\$844,614	\$657,751
Operating grants and contributions	6,446,093	6,993,144
Capital grants and contributions	1,127,758	1,181,870
General revenues	31,513,968	32,728,106
Special items	17,965	21,140
	<u>39,950,398</u>	<u>41,582,011</u>
Expenses		
Instructional	22,264,985	22,892,698
Student support services	1,752,608	1,764,771
Staff support services	2,138,869	2,189,300
District administration	1,054,259	1,145,786
School administration	2,161,358	2,204,786
Business support services	500,442	526,558
Plant operation and maintenance	3,662,593	3,610,795
Student transportation	2,556,893	2,429,341
Community service operations	364,257	338,599
Facility acquisition and construction	0	26,344
Other	3,512	1,210
Debt service	1,153,869	1,010,763
Food service	2,492,054	2,640,982
Daycare	81,610	87,218
Total expenses	<u>40,187,309</u>	<u>40,869,151</u>
Revenues in excess of expenses	<u>(\$236,911)</u>	<u>\$712,860</u>

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 through June 30; other programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The beginning cash balance for the fiscal year was \$10,194,090. Significant Board action that impacts finances includes facility construction projects, step pay raises, and other supplemental raises for all eligible employees. Additionally, each year the employer KTRS match increases until it reaches 3% in fiscal year 2016. Further, in SY 15, our district received final assessment of \$110,263 through the KSBIT Insurance Pool we participated in during the 1990's and early 2000's.

Questions regarding this report should be directed to Kerry White, Finance Officer at (270)259-4011 or by mail at P.O. Box 4009, Leitchfield, KY 42755.

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

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 3,455,424	\$ 499,242	\$ 3,954,666
Investments	4,279,613	0	4,279,613
Interest receivable	13,528	0	13,528
Accounts receivable:			
Accounts	684,954	33,765	718,719
Inventories for consumption	0	37,544	37,544
TOTAL CURRENT ASSETS	<u>8,433,519</u>	<u>570,551</u>	<u>9,004,070</u>
NON-CURRENT ASSETS			
Bond discounts, net of accumulated amortization of \$74,808	240,191	0	240,191
Non-depreciated capital assets	1,998,280	0	1,998,280
Depreciated capital assets	68,774,024	1,143,782	69,917,806
Less: Accumulated depreciation	(24,232,513)	(874,457)	(25,106,970)
TOTAL NON-CURRENT ASSETS	<u>46,779,982</u>	<u>269,325</u>	<u>47,049,307</u>
TOTAL ASSETS	<u>55,213,501</u>	<u>839,876</u>	<u>56,053,377</u>
LIABILITIES			
CURRENT LIABILITIES			
Cash overdraft	221,854	0	221,854
Accounts payable	160,965	603	161,568
Accrued payroll and related expenses	124,383	0	124,383
Judgments payable	66,157	16,539	82,696
Deferred revenues	256,087	0	256,087
Interest payable	1,010,763	0	1,010,763
Current portion of bond obligations	1,420,000	0	1,420,000
TOTAL CURRENT LIABILITIES	<u>3,260,209</u>	<u>17,142</u>	<u>3,277,351</u>
NON-CURRENT LIABILITIES			
Non-current sick leave	804,531	15,644	820,175
Net pension liability	6,324,542	1,000,460	7,325,002
Bond obligations	27,720,000	0	27,720,000
Less: Current portion of bond obligations	(1,420,000)	0	(1,420,000)
TOTAL NON-CURRENT LIABILITIES	<u>33,429,073</u>	<u>1,016,104</u>	<u>34,445,177</u>
TOTAL LIABILITIES	<u>36,689,282</u>	<u>1,033,246</u>	<u>37,722,528</u>
DEFERRED INFLOWS OF RESOURCES			
CERS pension	706,276	111,723	817,999
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>706,276</u>	<u>111,723</u>	<u>817,999</u>
NET POSITION			
Net investment in capital assets	19,059,982	269,325	19,329,307
Restricted for:			
Capital projects	2,125,841	0	2,125,841
Debt service	1,248,685	0	1,248,685
Accrued sick leave	370,000	0	370,000
KSFCC escrow	0	0	0
Other purposes	(4,986,565)	(574,418)	(5,560,983)
Unrestricted	0	0	0
TOTAL NET POSITION	<u>\$ 17,817,943</u>	<u>\$ (305,093)</u>	<u>\$ 17,512,850</u>

See accompanying auditors' report and notes to financial statements.

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

	PROGRAM REVENUES				NET (EXPENSE) REVENUE CHANGES		
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
Instructional	\$ 22,892,698	\$ 53,654	\$ 3,399,644	\$ 0	\$ (19,439,400)		\$ (19,439,400)
Student support services	1,764,771	105,643	160,689	0	(1,498,439)		(1,498,439)
Staff support services	2,189,300	0	740,585	0	(1,448,715)		(1,448,715)
District administration	1,145,786	0	3,681	0	(1,142,105)		(1,142,105)
School administration	2,204,786	0	99,312	0	(2,105,474)		(2,105,474)
Business support services	526,558	0	0	0	(526,558)		(526,558)
Plant operation and maintenance	3,610,795	0	41,741	0	(3,569,054)		(3,569,054)
Student transportation	2,429,341	0	0	0	(2,429,341)		(2,429,341)
Community service operations	338,599	0	304,541	0	(34,058)		(34,058)
Facility acquisition and construction	26,344	0	0	1,181,870	1,155,526		1,155,526
Other	1,210	0	0	0	(1,210)		(1,210)
Debt service	1,010,763	0	0	0	(1,010,763)		(1,010,763)
Total governmental activities	38,140,951	159,297	4,750,193	1,181,870			(32,049,591)
Business-type activities:							
Food service	2,640,982	423,878	2,238,254	0		\$ 21,150	21,150
Daycare	87,218	74,576	4,697	0		(7,945)	(7,945)
Total business-type activities	2,728,200	498,454	2,242,951	0		13,205	13,205
Total school district	\$ 40,869,151	\$ 657,751	\$ 6,993,144	\$ 1,181,870	(32,049,591)	13,205	(32,036,386)
General revenues:							
Property taxes					5,103,273	0	5,103,273
Delinquent property taxes					120,893	0	120,893
Motor vehicle taxes					775,756	0	775,756
Unmined mineral taxes					238,880	0	238,880
Utility taxes					1,709,871	0	1,709,871
Other taxes					34,744	0	34,744
Revenue in lieu of taxes					7,063	0	7,063
State aid-formula grants					24,256,997	0	24,256,997
Investment earnings					73,194	340	73,534
Proceeds from bonds					0	0	0
Miscellaneous					406,434	661	407,095
Special items:							
Bond issue costs					0	0	0
Gain (loss) on sale of assets					21,140	0	21,140
Loss compensation					0	0	0
Transfers					1,093	(1,093)	0
Total general and special					32,749,338	(92)	32,749,246
Change in net position					699,747	13,113	712,860
Net position – Beginning (Restated)					17,118,196	(318,206)	16,799,990
Net position – Ending					\$ 17,817,943	\$ (305,093)	\$ 17,512,850

See accompanying auditors' report and notes to financial statements.

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

	GENERAL FUND	SPECIAL REVENUE FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	\$ 2,205,898	\$ 0	\$ 1,248,685	\$ 841	\$ 3,455,424
Investments	4,279,613	0	0	0	4,279,613
Interest receivable	13,528	0	0	0	13,528
Accounts receivable:					
Accounts	190,186	494,768	0	0	684,954
TOTAL ASSETS	\$ 6,689,225	\$ 494,768	\$ 1,248,685	\$ 841	\$ 8,433,519
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Cash overdraft	\$ 0	\$ 221,854	\$ 0	\$ 0	\$ 221,854
Accounts payable	144,138	16,827	0	0	160,965
Accrued payroll and related expenses	124,383	0	0	0	124,383
Judgments payable	66,157	0	0	0	66,157
Deferred revenues	0	256,087	0	0	256,087
TOTAL LIABILITIES	334,678	494,768	0	0	829,446
FUND BALANCE					
Nonspendable	0	0	0	0	0
Restricted for:					
Accrued sick leave	370,000	0	0	0	370,000
KSFCC escrow	0	0	0	0	0
Capital projects	2,125,000	0	0	841	2,125,841
Debt service	0	0	1,248,685	0	1,248,685
Other	0	0	0	0	0
Committed	0	0	0	0	0
Assigned	128,608	0	0	0	128,608
Unassigned	3,730,939	0	0	0	3,730,939
TOTAL FUND BALANCE	6,354,547	0	1,248,685	841	7,604,073
TOTAL LIABILITIES AND FUND BALANCE	\$ 6,689,225	\$ 494,768	\$ 1,248,685	\$ 841	\$ 8,433,519

See accompanying auditors' report and notes to financial statements.

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

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

Total governmental fund balance		\$ 7,604,073
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets:		
Non-depreciated capital assets	\$ 1,998,280	
Depreciated capital assets	68,774,024	
Accumulated depreciation	<u>(24,232,513)</u>	46,539,791
Bond discounts are financial uses and are reported as expenditures in governmental funds. This amount should be capitalized in the district-wide financial statements and expensed over the life of the bond.		
Bond discounts	314,999	
Accumulated amortization	<u>(74,808)</u>	240,191
Certain liabilities (such as bonds payable, accrued interest, net pension liability, deferred inflows, and other notes payable) are not reported in the fund financial statements because they are not due and payable, however, they are presented in the statement of net position.		
Interest payable	(1,010,763)	
Sick leave payable	(804,531)	
Deferred inflows	(706,276)	
Net pension liability	(6,324,542)	
Bond obligations	<u>(27,720,000)</u>	<u>(36,566,112)</u>
TOTAL NET POSITION - GOVERNMENTAL		<u>\$ 17,817,943</u>

See accompanying auditors' report and notes to financial statements.

**GRAYSON 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 FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes	\$7,325,487	\$ 0	\$ 0	\$ 664,994	\$ 7,990,481
Earnings on investments	69,029	125	3,690	474	73,318
Other local revenues	211,964	0	0	0	211,964
State sources	24,075,227	1,488,787	335,520	1,181,870	27,081,404
Federal sources	181,770	3,168,616	87,212	0	3,437,598
Other sources	0	0	23,700	0	23,700
TOTAL REVENUES	31,863,477	4,657,528	450,122	1,847,338	38,818,465
EXPENDITURES					
Instructional	19,804,168	3,399,644	0	0	23,203,812
Student support services	1,580,012	160,689	0	0	1,740,701
Staff support services	1,406,043	740,585	0	0	2,146,628
District administration	1,053,562	3,681	0	0	1,057,243
School administration	1,466,363	99,312	0	0	1,565,675
Business support services	545,443	0	0	0	545,443
Plant operation and maintenance	2,922,965	41,741	0	0	2,964,706
Student transportation	2,572,866	0	0	0	2,572,866
Community service operations	52,353	304,540	0	0	356,893
Facility acquisition, construction and improvement	0	0	0	1,509,097	1,509,097
Other	1,210	0	0	0	1,210
Debt service	0	0	2,480,838	0	2,480,838
Bond issue costs	0	0	0	0	0
TOTAL EXPENDITURES	31,404,985	4,750,192	2,480,838	1,509,097	40,145,112
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	458,492	(92,664)	(2,030,716)	338,241	(1,326,647)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of bonds	0	0	0	0	0
Proceeds from sale of assets	25,885	0	0	0	25,885
Bond discount	0	0	0	0	0
Operating transfers in	69,956	92,664	2,739,641	950,950	3,853,211
Operating transfers out	(1,356,117)	0	0	(2,496,001)	(3,852,118)
TOTAL OTHER FINANCING SOURCES (USES)	(1,260,276)	92,664	2,739,641	(1,545,051)	26,978
NET CHANGE IN FUND BALANCES	(801,784)	0	708,925	(1,206,810)	(1,299,669)
FUND BALANCES – BEGINNING	7,156,331	0	539,760	1,207,651	8,903,742
FUND BALANCES – ENDING	\$6,354,547	\$ 0	\$ 1,248,685	\$ 841	\$ 7,604,073

See accompanying auditors' report and notes to financial statements.

**GRAYSON 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**

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

Net changes - governmental funds \$ (1,299,669)

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.

Depreciation expense	\$ (2,320,172)	
Gain on disposal of assets	(4,745)	
Capital outlays	<u>2,582,062</u>	257,145

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, issuing debt increases the long-term liabilities and does not affect the statement of activities. Similarly repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Principal paid		1,420,000
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Bond discounts are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of activities, these costs are capitalized and amortized over the life of the respective bond.

Amortization expense		(17,968)
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In the statement of activities the change in accumulated sick leave payable, interest payable, net pension liability, and deferred inflows is reported. Whereas, in the governmental funds this change in liability is not reported. Thus the change in net position differs from the change in fund balances by the amount of increase or decrease in this account.

Increase in accumulated sick leave payable	(2,000)	
Decrease in interest payable	50,075	
Decrease in net pension liability and deferred inflows	<u>292,164</u>	<u>340,239</u>

CHANGES – NET POSITION – GOVERNMENTAL FUNDS	\$ 699,747
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See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
JUNE 30, 2015

	FOOD SERVICE	OTHER ENTERPRISE FUNDS (Daycare)	TOTAL
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 480,002	\$ 19,240	\$ 499,242
Accounts receivable:			
Accounts	26,751	7,014	33,765
Inventories for consumption	37,544	0	37,544
TOTAL CURRENT ASSETS	<u>544,297</u>	<u>26,254</u>	<u>570,551</u>
NON-CURRENT ASSETS			
Depreciated capital assets	1,143,782	0	1,143,782
Less: Accumulated depreciation	(874,457)	0	(874,457)
TOTAL NON-CURRENT ASSETS	<u>269,325</u>	<u>0</u>	<u>269,325</u>
TOTAL ASSETS	<u>813,622</u>	<u>26,254</u>	<u>839,876</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	603	0	603
Judgments payable	16,539	0	16,539
TOTAL CURRENT LIABILITIES	<u>17,142</u>	<u>0</u>	<u>17,142</u>
NON-CURRENT LIABILITIES			
Non-current sick leave	15,644	0	15,644
Net pension liability	949,298	51,162	1,000,460
TOTAL NON-CURRENT LIABILITIES	<u>964,942</u>	<u>51,162</u>	<u>1,016,104</u>
TOTAL LIABILITIES	<u>982,084</u>	<u>51,162</u>	<u>1,033,246</u>
DEFERRED INFLOWS OF RESOURCES			
CERS pension	106,010	5,713	111,723
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>106,010</u>	<u>5,713</u>	<u>111,723</u>
NET POSITION			
Net investment in capital assets	269,325	0	269,325
Restricted	(543,797)	(30,621)	(574,418)
TOTAL NET POSITION	<u>\$ (274,472)</u>	<u>\$ (30,621)</u>	<u>\$ (305,093)</u>

See accompanying auditors' report and notes to financial statements.

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

	FOOD SERVICE	OTHER ENTERPRISE FUNDS (Daycare)	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 423,878	\$ 0	\$ 423,878
Tuition	0	74,576	74,576
TOTAL OPERATING REVENUES	<u>423,878</u>	<u>74,576</u>	<u>498,454</u>
OPERATING EXPENSES			
Salaries and benefits	1,092,409	75,967	1,168,376
Contract services	27,369	1,055	28,424
Materials and supplies	1,481,846	4,216	1,486,062
Depreciation	38,630	0	38,630
Other operating expenses	728	5,980	6,708
TOTAL OPERATING EXPENSES	<u>2,640,982</u>	<u>87,218</u>	<u>2,728,200</u>
OPERATING INCOME (LOSS)	(2,217,104)	(12,642)	(2,229,746)
NON-OPERATING REVENUES (EXPENSES)			
Federal grants	1,930,440	0	1,930,440
State grants	24,561	0	24,561
Donated commodities	108,367	0	108,367
On-behalf payments	174,886	4,697	179,583
Interest income	340	0	340
Miscellaneous revenue	661	0	661
Gain (loss) on disposal of assets	0	0	0
Operating transfers in	0	0	0
Operating transfers out	0	(1,093)	(1,093)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>2,239,255</u>	<u>3,604</u>	<u>2,242,859</u>
CHANGE IN NET POSITION	22,151	(9,038)	13,113
NET POSITION – BEGINNING (RESTATED)	(296,623)	(21,583)	(318,206)
NET POSITION – ENDING	<u>\$ (274,472)</u>	<u>\$ (30,621)</u>	<u>\$ (305,093)</u>

See accompanying auditors' report and notes to financial statements.

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

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from:		
Lunchroom sales	\$	432,518
Tuition		73,666
Cash paid to/for:		
Salaries and benefits		(1,042,215)
Materials and supplies		(1,369,169)
Contract services		(33,938)
Other activities		(6,708)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u>(1,945,846)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Fixed asset activity		<u>0</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		<u>0</u>

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES

Nonoperating grants received		1,955,001
Transfers out		(1,093)
Other		<u>661</u>
NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES		<u>1,954,569</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of interest income		<u>340</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		<u>340</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

		9,063
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR		490,179
CASH AND CASH EQUIVALENTS – END OF YEAR		<u>\$ 499,242</u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Income (loss)		\$ (2,229,746)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		38,630
Donated commodities		108,367
On-behalf payments		179,583
Change in assets and liabilities:		
(Increase) decrease in accounts receivable		7,730
(Increase) decrease in inventories for consumption		17,913
Increase (decrease) in accounts payable		(9,387)
Increase (decrease) in judgments payable		(5,514)
Increase (decrease) in accrued sick leave payable		(7,842)
Increase (decrease) in net pension liability and deferred inflows		(45,580)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		<u>\$ (1,945,846)</u>

SCHEDULE OF NON-CASH TRANSACTIONS

Donated commodities received from federal government	\$	108,367
On-behalf payments	\$	<u>179,583</u>

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2015**

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUND</u>
ASSETS		
Cash and cash equivalents	\$ 0	\$ 278,599
Accounts receivable	0	0
Investments	15,025,633	0
TOTAL ASSETS	<u>15,025,633</u>	<u>278,599</u>
LIABILITIES		
Accounts payable	0	19,854
Due to student groups	0	258,745
TOTAL LIABILITIES	<u>0</u>	<u>278,599</u>
NET POSITION HELD IN TRUST	<u>\$ 15,025,633</u>	<u>\$ 0</u>

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2015**

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS	
Contributions	\$ 1,355,465
TOTAL ADDITIONS	<u>1,355,465</u>
DEDUCTIONS	
District support	500,111
TOTAL DEDUCTIONS	<u>500,111</u>
CHANGE IN NET POSITION	855,354
NET POSITION – BEGINNING OF YEAR	<u>14,170,279</u>
NET POSITION – END OF YEAR	<u>\$ 15,025,633</u>

See accompanying auditors' report and notes to financial statements.

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

NOTE A - REPORTING ENTITY

The Grayson 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 school education within the jurisdiction of the Grayson 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 included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly 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 Grayson County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

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

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

On June 30, 1991, the Grayson County Board of Education authorized and directed that a corporation be organized and formed pursuant to the provisions of Sections 273.161 through 273.390 of the Kentucky Revised Statutes. The purposes of the corporation are to act as an agency of the Board of Education in the acquisition and financing of any public school project which may be undertaken by the Board, to acquire real estate or any interest therein, and to issue bonds, notes, or other obligations on behalf of the Board for the acquisition and financing of one or more public school projects.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In June 1999, GASB unanimously approved *Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities, including capital assets.
- A change in the fund financial statements to focus on the major funds.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation

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

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

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

In the district-wide Statement of Net Position and Statement of Activities both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Fund financial statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

The District has the following funds:

1. Governmental Fund Types

- a. The General Fund is the main operating fund of the Board. 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.
- b. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 47 through 48. This is a major fund of the District.
- c. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - i. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. The SEEK Fund is not a major fund.
 - ii. The Facility Support Program of Kentucky (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. This is not a major fund of the District.
 - iii. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is not a major fund of the District.
- d. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. The Debt Service Fund is a major fund of the District but is not required to adopt a budget; therefore no budgetary comparison information is presented.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District did not have any nonspendable resources at June 30, 2015.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified sick leave, KSFCC escrow, capital projects and debt service resources as being restricted.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of June 30, 2015.

Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District's manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District had assigned resources as of June 30, 2015.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balances of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

2. Proprietary Fund Types (Enterprise Fund)

- a. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- b. The Family Resource Center Fund is used to account for daycare activities. The Family Resource Center Fund is not a major fund.

The District defines operating revenues as revenues derived from proprietary fund operations. All other revenues are considered non-operating.

3. Fiduciary Fund Type (Agency Funds)

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. A discount is offered through November 30 and a penalty is assessed after December 31. Property taxes collected are recorded as revenues in the fiscal year for which they are levied. Property taxes collected are recorded as revenues in the Fund for which they were levied.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net 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 district-wide statement of net position and in the respective funds.

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

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

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
General equipment	10 years

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Inter-fund Balances

On the fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as "inter-fund receivables/payables". 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 internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements these amounts are recorded in the account "accumulated sick leave payable" in the general fund.

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Such amendments are not made after fiscal year-end as dictated by law.

Cash and Cash Equivalents

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

Inventories

On district-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2015 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.

Investments

The private purpose trust funds record investments at their quoted market prices.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Position. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

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

Net Position

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

Operating Revenues and Expenses

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

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED

Inter-fund Activity

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

Bonds and Related Premiums, Discounts, and Issuance Costs

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

In governmental fund financial statements, bond premiums, discounts and issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt issuance expenditures.

Pensions

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

NOTE C - ESTIMATES

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

NOTE D - CASH AND INVESTMENTS

At year end, the carrying amount of the District's cash and investments was \$8,291,024. Of the total institutional balance of \$9,420,144, \$918,549 was covered by Federal depository insurance. The remaining balance of \$8,501,595 would require collateralization. As of June 30, 2015, \$12,575,863 was pledged with securities held by the pledging banks' trust departments but not in the name of the District.

Kentucky Revised Statues provide for investment of governmental funds into certain investment types including obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE D - CASH AND INVESTMENTS, CONCLUDED

All balances held are considered acceptable and compliant per Kentucky Revised Statutes, however, to be considered fully collateralized by Governmental Accounting Standards, any securities held in a pledging financial institution must be held in the District's name.

Any certificates of deposit or other fixed term investments are purchased in the name of the District. Therefore, these purchases are federally insured up to \$250,000 and/or collateralized with U.S. Government Securities at 110% market value or 100% collateralized (principal and interest) by irrevocable letters of credit issued by the Federal Home Loan Bank of San Francisco.

Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and federal financial assistance programs, each bank account or fund balance, as applicable, within the following funds is considered to be restricted:

SEEK Capital Outlay Fund	School Construction Fund
Facility Support Program (FSPK)	Grant Fund
Debt Service Fund	School Lunchroom Fund
Daycare Fund	Activity Fund

NOTE E - CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Land	\$ 1,676,739	\$ 0	\$ 0	\$ 1,676,739
Buildings and improvements	52,482,018	4,071,414	0	56,553,432
Technology equipment	3,385,175	303,477	217,170	3,471,482
Vehicles	4,698,101	469,390	266,289	4,901,202
General equipment	3,550,686	326,442	29,220	3,847,908
Construction in progress	2,910,202	321,541	2,910,202	321,541
Totals at historical cost	68,702,921	5,492,264	3,422,881	70,772,304
Less: Accumulated depreciation				
Buildings and improvements	15,132,932	1,332,404	0	16,465,336
Technology equipment	2,518,799	420,519	216,440	2,722,878
Vehicles	2,540,487	403,189	266,289	2,677,387
General equipment	2,228,057	164,059	25,205	2,366,911
Total accumulated depreciation	22,420,275	2,320,171	507,934	24,232,512
Governmental Activities Capital Assets - Net	\$46,282,646	\$ 3,172,093	\$ 2,914,947	\$ 46,539,792
Business-Type Activities				
Food service and equipment	\$ 1,127,871	\$ 0	\$ 0	\$ 1,127,871
Technology equipment	15,911	0	0	15,911
Construction in progress	0	0	0	0
Totals at historical cost	1,143,782	0	0	1,143,782
Less: Accumulated depreciation				
Food service equipment	825,749	37,247	0	862,996
Technology equipment	10,078	1,383	0	11,461
Total accumulated depreciation	835,827	38,630	0	874,457
Business-Type Activities Capital Assets - Net	\$ 307,955	\$ (38,630)	\$ 0	\$ 269,325

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Fiscal Court of Grayson County and the City of Leitchfield, Kentucky.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2002A	5,190,000	1.25% - 3.75%
2002B	370,000	1.60% - 3.55%
2008	5,160,000	3.00% - 3.75%
2009	9,095,000	2.25% - 4.375%
2010	8,175,000	2.00% - 3.25%
2011A	1,920,000	4.90%
2011B	500,000	2.00%
2013	5,870,000	2.00% - 4.00%

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Grayson County Fiscal Court and the City of Leitchfield to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

On October 4, 2002, the Grayson County School District issued \$5,190,000 Series A and \$370,000 Series B Refunding Bonds with interest rates ranging from 1.25% to 3.75% to refund the outstanding revenue bonds issued in 1993 and 1995. The net proceeds were deposited into the 2002A and 2002B Escrow Fund accounts with Cecilian Bank to provide for the appropriate future debt service payments on the aforementioned issues. Such proceeds are invested in certificates until needed periodically for debt service payments. The refunded portion of the 1995 bond issue (with an original amount of \$8,360,000) was paid in full during 2005. These bonds were paid in full at year end.

The District advance refunded the aforementioned bonds to reduce its total debt service payments by approximately \$371,070 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$304,922.

On July 14, 2010, the Grayson County School District issued \$8,175,000 Series 2010 refunding bonds with interest rates ranging from 2.00% to 3.25% to refund the outstanding 2001 bond issue. The net proceeds were deposited into the 2001 Escrow Fund account with the Bank of New York Mellon Trust Company to provide for the appropriate future debt service payments on the aforementioned issue. Such proceeds were invested in U.S Government State and Local Series Securities until periodically needed for debt service payments. The District advance refunded the aforementioned bonds to reduce its total debt service payments by \$632,576 and to obtain an economic gain of \$538,987.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS, CONTINUED

On June 2, 2011, the Grayson County School District issued \$1,920,000 Series A School Building Revenue Bonds with an interest rate of 4.90%. The 2011A bond issues were used to fund construction projects.

On June 2, 2011, the Grayson County School District issued \$500,000 Series B School Building Refunding Revenue Bonds with an interest rate of 2.00% to refund the 1998C bond issue. The net proceeds were deposited into the 1998C Bond Fund account held at the Cecilian Bank to provide for the appropriate future debt service payments on the aforementioned issue. The District advance refunded the aforementioned bonds to reduce its total debt service payments by \$20,944 and to obtain an economic gain of \$19,466. The 1998C series bond was paid in full during prior years.

On October 15, 2013, the Grayson County School District issued \$5,870,000 School Building Revenue Bonds with an interest rate of 2.00% - 4.00%. The 2013 bond issue was used to fund construction and renovation projects.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS, CONCLUDED

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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 amount to be paid by the Commission, at June 30, 2015 for debt service (principal and interest) are as follows:

Year Ended	Grayson Co. School District			KY School Construction Commission			Total Interest	Total Principal	Grand Total
	Interest	Principal	Total	Interest	Principal	Total			
15-16	\$ 904,455.49	\$ 1,223,069.00	\$ 2,127,524.49	\$ 106,307.01	\$ 196,931.00	\$ 303,238.01	\$ 1,010,762.50	\$ 1,420,000.00	\$ 2,430,762.50
16-17	874,898.57	1,245,333.00	2,120,231.57	100,956.43	204,667.00	305,623.43	975,855.00	1,450,000.00	2,425,855.00
17-18	839,445.40	1,287,402.00	2,126,847.40	95,359.60	207,598.00	302,957.60	934,805.00	1,495,000.00	2,429,805.00
18-19	798,782.59	1,318,578.00	2,117,360.59	89,552.41	211,422.00	300,974.41	888,335.00	1,530,000.00	2,418,335.00
19-20	756,821.62	1,368,925.00	2,125,746.62	84,249.63	151,075.00	235,324.63	841,071.25	1,520,000.00	2,361,071.25
20-21	712,596.89	1,404,113.00	2,116,709.89	79,438.12	155,887.00	235,325.12	792,035.01	1,560,000.00	2,352,035.01
21-22	665,613.47	1,448,854.00	2,114,467.47	74,177.79	161,146.00	235,323.79	739,791.26	1,610,000.00	2,349,791.26
22-23	635,524.96	1,213,123.00	1,848,647.96	68,447.54	166,877.00	235,324.54	703,972.50	1,380,000.00	2,083,972.50
23-24	587,800.13	1,257,185.00	1,844,985.13	62,509.87	172,815.00	235,324.87	650,310.00	1,430,000.00	2,080,310.00
24-25	537,050.57	1,310,917.00	1,847,967.57	56,240.69	179,083.00	235,323.69	593,291.26	1,490,000.00	2,083,291.26
25-26	479,385.97	3,524,293.00	4,003,678.97	49,617.79	185,707.00	235,324.79	529,003.76	3,710,000.00	4,239,003.76
26-27	319,705.30	1,737,257.00	2,056,962.30	42,582.20	192,743.00	235,325.20	362,287.50	1,930,000.00	2,292,287.50
27-28	249,203.25	1,804,759.00	2,053,962.25	35,084.28	200,241.00	235,325.28	284,287.53	2,005,000.00	2,289,287.53
28-29	175,610.51	1,516,846.00	1,692,456.51	27,170.73	208,154.00	235,324.73	202,781.24	1,725,000.00	1,927,781.24
29-30	86,124.58	1,598,219.00	1,684,343.58	18,575.22	96,781.00	115,356.22	104,699.80	1,695,000.00	1,799,699.80
30-31	47,856.70	315,185.00	363,041.70	14,543.30	104,815.00	119,358.30	62,400.00	420,000.00	482,400.00
31-32	34,916.40	331,830.00	366,746.40	10,283.60	108,170.00	118,453.60	45,200.00	440,000.00	485,200.00
32-33	21,409.96	343,492.00	364,901.96	5,890.04	111,508.00	117,398.04	27,300.00	455,000.00	482,300.00
33-34	7,270.06	363,503.00	370,773.06	1,829.94	91,497.00	93,326.94	9,100.00	455,000.00	464,100.00
	<u>\$8,734,472.42</u>	<u>\$24,612,883.00</u>	<u>\$33,347,355.42</u>	<u>\$1,022,816.19</u>	<u>\$3,107,117.00</u>	<u>\$4,129,933.19</u>	<u>\$9,757,288.61</u>	<u>\$27,720,000.00</u>	<u>\$37,477,288.61</u>

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE G - RETIREMENT PLANS

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

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

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

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
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 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.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE G - RETIREMENT PLANS, CONTINUED

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

	<u>Required contribution</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.

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

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

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE G - RETIREMENT PLANS, CONTINUED

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.

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

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

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE G - RETIREMENT PLANS, CONTINUED

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

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

District's proportionate share of the CERS net pension liability	\$ 7,325,002
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>112,419,575</u>
	<u>\$ 119,744,577</u>

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

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was .225779%.

For the year ended June 30, 2015, the District recognized pension expense of \$6,386,069. The District also recognized revenue of \$5,508,788 (KTRS Sched B) for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported no net pension liability for KTRS because it did not have a proportionate share of net pension liability. There was no amount recognized by the District as its proportionate share of net pension liability. The related Commonwealth share of the KTRS net pension was \$112,419,575 as stated above.

At June 30, 2015, the District reported deferred inflows of resources related to CERS pensions from the following sources:

	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 0
Changes of assumptions	0
Net difference between projected and actual earnings on pension plan investments	817,999
Changes in proportion and differences between District contributions and proportionate share of contributions	0
District contributions subsequent to the measurement date	<u>0</u>
Total	<u>\$ 817,999</u>

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE G - RETIREMENT PLANS, CONTINUED

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:

	CERS	KTRS
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense and inflation	7.75%	7.5%

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

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

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

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:

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE G - RETIREMENT PLANS, CONCLUDED

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	<u>100.0%</u>	

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

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

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	9,639,185	7,325,002	5,280,430
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	0	0	0

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

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015

NOTE H - DEFERRED COMPENSATION PLAN

The District has deferred compensation plans created in accordance with the Internal Revenue Code Section 457. The plans are administered by independent plan administrators through administrative service agreements. The plans are available to all District employees. Employees defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The deferred compensation plans are accounted for in the Agency Fund. The plans' assets are presented at fair market value and captioned as "investments" with corresponding liabilities captioned "net position held in trust." All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of benefits under the plan), subject only to the claims of the District's general creditors. Participants' rights under the plans are equal to those of general creditors of the District in an amount equal to the fair value of the deferred amount for each participant.

NOTE I - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2015, this amount totaled \$820,175 for those employees with 27 or more years of experience.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

For fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in "accumulated sick leave payable" in the general and school food service funds. The non-current portion of the liability is not reported.

NOTE J - CONTINGENCIES

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 grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE K - INSURANCE AND RELATED ACTIVITIES

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

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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

NOTE M - DEFICIT OPERATING FUND BALANCES

The following funds of the District that currently have a deficit fund balance:

Food Service Fund	\$ (274,472)
Daycare Fund	(30,621)

NOTE N - 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 (contingency).

NOTE O - TRANSFER OF FUNDS

During the year, accounting personnel for the District have made several transfers among funds, generally to adjust for recording errors or reclassifications of transactions subsequent to the discovery of more information.

NOTE P - BUDGET VIOLATIONS

During the 2015 fiscal year, the District incurred line item expenditures in excess of budget. These expenditures were within the general fund, special revenue fund, FSPK building fund, construction fund, debt service fund, school food service fund, and daycare fund.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2015**

NOTE Q – ON-BEHALF PAYMENTS

During the 2015 fiscal year, the District received on-behalf payments from federal and state sources. These payments are recorded in the district-wide financial statements as both revenues and expenses during the current year. The on-behalf payments received are as follows:

Debt maturities – Principal	\$ 223,710
Debt maturities – Interest	111,810
Technology	82,022
Life insurance fees	7,463
Health reimbursement account	190,743
Administrative fees	51,239
Health insurance	4,343,291
KTRS	2,051,409
Less: Federal reimbursement	<u>(275,896)</u>
	<u>\$ 6,785,791</u>

NOTE R – INVESTMENTS

The investments of the District include the sick leave escrow and certificates of deposit.

NOTE S – SUBSEQUENT EVENTS

The District's management has evaluated and considered the need to recognize or disclose subsequent events through October 1, 2015 which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2015, have not been evaluated by management.

Subsequent to year end the District issued School Building Revenue Bonds, Series 2015 in the amount of \$1,180,000. The bonds bear interest at a variable rate ranging from 1.30% to 3.50%.

NOTE T – IMPAIRMENT OF LONG-LIVED ASSETS

The District reviews its property for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the asset, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended June 30, 2015.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONCLUDED
JUNE 30, 2015**

NOTE U – KENTUCKY SCHOOL BOARDS INSURANCE TRUST

The District is a member in the Kentucky School Boards Insurance Trust (KSBIT) which is a self-insured pool that allows school districts to combine their resources while sharing the risk. There are two separate self-insurance pools within KSBIT which are in a deficit position. They are the Workers' Compensation Pool and the Property and Liability Pool (Pools). An assessment is an additional premium contribution charged to participants to cover losses from prior years. Factors in the assessment methodology include premiums paid, the projected cost of claims in each pool by member, and the number of years of participation by each member in years generating a deficit. The District's estimated assessment of amounts owed at year end is \$82,696, which is reflected as judgments payable in the financial statements as of June 30, 2015.

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

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

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$8,717,656 reduction in beginning net position on the Statement of Activities and an increase of \$817,999 of deferred inflows subsequent to the measurement date.

In March 2014, the GASB issued Statement 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees". GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement was adopted during the fiscal year ended June 30, 2015 and did not have an impact on the District's financial statements.

Recently issued Accounting Pronouncements

In January 2014, the GASB issued Statement 69, "Government Combinations and Disposals of Government Operations". GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In February 2015, the GASB issued Statement 72, "Fair Value Measurement and Application". GASB 72 establishes accounting and financial reporting standards related to fair value measurements. This statement is effective for periods beginning after June 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$6,750,000	\$6,750,292	\$7,325,487	\$ 575,195
Earnings on investments	45,000	50,000	69,029	19,029
Other local revenues	89,475	68,071	211,964	143,893
State sources	17,397,613	17,484,321	24,075,227	6,590,906
Federal sources	0	0	181,770	181,770
Other sources	0	0	0	0
TOTAL REVENUES	<u>24,282,088</u>	<u>24,352,684</u>	<u>31,863,477</u>	<u>7,510,793</u>
EXPENDITURES				
Instructional	16,130,513	15,971,864	19,804,168	(3,832,304)
Student support services	1,082,714	1,195,785	1,580,012	(384,227)
Staff support services	936,160	1,126,633	1,406,043	(279,410)
District administration	1,068,839	1,148,339	1,053,562	94,777
School administration	1,173,874	1,258,897	1,466,363	(207,466)
Business support services	451,748	491,748	545,443	(53,695)
Plant operation and maintenance	3,219,988	2,966,093	2,922,965	43,128
Student transportation	2,681,901	2,670,401	2,572,866	97,535
Community service operations	63,340	52,575	52,353	222
Facility acquisition, construction and improvement	0	0	0	0
Other	824,611	767,685	1,210	766,475
Debt service	365,000	365,000	0	365,000
Bond issue costs	0	0	0	0
TOTAL EXPENDITURES	<u>27,998,688</u>	<u>28,015,020</u>	<u>31,404,985</u>	<u>(3,389,965)</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>(3,716,600)</u>	<u>(3,662,336)</u>	<u>458,492</u>	<u>4,120,828</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	0	0	0	0
Proceeds from sale of assets	5,000	5,000	25,885	20,885
Bond discount	0	0	0	0
Operating transfers in	0	0	69,956	69,956
Operating transfers out	(38,400)	(92,664)	(1,356,117)	(1,263,453)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(33,400)</u>	<u>(87,664)</u>	<u>(1,260,276)</u>	<u>(1,172,612)</u>
NET CHANGE IN FUND BALANCES	<u>(3,750,000)</u>	<u>(3,750,000)</u>	<u>(801,784)</u>	<u>2,948,216</u>
FUND BALANCES – BEGINNING	<u>3,750,000</u>	<u>3,750,000</u>	<u>7,156,331</u>	<u>3,406,331</u>
FUND BALANCES – ENDING	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$6,354,547</u>	<u>\$ 6,354,547</u>

NOTE: On-behalf payments are not included in original and final budgeted amounts. However, such payments are included in actual revenue and expenditure amounts.

See accompanying auditors' report and notes to financial statements.

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Earnings on investments	0	0	125	125
Other local revenues	28,000	51,230	0	(51,230)
State sources	1,209,196	1,637,956	1,488,787	(149,169)
Federal sources	2,902,083	2,999,140	3,168,616	169,476
Other sources	0	0	0	0
TOTAL REVENUES	4,139,279	4,688,326	4,657,528	(30,798)
EXPENDITURES				
Instructional	2,854,145	3,306,316	3,399,644	(93,328)
Student support services	216,469	203,765	160,689	43,076
Staff support services	649,966	788,683	740,585	48,098
District administration	1,000	3,500	3,681	(181)
School administration	106,602	105,606	99,312	6,294
Business support services	0	0	0	0
Plant operation and maintenance	53,284	55,674	41,741	13,933
Student transportation	0	0	0	0
Community service operations	296,213	317,446	304,540	12,906
Facility acquisition, construction and improvement	0	0	0	0
Other	0	0	0	0
Debt service	0	0	0	0
Bond issue costs	0	0	0	0
TOTAL EXPENDITURES	4,177,679	4,780,990	4,750,192	30,798
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(38,400)	(92,664)	(92,664)	0
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Bond discount	0	0	0	0
Operating transfers in	38,400	92,664	92,664	0
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	38,400	92,664	92,664	0
NET CHANGE IN FUND BALANCES	0	0	0	0
FUND BALANCES – BEGINNING	0	0	0	0
FUND BALANCES – ENDING	\$ 0	\$ 0	\$ 0	\$ 0

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
 CERS NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2015**

Last 10 Fiscal Years*

	2015
District's proportion of the net pension liability (asset)	.225779%
District's proportionate share of the net pension liability (asset)	\$ 7,325,002
District's covered-employee payroll	\$ 5,208,548
District's proportionate share of the net pension liability (asset as a percentage of its covered-employee payroll)	140.63%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

* The amounts presented for each fiscal year were determined as of June 30. Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS TO CERS
FOR THE YEAR ENDED JUNE 30, 2015**

Last 10 Fiscal Years*

	2015
Contractually required contributions	\$ 920,351
Contributions in relation to the contractually required contribution	(920,351)
Contribution deficiency (excess)	\$ 0
District's covered-employee payroll	\$ 5,208,548
Contributions as a percentage of covered-employee payroll	17.67%

* The amounts presented for each fiscal year were determined as of June 30. Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

Changes of benefit terms. There were no changes in benefit terms.

Changes of assumptions. There were no changes in assumptions.

OTHER SUPPLEMENTARY INFORMATION

**GRAYSON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015**

	FSPK BUILDING FUND	CONSTRUCTION FUND	SEEK CAPITAL OUTLAY FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 0	\$ 841	\$ 0	\$ 841
Investments	0	0	0	0
Accounts receivable:				
Accounts	0	0	0	0
TOTAL ASSETS	\$ 0	\$ 841	\$ 0	\$ 841
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Cash overdraft	\$ 0	\$ 0	\$ 0	\$ 0
Accounts payable	0	0	0	0
Accrued payroll and related expenses	0	0	0	0
Deferred revenues	0	0	0	0
TOTAL LIABILITIES	0	0	0	0
FUND BALANCE				
Nonspendable	0	0	0	0
Restricted for:				
Accrued sick leave	0	0	0	0
KSFCC escrow	0	0	0	0
Capital projects	0	841	0	841
Debt service	0	0	0	0
Other	0	0	0	0
Committed	0	0	0	0
Assigned	0	0	0	0
Unassigned	0	0	0	0
TOTAL FUND BALANCE	0	841	0	841
TOTAL LIABILITIES AND FUND BALANCE	\$ 0	\$ 841	\$ 0	\$ 841

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	FSPK BUILDING FUND	CONSTRUCTION FUND	SEEK CAPITAL OUTLAY FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 664,994	\$ 0	\$ 0	\$ 664,994
Earnings on investments	0	474	0	474
Other local revenues	0	0	0	0
State sources	792,647	0	389,223	1,181,870
Federal sources	0	0	0	0
Other sources	0	0	0	0
TOTAL REVENUES	<u>1,457,641</u>	<u>474</u>	<u>389,223</u>	<u>1,847,338</u>
EXPENDITURES				
Instructional	0	0	0	0
Student support services	0	0	0	0
Staff support services	0	0	0	0
District administration	0	0	0	0
School administration	0	0	0	0
Business support services	0	0	0	0
Plant operation and maintenance	0	0	0	0
Student transportation	0	0	0	0
Central office	0	0	0	0
Community service operations	0	0	0	0
Facility acquisition, construction and improvement	0	1,509,097	0	1,509,097
Other	0	0	0	0
Debt service	0	0	0	0
Bond issue costs	0	0	0	0
TOTAL EXPENDITURES	<u>0</u>	<u>1,509,097</u>	<u>0</u>	<u>1,509,097</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	1,457,641	(1,508,623)	389,223	338,241
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Bond discount	0	0	0	0
Operating transfers in	208,037	742,913	0	950,950
Operating transfers out	(1,665,678)	(441,100)	(389,223)	(2,496,001)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,457,641)</u>	<u>301,813</u>	<u>(389,223)</u>	<u>(1,545,051)</u>
NET CHANGE IN FUND BALANCES	0	(1,206,810)	0	(1,206,810)
FUND BALANCES – BEGINNING	<u>0</u>	<u>1,207,651</u>	<u>0</u>	<u>1,207,651</u>
FUND BALANCES – ENDING	<u>\$ 0</u>	<u>\$ 841</u>	<u>\$ 0</u>	<u>\$ 841</u>

See accompanying auditors' report and notes to financial statements.

**GRAYSON 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	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Education:			
Passed Through State Department of Education			
Special Education Cluster (IDEA):			
Special Education – Grants to States (IDEA, Part B)	84.027	3810002	\$ 824,839
Special Education – Preschool Grants (IDEA Preschool)	84.173	3800002	30,104
Total Special Education Cluster (IDEA)			<u>854,943</u>
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010*	3100002	1,638,645
Improving Teacher Quality State Grants	84.367	3230002	275,310
Rural Education	84.358	3140002	92,288
Race to the Top	84.413	3960002	10,712
Career and Technical Education – Basic Grants to States (Perkins IV)	84.048	3710002 3710006 4621310	48,912
Twenty-First Century Community Learning Centers	84.287	3400002	<u>247,807</u>
Total U.S. Department of Education			3,168,617
U.S. Department of Agriculture:			
Child Nutrition Cluster:			
National School Lunch Program (NSLP)	10.555	7750002	1,420,363
Non-cash Assistance (Commodities)-National School Lunch Program (NSLP)	10.555	7750002	108,367
Total			<u>1,528,730</u>
Summer Food Service Program for Children	10.559	7690024 7740023	24,439
School Breakfast Program (SBP)	10.553	7760005	<u>502,263</u>
Total Child Nutrition Cluster			<u>2,055,432</u>
Total U.S. Department of Agriculture			<u>2,055,432</u>
Total			<u>\$ 5,224,049</u>

(CONTINUED)

See accompanying auditors' report and notes to financial statements.

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at fair value of the commodities received and disbursed. During the fiscal year, the District received donated food commodities valued at \$108,367 in inventory.

NOTE C - SUBRECIPIENTS

During the current year no amounts were provided to subrecipients.

NOTE D - MAJOR PROGRAMS

Major programs are denoted by an asterisk (*).

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
GRAYSON COUNTY HIGH SCHOOL – ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

ACTIVITY	BEGINNING BALANCE	RECEIPTS	DISBURSEMENTS	TRANSFERS	ENDING BALANCE
FCA	\$ 164	\$ 0	\$ 0	\$ 0	\$ 164
Poster Machine	0	1,485	2,864	3,368	1,989
LEAD	287	0	0	0	287
Team Impact	0	0	0	0	0
Accelerated Reader	0	0	0	0	0
Higgs Scholarship	25	6,830	250	0	6,605
Newspaper	1,536	0	900	0	636
Yearbook	16,159	13,372	15,640	0	13,891
IT Club	327	0	0	0	327
Cougar Sportsman	558	0	0	0	558
Drama	0	0	0	0	0
BETA Club	803	115	120	0	798
FFA	7,639	24,406	23,413	(514)	8,118
FCCLA	942	1,101	2,438	700	305
FBLA	391	0	0	0	391
Spanish Club	0	0	0	0	0
Athletics	6,079	32,297	30,896	(122)	7,358
Prom	34,015	10,594	17,005	0	27,604
Just Say No	862	0	55	0	807
NHS	9	905	335	0	579
Student Government	482	0	319	0	163
Science Club	0	0	0	0	0
Vocational Tuition	1,695	0	0	(1,695)	0
DECA	1,770	1,854	3,051	993	1,566
HOSA	1,071	27,636	28,271	208	644
Carpentry VICA	3,244	1,130	3,044	282	1,612
Auto Mechanics VICA	2,062	1,946	769	282	3,521
Precision Metal Works VICA	0	167	46	282	403
Welding VICA	82	0	111	283	254
Senior Class	0	4,150	3,737	0	413
Parking Passes	3,367	0	0	(3,367)	0
Goodwill	331	0	0	0	331
Pep Club	681	2,150	750	0	2,081
French Club	0	0	0	0	0
Arts Club	53	1,462	1,200	0	315
TSA Club	60	0	0	0	60
Dual Credit	2,182	17,418	0	0	19,600
YMCA	180	734	914	0	0
Motorsports Club	0	0	0	0	0
Fieldtrip	148	2,562	2,562	0	148
Youth Crime Watch	0	0	0	0	0
Chorus	872	0	0	0	872
Administration	11,660	3,000	772	0	13,888
Books Lost or Stolen	20	0	0	0	20
Cold Checks	0	0	0	0	0
Community Donations	0	0	0	0	0
Special Ed	51	0	0	0	51
Jr. Historical Society	0	0	0	0	0
Library	0	75	75	0	0
Teacher's Lounge	637	5,457	4,313	0	1,781
Concessions	20,744	11,426	16,673	(700)	14,797
TOTAL	\$ 121,188	\$ 172,272	\$ 160,523	\$ 0	\$ 132,937

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
ACTIVITY FUNDS BY SCHOOL – ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

<u>ACTIVITY FUND</u>	<u>BEGINNING BALANCE</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>TRANSFERS</u>	<u>ENDING BALANCE</u>
Caneyville Elementary School	\$ 36,590	\$ 39,196	\$ 36,839	\$ 0	\$ 38,947
Clarkson Elementary School	33,950	72,717	80,385	0	26,282
Oran P. Lawler Elementary School	12,602	56,082	52,243	0	16,441
H.W. Wilkey Elementary School	22,167	47,442	40,729	0	28,880
Grayson County Middle School	50,363	68,757	84,008	0	35,112
TOTAL	<u>\$ 155,672</u>	<u>\$ 284,194</u>	<u>\$ 294,204</u>	<u>\$ 0</u>	<u>\$ 145,662</u>

See accompanying auditors' report and notes to financial statements.

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Certified Public Accountants

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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
Grayson County School District
Leitchfield, 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 the Grayson County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Grayson County School District's basic financial statements, and have issued our report thereon dated October 1, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the Independent Auditor's Contract.

We noted certain inconsequential matters that we reported to management of the Grayson County School District in a separate letter dated October 1, 2015.

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.

Respectfully submitted,

Buckles, Travis, VanMeter & Hart

Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
October 1, 2015

Buckles, Travis, VanMeter & Hart, PLLC

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Grayson County School District
Leitchfield, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Grayson County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Grayson County School District's major federal programs for the year ended June 30, 2015. The Grayson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Grayson County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – Audit Extension Request, and Appendix II of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. 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 the Grayson 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 Grayson County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Grayson 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 Grayson County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Grayson County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Grayson County School District's internal control over compliance.

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

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

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

Respectfully submitted,

Buckles, Travis, VanMeter & Hart

Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
October 1, 2015

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

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Grayson County School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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* and identified in this Schedule (Section B).
3. No instances of noncompliance material to the financial statements of Grayson County School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Grayson County School District expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Section C of this Schedule.
7. The programs tested as major programs include:
 - Title I Grants to Local Educational Agencies
CFDA 84.010
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Grayson County School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

The audit did not disclose any audit findings.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

The audit did not disclose any audit findings.

**GRAYSON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

**Reference
Number**

Finding

**Questioned
Costs**

The audit did not disclose any audit findings.

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MANAGEMENT LETTER

Kentucky State Committee for School District Audits
Members of the Board of Education
Grayson County School District
Leitchfield, Kentucky

In planning and performing our audit of the financial statements of the Grayson County School District as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

However, during our audit we became aware of certain inconsequential matters that provide opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 1, 2015, contains our report on significant deficiencies or material weaknesses in the District's internal control. This letter does not affect our report dated October 1, 2015, on the financial statements of the Grayson County School District.

We will review the status of this comment during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and 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 recommendation.

This communication is intended solely for the information and use of management, Members of the Board of Education, others within the District, and is not intended to be, and should not be, used by anyone other than those specified parties.

Respectfully submitted,

Buckles, Travis, VanMeter & Hart

Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
October 1, 2015

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENT
FOR THE YEAR ENDED JUNE 30, 2015**

REPORTABLE MATTERS

During the prior and current fiscal years, the Grayson County School District had no items required to be communicated in a management letter as the matters that were noted during our audit and their corresponding comments and suggestions that were communicated to management were clearly inconsequential.