

**GRAHAM INDEPENDENT SCHOOL DISTRICT**  

---

**ANNUAL FINANCIAL AND COMPLIANCE REPORT**  

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**FOR THE YEAR ENDED**  
**AUGUST 31, 2015**

**GRAHAM INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT FOR**  
**THE YEAR ENDED AUGUST 31, 2015**  
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## **INTRODUCTORY SECTION**

**CERTIFICATE OF BOARD**

Graham Independent School District  
Name of School District

Young  
County

252-901  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one)  approved  disapproved for the year ended August 31, 2015, at a meeting of the board of trustees of such school district on the 13th day of January, 2016.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):  
(attach list as necessary)

## **FINANCIAL SECTION**

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
Graham Independent School District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Graham Independent School District (the District) as of and for the year ended August 31, 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.

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, 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, each major fund, and the aggregate remaining fund information of Graham Independent School District as of August 31, 2015, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 16 to the financial statements, in 2015, the District adopted new accounting guidance prescribed by GASB No. 68 for its pension plan, a multiple-employer, cost-sharing, defined benefit pension plan that has a special funding situation. Because GASB No. 68 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements. Exhibit A-1 discloses the District's Net Pension Liability and some deferred resource outflows and deferred resource inflows related to the District's pension plan. Exhibit B-1 discloses the adjustment to the District's Beginning Net Position. Our opinion is not modified with respect to the matter.

### **Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the required TRS schedules on pages 4 through 9 and 35 through 37 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 Graham Independent School District's basic financial statements. The introductory section, combining and nonmajor fund financial statements, schedule L, and the TEA required schedules listed in the table of contents are presented for 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 related directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015, on our consideration of Graham Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Graham Independent School District's internal control over financial reporting and compliance.

**MERRITT, MCLANE & HAMBY, P.C.**

Abilene, Texas  
November 20, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the managers of Graham Independent School District (the "District"), discuss and analyze the District's financial performance for the twelve months ended August 31, 2015. Please read it in conjunction with the independent auditor's report and the District's Basic Financial Statements.

### **FINANCIAL HIGHLIGHTS**

- The District's total combined net position was \$26,592,584 at August 31, 2015 which was an increase of 4.2%.
- The District's expenses were \$24,018,014 versus revenue at \$25,088,580 for a net gain of \$1,070,566.
- The total cost of the District's programs decreased \$902,827 from last year.
- The general fund reported a fund balance this year of \$8,459,033.

### **USING THIS ANNUAL REPORT**

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

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

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by the Texas Education Agency (TEA). The sections labeled TEA Required Schedules and Other Information Required by GAO contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

### **Reporting the District as a Whole**

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

The analysis of the District's overall financial condition and operations begins with the Statement of Net Position (Exhibit A-1). Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position (Exhibit B-1) includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, we have presented the District as one kind of activity (governmental activities).

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

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

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

The fund financial statements begin with the Governmental Funds Balance Sheet (Exhibit C-1) and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds (governmental and proprietary) use different accounting approaches.

- Governmental funds – Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation schedule following each of the fund financial statements.
- Proprietary fund – The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (one category of proprietary funds which the District does not have at present) are the business-type activities reported in the government-wide statements but contain more detail and additional information, such as cash flows. The internal service funds (the other category of proprietary funds in Exhibits D-1, D-2, and D-3) report activities that provide supplies and services for the District's other programs and activities – such as the District's self-insurance programs.

### **The District as Trustee**

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

The District is the trustee, or fiduciary, for money raised by student activities and prior student scholarship programs. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position (Exhibit E-1). We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The analysis below presents both current and prior year data and discusses significant changes in the accounts. Our analysis focuses on the net position (Table A-1) and changes in net position (Table A-2) of the District’s governmental activities.

Net position of the District’s governmental activities increased from \$25,522,018, after prior period adjustment, to \$26,592,584. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$7,424,643 at August 31, 2015.

**Table A-1  
Graham Independent School District's Net Position**

	Governmental Activities		Percentage Change
	2015	2014	
Current and Other Assets	\$ 11,333,090	\$ 10,887,667	4.09%
Capital and Non-Current Assets	48,702,741	50,366,632	-3.30%
<b>Total Assets</b>	<b>60,035,831</b>	<b>61,254,299</b>	-1.99%
<b>Deferred Outflows of Resources</b>	<b>424,876</b>		100.00%
Current Liabilities	1,477,160	1,917,524	-22.97%
Long Term Liabilities	31,988,594	32,324,462	-1.04%
<b>Total Liabilities</b>	<b>33,465,754</b>	<b>34,241,986</b>	-2.27%
<b>Deferred Inflows of Resources</b>	<b>402,369</b>		100.00%
Net Position			
Net Investment in Capital Assets	18,029,495	18,042,170	-0.07%
Restricted	1,138,446	605,125	88.13%
Unrestricted	7,424,643	8,365,018	-11.24%
<b>Total Net Position</b>	<b>\$ 26,592,584</b>	<b>\$ 27,012,313</b>	-1.55%

At the end of the 2014-2015 school year, the enrollment for the District was 2,499, a decrease of 73 from the prior year. The average daily attendance was (ADA) was 2,326 which was a decrease of 2.3% over the prior year.

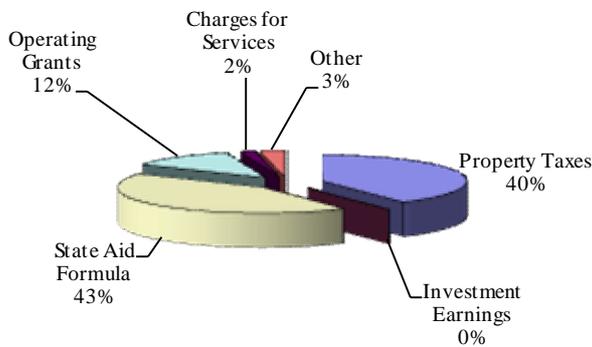
The District’s Maintenance & Operations (M&O) tax rate remained at \$1.04 per \$100 of valuation and the Debt Service (I&S) tax rate remained at \$0.307.

The cost of all governmental activities for the current fiscal year was \$24,018,014. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$10,162,708, which is \$782,379 more than last year’s total of \$9,380,329. The District’s total revenues were \$25,088,580. A significant portion, 40 percent, of the District’s revenue comes from taxes. (See Figure A-3.) \$13,808,146 (55 percent) comes from state aid – formula and operating grants, while only 2 % relates to charges for services.

**Table A-2**  
**Changes in Graham Independent School District's Net Position**

	<b>Governmental Activities</b>		<b>Total % Change</b>
	<u>2015</u>	<u>2014</u>	
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 426,819	426,847	-0.01%
Operating Grants and Contributions	2,975,754	3,098,204	-3.95%
<u>General Revenues</u>			
Property Taxes	10,162,708	9,380,329	8.34%
State aid - formula	10,832,392	10,109,190	7.15%
Investment earnings	16,559	17,409	-4.88%
Other	674,348	1,684,270	-59.96%
<b>Total Revenues</b>	<u>25,088,580</u>	<u>24,716,249</u>	
<b>Expenses</b>			
Instruction and instructional related	14,334,893	14,108,956	1.60%
Instructional and school leadership	1,390,656	1,321,801	5.21%
Guidance, social work, health, transportation	1,331,955	1,384,220	-3.78%
Food Services	1,275,388	1,261,507	1.10%
Extracurricular activities	958,523	951,012	0.79%
General administration	888,393	885,771	0.30%
Facilities maintenance and operations	2,561,779	2,533,108	1.13%
Security and monitoring	5,007	5,402	-7.31%
Data processing service	213,977	1,363,419	-84.31%
Debt service - interest on long term debt and bond fees	877,347	913,393	-3.95%
Other intergovernmental charges	180,096	192,252	-6.32%
<b>Total Expenses</b>	<u>24,018,014</u>	<u>24,920,841</u>	
<b>Decrease in Net Position</b>	1,070,566	(204,592)	
<b>Beginning Net Position</b>	27,012,313	27,216,905	
<b>Prior Period Adjustment</b>	(1,490,295)		
<b>Ending Net Position</b>	<u>\$ 26,592,584</u>	<u>\$ 27,012,313</u>	

**Figure A-3 District Sources of Revenue for Fiscal Year 2015**



## THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$25,136,557 an increase of less than 1.0% from the preceding year. Local revenue increased approximately \$440,000 as a result of the increase in property tax revenue. The state aid revenue decreased approximately 1.4% due to declining ADA. The decrease in federal revenues of approximately \$200,000, represents a 10% decrease from the prior year.

### General Fund Budgetary Highlights

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 31, 2014). The second category includes changes that the Trustees made during the year to take into account the changes in operations. The third category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. With these adjustments, actual expenditures in the General Fund were \$486,622 under final budget amounts. The budget was amended and increased approximately 2.6% for increases in curriculum and instructional staff development, student transportation, extracurricular activities, facilities maintenance and operations, and facilities acquisition and construction.

Resources were \$851,420 over the final budget amount.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2015, the District had invested \$48,702,741 in a broad range of capital assets, including land, equipment, buildings, and vehicles, net of accumulated depreciation. (See Table A-4) This amount represents a net decrease (including additions, deletions and depreciation expense) of 3.3% over last year.

**Table A-4**  
District's Capital Assets

	Governmental Activities		Total % Change
	2015	2014	
Land	\$ 736,218	\$ 736,218	
Buildings and improvements	72,734,625	72,709,856	0.03%
Furniture and equipment	4,417,451	4,053,474	8.98%
Total at historical cost	77,888,294	77,499,548	0.50%
Total accumulated depreciation	29,185,553	27,132,916	7.57%
Net capital assets	\$ 48,702,741	\$ 50,366,632	-3.30%

### Debt

At year-end, the District had \$30,673,246 in bonds and premium. See Table A-5.

**Table A-5**  
District's Long Term Debt

	2015	2014
Unlimited Tax Refunding Bonds, Series 2013A	\$ 3,950,000	\$ 4,315,000
Unlimited Tax Refunding Bonds, Series 2013B	24,080,000	25,190,000
Total Bonds	28,030,000	29,505,000
Premium on Bond	2,643,246	2,819,462
Total	\$ 30,673,246	\$ 32,324,462

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

- Appraised value used for the 2015-2016 budget preparation decreased \$53,776,847 or 7.1% from the previous year. The decrease in property values is expected to cause a decrease in property taxes revenue.
- General operating fund spending per student decreased in the 2016 budget to \$8,020, a \$297 per student decrease.

The district's 2016 refined average daily attendance is expected to be 2,326.

These indicators were taken into account when adopting the general fund budget for 2016. Property taxes will decrease slightly due to the decreasing values. State revenue will continue to decrease as state funding for education decreases and the District's ADA declines.

Expenditures are budgeted at \$18,567,065, which is a decrease of approximately 4% compared to prior year expenditures.

If these estimates are realized, the District's budgetary general fund fund balance is not expected to change materially by the close of 2016.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Graham Independent School District, 400 3<sup>rd</sup> Street, Graham, Texas 76450 (940) 549-0595.

## **BASIC FINANCIAL STATEMENTS**

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT A-1

STATEMENT OF NET POSITION  
AUGUST 31, 2015

Primary  
Government  
1

Governmental  
Activities

Data Control Codes		
	<b>ASSETS</b>	
1110	Cash and cash equivalents	\$ 1,907,305
1120	Investments	7,781,979
1220	Property taxes receivable (delinquent)	399,224
1230	Allowance for uncollectible taxes	(140,773)
1240	Due from other governments	193,728
1290	Other receivables, net	4,538
1410	Prepayments	5,310
1800	Restricted assets	1,181,779
	Capital assets:	
1510	Land	736,218
1520	Buildings, net	46,972,420
1530	Furniture and equipment, net	994,103
1000	Total Assets	<u>60,035,831</u>
	<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1705	Deferred outflows related to TRS	424,876
1700	Total Deferred Outflows of Resources	<u>424,876</u>
	<b>LIABILITIES</b>	
2110	Accounts payable	448,085
2140	Interest payable	43,333
2150	Payroll deductions and withholdings payable	223,863
2160	Accrued wages payable	591,639
2300	Unearned revenue	170,240
	Noncurrent liabilities:	
2501	Due within one year	1,475,000
2502	Due in more than one year	29,198,246
2540	Net pension liability (District's share)	1,315,348
2000	Total Liabilities	<u>33,465,754</u>
	<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605	Deferred inflows related to TRS	402,369
2600	Total Deferred Inflows of Resources	<u>402,369</u>
	<b>NET POSITION</b>	
3200	Net investment in capital assets	18,029,495
	Restricted for:	
3850	Debt service	1,138,446
3900	Unrestricted	7,424,643
3000	Total Net Position	<u>\$ 26,592,584</u>

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

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT B-1

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	Functions/Programs	1	3	4	6
		Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
					<u>Primary Government Governmental Activities</u>
<b>Governmental Activities:</b>					
11	Instruction	\$ 13,769,051		\$ 1,668,033	\$ (12,101,018)
12	Instructional Resources and Media Services	242,263		11,120	(231,143)
13	Curriculum and Staff Development	323,579		37,712	(285,867)
21	Instructional Leadership	276,321		12,417	(263,904)
23	School Leadership	1,114,335		54,208	(1,060,127)
31	Guidance, Counseling, & Evaluation Services	623,294		223,929	(399,365)
33	Health Services	100,168		5,246	(94,922)
34	Student (Pupil) Transportation	608,493		20,801	(587,692)
35	Food Service	1,275,388	278,769	804,030	(192,589)
36	Extracurricular Activities	958,523	148,050	29,732	(780,741)
41	General Administration	888,393		46,261	(842,132)
51	Facilities Maintenance and Operations	2,561,779		58,251	(2,503,528)
52	Security and Monitoring Services	5,007			(5,007)
53	Data Processing Services	213,977		4,014	(209,963)
72	Debt Service - Interest on Long Term Debt	876,473			(876,473)
73	Debt Services - Bond fees	874			(874)
99	Other Intergovernmental Charges	180,096			(180,096)
TP	Total Primary Government	\$ <u>24,018,014</u>	\$ <u>426,819</u>	\$ <u>2,975,754</u>	\$ <u>(20,615,441)</u>
General Revenues:					
	MT				7,719,826
	DT				2,442,882
	SF				10,832,392
	GC				315,275
	IE				16,559
	MI				359,073
	TR				<u>21,686,007</u>
	CN				1,070,566
	NB				27,012,313
	PA				<u>(1,490,295)</u>
	NE				\$ <u>26,592,584</u>

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

**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT C-1

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2015

<u>Data Control Codes</u>	10	50	Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS:</b>					
1110 Cash and cash equivalents	\$ 1,679,107			\$ 228,198	\$ 1,907,305
1120 Investments - current	7,781,979				7,781,979
1220 Taxes receivable (delinquent)	328,493		70,731		399,224
1230 Allowance for uncollectible taxes	(115,832)		(24,941)		(140,773)
1240 Receivable from other governments				193,728	193,728
1260 Due from other funds	163,470				163,470
1290 Other receivables	4,538				4,538
1410 Prepayments	5,310				5,310
1800 Restricted assets			1,181,779		1,181,779
1000 Total Assets	<u>\$ 9,847,065</u>		<u>\$ 1,227,569</u>	<u>\$ 421,926</u>	<u>\$ 11,496,560</u>
<b>LIABILITIES</b>					
2110 Accounts payable	\$ 282,697			\$ 165,388	\$ 448,085
2150 Payroll deductions and withholdings payable	223,863				223,863
2160 Accrued wages payable	530,777			60,862	591,639
2170 Due to other funds				163,470	163,470
2300 Unearned revenue	138,034			32,206	170,240
2000 Total Liabilities	<u>1,175,371</u>			<u>421,926</u>	<u>1,597,297</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
2601 Unavailable revenue - property taxes	212,661		45,790		258,451
2600 Total Deferred Inflows of Resources	<u>212,661</u>		<u>45,790</u>		<u>258,451</u>
<b>FUND BALANCES</b>					
Restricted:					
3480 Retirement of long-term debt			1,181,779		1,181,779
Committed:					
3510 Construction	3,000,000				3,000,000
3530 Capital expenditures for equipment	100,000				100,000
3600 Unassigned fund balance	<u>5,359,033</u>				<u>5,359,033</u>
3000 Total Fund Balance	<u>8,459,033</u>		<u>1,181,779</u>		<u>9,640,812</u>
4000 Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 9,847,065</u>		<u>\$ 1,227,569</u>	<u>\$ 421,926</u>	<u>\$ 11,496,560</u>

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

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT C-2

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

AUGUST 31, 2015

Total fund balances - governmental funds balance sheet (from C-1)	\$	9,640,812
<p>Amounts reported for governmental activities in the statement of net position (SNP) are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets were \$77,499,548 and the accumulated depreciation was \$27,132,916.		50,366,632
Current year capital outlays and dispositions are expenditures in the fund financial statements, but are shown as increases to capital assets in SNP.		524,865
Depreciation expense decreases net capital assets in SNP.		(2,132,330)
Capital asset dispositions decrease capital assets and therefore, recorded on the government wide statements		(56,426)
Bonds payable are not due and payable in the current period and therefore, are not reported as liabilities in the funds.		(29,505,000)
Current year balance of the unamortized premium on bonds resulting from a beginning of the year balance of \$2,819,462 less current year amortization of \$176,216 is a decrease in SNP.		(2,643,246)
Long-term debt principal payments are expenditures in the fund financial statements but they are shown as reductions in long-term debt in the government-wide financial statements.		1,475,000
Interest payable is recorded in the SNP as a short-term liability, but not in the fund financial statements.		(43,333)
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$1,315,348, a deferred resource inflow related to TRS in the amount of \$402,369, and a deferred resource outflow related to TRS in the amount of \$424,876. This resulted in a decrease in net position.		(1,292,841)
Unavailable revenue from net delinquent property tax receivable in the fund statements is recognized as revenue in the SNP resulting in an increase in net position.		258,451
Net position of governmental activities - statement of net position (see A-1)	\$	26,592,584

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

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT C-3

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	98 Total Governmental Funds	
<b>REVENUES</b>					
5700	Local and intermediate sources	\$ 8,264,775	2,469,592	\$ 278,930	\$ 11,013,297
5800	State program revenues	11,968,409	144,996	226,462	12,339,867
5900	Federal program revenues			1,783,393	1,783,393
5020	Total Revenues	<u>20,233,184</u>	<u>2,614,588</u>	<u>2,288,785</u>	<u>25,136,557</u>
<b>EXPENDITURES</b>					
Current:					
0011	Instruction	11,673,122		968,606	12,641,728
0012	Instructional resources & media	221,553			221,553
0013	Curriculum development	265,888		30,528	296,416
0021	Instructional leadership	254,160			254,160
0023	School leadership	1,024,759			1,024,759
0031	Guidance, counseling, & evaluation	374,593		203,515	578,108
0033	Health services	91,685			91,685
0034	Student (pupil) transportation	808,368			808,368
0035	Food service			1,170,222	1,170,222
0036	Cocurricular/extracurricular activities	867,497			867,497
0041	General administration	800,270		15,000	815,270
0051	Plant maintenance and operations	2,311,693			2,311,693
0052	Security and monitoring services	4,551			4,551
0053	Data processing services	195,055			195,055
Debt Service:					
0071	Debt service - principal on long term debt		1,475,000		1,475,000
0072	Debt service - interest on long term debt		1,053,842		1,053,842
0073	Debt service - bond issuance cost and fees		874		874
Capital Outlay:					
0081	Facilities acquisition and construction	269,495			269,495
Intergovernmental:					
0099	Other intergovernmental charges	180,096			180,096
6030	Total Expenditures	<u>19,342,785</u>	<u>2,529,716</u>	<u>2,387,871</u>	<u>24,260,372</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>890,399</u>	<u>84,872</u>	<u>(99,086)</u>	<u>876,185</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>					
7915	Operating transfers in			99,086	99,086
8911	Operating transfers out	(99,086)			(99,086)
7080	Total Other Financing Sources and (Uses)	<u>(99,086)</u>		<u>99,086</u>	
1200	Net Change in Fund Balances	791,313	84,872		876,185
0100	Fund Balance - Beginning	<u>7,667,720</u>	<u>1,096,907</u>		<u>8,764,627</u>
3000	Fund Balance - Ending	\$ <u>8,459,033</u>	\$ <u>1,181,779</u>		\$ <u>9,640,812</u>

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

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT C-4

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2015

Total change in fund balances - total governmental funds (from C-3)	\$	876,185
<p>Amounts reported for governmental activities in the statement of activities (SOA) are different because:</p>		
The depreciation of capital assets used in governmental activities is not reported in the funds.		(2,132,330)
Capital outlays are expenditures in the fund financial statements, but are shown as increases in capital assets in the statement of net position.		524,865
Capital asset dispositions decrease capital assets and therefore, recorded on the government wide statements		(56,426)
Long-term debt principal payments are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.		1,475,000
Change in interest payable is expensed in the SOA.		1,153
The implementation of GASB No. 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of August 31, 2014 caused the change in the ending net position to increase in the amount of \$319,035. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded as an expense. The net pension expense decreased the change in net position by \$121,581. The result of these amounts is to increase the change in net position.		197,454
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax		<u>184,665</u>
Change in net position of governmental activities - statement of activities	\$	<u><u>1,070,566</u></u>

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

**FIDUCIARY FUND FINANCIAL STATEMENTS**

**GRAHAM INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS**  
AUGUST 31, 2015

EXHIBIT E-1

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>300,894</u>
Total Assets	<u>300,894</u>
<b>LIABILITIES</b>	
Due to student groups	<u>300,894</u>
Total Liabilities	\$ <u><u>300,894</u></u>

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

## GRAHAM INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Graham Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

*Pensions:* The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This measurement focus is used for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS’ fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **Reporting Entity**

The Board of School Trustees has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the executive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (“TEA”) or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding 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.

The District’s basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District’s reporting entity, as set forth in Section 2100 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards. Based on the criteria, Graham Independent School District has no component units.

#### **Basis of Presentation**

The statement of net position and the statement of activities are government-wide financial statements and report information on all of the nonfiduciary activities of the District. The effect of interfund activity within the governmental activities columns has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital 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, including all taxes, are presented as general revenues.

#### **Fund Financial Statements**

The District segregates transactions related to certain functions or activities in separate, self-balancing funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column. Governmental funds are those funds through which most governmental functions typically are financed. The District has presented the following major governmental funds:

## GRAHAM INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

*Debt Service Fund* accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

In addition, the District reports the following fund types:

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

*Agency Funds* are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investments, and remittance of fiduciary resources to individuals, private organizations, or other governments.

#### **Measurement Focus, Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do internal service fund financial statements and fiduciary fund financial statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the statement of activities presents increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period. The District considers property taxes as available if they are collected within 60 days after year end. The property taxes received after the 60 day period are recorded as deferred inflow of resources. A one year availability period is used for recognition of all other governmental fund revenue. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenue susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as unearned revenues, expenditures incurred but not yet reimbursed are shown as receivables. Funds received before time requirements are met but after all other eligibility requirements have been met will be reported as a deferred inflow of resources.

In accordance with the Financial Accountability System Resource Guide (FASRG), the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FAR.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted.

## GRAHAM INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

##### **Budgetary Control**

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FAR module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end.

The District had the following negative budget variances:

##### **General Fund**

Facilities maintenance and operations	\$ 18,629
---------------------------------------	-----------

The negative variance was due to a reclassification of repairs and maintenance.

##### **Investments**

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

##### **Inventory**

The costs of inventory are recorded as expenditures when purchased (purchase method).

##### **Interfund Receivables and Payables**

Short-term amounts owed between funds are classified as "Due to/from other funds".

##### **Capital Assets**

Capital assets, which include land, buildings, furniture, and equipment, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects as they are constructed.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	10-40
Furniture and equipment	7-10

**Deferred Outflows/Inflows of Resources**

Deferred outflows of resources refer to the consumption of net assets that are applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets. The District has no amounts recorded as deferred outflows of resources in the governmental fund financial statements and \$424,876 recognized as deferred outflow of resources in the government-wide financial statements.

Deferred inflows of resources refer to the acquisition of net assets that are applicable to a future reporting period. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Notwithstanding the similarities, Concepts Statement 5 clearly establishes that deferred inflows of resources are not liabilities. Specifically for the current period, the difference in delinquent taxes receivable and the associated allowance for uncollectible taxes is considered a deferred inflow of resources of \$258,451 in the governmental financial statements while \$402,369 of deferred inflows related to TRS is considered deferred inflow of resources in the government-wide financial statements.

**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 has no funds classified as nonspendable at August 31, 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 debt covenants), grantors, contributors, or laws or regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation. The District has \$1,181,779 classified as restricted for debt service at August 31, 2015.

*Committed* – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the School 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 officially committed for use in satisfying those contractual requirements. The District classified funds for future construction projects and other as committed. At August 31, 2015, the total amount the District classified as committed was \$3,100,000.

*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 School Board or through the Board delegating this responsibility to the Superintendent through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has no funds assigned at August 31, 2015.

## GRAHAM INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

*Unassigned* – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance 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.

#### **Long-term Obligations**

In the government-wide financial statements, long-term and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### **Data Control Codes**

The Data control codes refer to the account code structure prescribed by TEA in the FASRG. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

#### **Estimates**

The preparation of financial statements in conformity with GAAP required the use of management's estimates. Accordingly, actual results could differ from those estimates.

#### **Receivables and Payables**

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

#### **NOTE 2: DEPOSITS AND INVESTMENTS**

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust, with the District's agent bank, approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

#### **Cash Deposits**

At August 31, 2015, the carrying amount of the District's deposits (cash and interest-bearing accounts) was \$2,013,637 and the bank balance was \$2,402,156. The District's cash deposits at August 31, 2015 and during the year ended August 31, 2015, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 2: DEPOSITS AND INVESTMENTS - continued**

**Investments**

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the entity to have independent auditors perform procedures related to investment practices as provided by the Act.

The Public Funds Investment Act (“Act”) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

As of August 31, 2015, Graham Independent School District has the following investments:

	<u>Cost</u>	<u>Book Value</u>	<u>Weighted Average Maturity</u>	<u>Standard &amp; Poor's Rating</u>
Investments				
Lonestar Investment Pool	\$ 8,648,078	\$ 8,648,078	41 Days	AAAm
Texas Term Investment Pool	<u>209,348</u>	<u>209,348</u>	1 Day	AAAm
 Total investments	 \$ <u>8,857,426</u>	 \$ <u>8,857,426</u>		

**Analysis of Specific Deposit and Investment Risks**

*Custodial Credit Risk*

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the District’s name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty’s trust department or agent but not in the District’s name.

At year end, the District was not exposed to custodial credit risk.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District’s investment policy limits its investment portfolio to maturities of one year or less as a means of limiting its exposure to fair value losses arising from fluctuating interest rates.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 2: DEPOSITS AND INVESTMENTS - continued**

*Foreign Currency Risk*

Foreign currency risk is the risk that exchange rates will adversely affect fair value of an investment. At August 31, 2015, the District was not exposed to foreign currency risk.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). The District's investment policy is to reduce the risk of loss resulting from over concentration of assets in a specific class of investments; however, the District's policy places no specific limit on the amount which the District may invest in any one issuer.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 736,218	\$	\$	736,218
Total capital assets not being depreciated	736,218			736,218
Capital assets being depreciated				
Buildings and improvements	72,709,856	123,910	99,141	72,734,625
Furniture and equipment	4,053,474	400,955	36,978	4,417,451
Total capital assets being depreciated	76,763,330	524,865	136,119	77,152,076
Less accumulated depreciation for:				
Buildings and improvements	(23,972,975)	(1,843,010)	(53,780)	(25,762,205)
Furniture and equipment	(3,159,941)	(289,320)	(25,913)	(3,423,348)
Total accumulated depreciation	(27,132,916)	(2,132,330)	(79,693)	(29,185,553)
Total capital assets being depreciated, net	49,630,414	(1,607,465)	56,426	47,966,523
Governmental activities capital assets, net	\$ 50,366,632	\$ (1,607,465)	\$ 56,426	\$ 48,702,741
Depreciation was charged to functions as follows:				
Instruction	\$ 1,266,683			
Instructional Resources and Media Services	22,199			
Curriculum and Staff Development	29,700			
Instructional Leadership	25,466			
School Leadership	102,679			
Guidance, Counseling and Evaluation Services	57,926			
Health Services	9,187			
Student (Pupil) Transportation	80,997			
Food Service	117,254			
Cocurricular/Extracurricular activities	86,922			
General Administration	81,689			
Plant Maintenance and Operations	231,628			
Security and Monitoring Services	456			
Data Processing Services	19,544			
Total depreciation expense - governmental activities	\$ 2,132,330			

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 4: LONG-TERM DEBT**

The District issued \$4,545,000 of Series 2013A Refunding Bonds during the year ended August 31, 2013 for the purpose of advance refunding of the Series 2007 Building Bonds. The interest rate ranges from 1.5% to 4.0% with a maturity date of February 15, 2025.

The District issued \$25,755,000 of Series 2013B Refunding Bonds during the year ended August 31, 2013 for the purpose of advance refunding of the Series 2007 Building Bonds. The interest rate ranges from 1.5% to 5.0% with a maturity date of February 15, 2030.

A summary of the changes in bonds payable for the year ended August 31, 2015 is as follows:

Description	Balance September 1, 2014	Issued	Retired	Balance August 31, 2015	Due Within One Year
Unlimited Tax Refunding Bonds, Series 2013A	\$ 4,315,000	\$	\$ 365,000	\$ 3,950,000	\$ 370,000
Unlimited Tax Refunding Bonds, Series 2013B	25,190,000		1,110,000	24,080,000	1,105,000
Total Bonds	29,505,000		1,475,000	28,030,000	1,475,000
Premium on Bonds	2,819,462		176,216	2,643,246	
Total	\$ 32,324,462	\$	\$ 1,651,216	\$ 30,673,246	\$ 1,475,000

Debt service requirements for long term debt are as follows:

Debt Service Requirements	Principal	Interest	Total
2016	\$ 1,475,000	\$ 1,028,942	\$ 2,503,942
2017	1,495,000	1,003,867	2,498,867
2018	1,530,000	975,518	2,505,518
2019	1,575,000	927,655	2,502,655
2020	1,645,000	859,005	2,504,005
2021-2025	9,585,000	3,112,500	12,697,500
2026-2030	10,725,000	994,980	11,719,980
Total	\$ 28,030,000	\$ 8,902,467	\$ 36,932,467

**NOTE 5: PROPERTY TAXES**

Property taxes are levied on October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid by January 31 of the year in which imposed. On February 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. Allowances for uncollectible tax receivables within the General Fund and Debt Service Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

The tax rates assessed for the fiscal year ended August 31, 2015, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$0.307 per \$100 valuation, respectively, for a total of \$1.347 per \$100 valuation.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 6: INTERFUND BALANCES AND ACTIVITIES**

Balances due to and from other funds at August 31, 2015, consisted of the following:

<u>Due From Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
ESEA Title I, Part A	General Fund	\$ 49,345
IDEA B Formula	General Fund	67,666
IDEA B Preschool	General Fund	1,081
National Breakfast and Lunch Program	General Fund	37,176
ESEA II, A Training and Recruiting	General Fund	8,028
Title III, A English Language Acquisition	General Fund	174
		<u>\$ 163,470</u>

All amounts due are scheduled to be repaid within one year and are to eliminate deficit cash balances.

Interfund transfers consist of a transfer from the General Fund to the Food Service Fund in the amount of \$99,086. The transfer was needed to supplement the Food Service fund.

**NOTE 7: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2015, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three years.

***Workers' Compensation Coverage***

The District has established a partially self-funded workers' compensation plan by participating in the Texas Educational Insurance Association. The Association is a public entity risk pool currently operating as a common risk management and insurance program for member colleges and school districts. The main purpose of the Association is to partially self-insure certain workers' compensation risks up to an agreed upon retention limit. The plan for workers' compensation benefits is authorized by Section 501.011 of the Labor Code. Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. The liability of the workers' compensation self-insurance plan includes \$122,243 incurred but not reported claims. Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable and of claims incurred, but not reported at August 31, 2015, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

Changes in the balances of workers' compensation claims liabilities during the past year are as follows:

Unpaid Claims September 1, 2014	\$ 164,817
Incurred Claims (not including IBNR)	173,692
Claim Payments	<u>(133,009)</u>
Total Unpaid Claims August 31, 2015	<u>\$ 205,500</u>

**Health Care**

Employees of the District are covered under the State of Texas statewide health insurance plan (TRS Active-Care). TRS Active-Care is a fully insured plan. During 2014-2015, the District contributed \$275 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contributions and contributions for dependents.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8: PENSION PLAN**

***Plan Description***

Graham Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

***Pension Plan Fiduciary Net Position***

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2014.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 159,496,075,886
Less: Plan Fiduciary Net Position	<u>(132,779,243,085)</u>
Net Pension Liability	\$ <u>26,716,832,801</u>

Net Position as a percentage of Total Pension Liability      83.25%

***Benefits Provided***

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

***Contributions***

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8: PENSION PLAN - continued**

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	Contribution Rates	
	2014	2015
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Graham ISD 2014 Employer Contributions	\$	124,845
Graham ISD 2014 Member Contributions	\$	837,431
Graham ISD 2014 NECE On-Behalf Contributions	\$	775,315

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member’s salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member’s first 90 days of employment
- When any part or all of an employee’s salary is paid by federal funding source or a privately sponsored source.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

***Actuarial Assumptions***

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level percentage of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	5 year Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

\* Includes Inflation of 3%

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8: PENSION PLAN - continued**

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees were decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8.0%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%
Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
<b>Stable Value</b>			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
<b>Real Returns</b>			
Global Inflation Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy and Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	8.9%	0.4%
Alpha			1%
<b>Total</b>	<u>100%</u>		<u>8.7%</u>

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8: PENSION PLAN - continued**

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

**Discount Rate Sensitivity Analysis**

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2014 Net Pension Liability.

	<u>1% Decrease in Discount Rate (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase in Discount Rate (9.0%)</u>
Graham ISD's proportionate share of the net pension liability:	\$ 2,350,448	\$ 1,315,348	\$ 541,287

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

At August 31, 2015, Graham Independent School District reported a liability of \$1,315,348 for its proportionate share of the TRS' net pension liability. This liability reflects a reduction for State pension support provided to Graham Independent School District. The amount recognized by Graham Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Graham Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 1,315,348
State's proportionate share that is associated with the District	<u>8,186,049</u>
Total	<u><u>\$ 9,501,397</u></u>

The net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2013 thru August 31, 2014.

At August 31, 2014, the employer's proportion of the collective net pension liability was 0.0049243%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2013. The notes to the Financial Statements for August 31, 2014, for TRS stated that the change in proportion was immaterial and therefore disregarded this year.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 30, 2013. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2014, Graham Independent School District recognized pension expense of \$756,785 and revenue of \$756,785 for support provided by the State.

At August 31, 2014, Graham Independent School District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8: PENSION PLAN - continued**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the Measurement Date	\$ 319,035	\$
Differences between expected and actual economic experience	20,342	
Changes in actuarial assumptions	85,499	
Difference between projected and actual investment earnings		402,024
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions		345
Total	<u>\$ 424,876</u>	<u>\$ 402,369</u>

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

Year ended August 31:	Pension Expense Amount
2016	\$ (82,709)
2017	(82,709)
2018	(82,709)
2019	(82,709)
2020	17,797
Thereafter	16,511

As of August 31, 2015, the District reported Deferred Resource Outflows and Deferred Resource Inflows for the TRS pension plan as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Total net amounts as of August 31, 2014 Measurement Date	\$ 105,841	\$ 402,369
Contributions made subsequent to the Measurement Date	319,035	
Reported by District as of August 31, 2015	<u>\$ 424,876</u>	<u>\$ 402,369</u>

**NOTE 9: POST EMPLOYMENT HEALTH BENEFITS**

Plan Description

Graham Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care) a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. The report may be obtained by visiting the TRS web site under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 9: POST EMPLOYMENT HEALTH BENEFITS - continued**

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015-2013.

	Contribution Rates and Amounts					
	Active Member		State of Texas		Member Districts	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2015	0.65%	\$87,267	1.0%	\$134,256	0.55%	\$73,841
2014	0.65%	\$85,052	1.0%	\$130,848	0.55%	\$71,967
2013	0.65%	\$83,359	0.5%	\$64,122	0.55%	\$70,534

**NOTE 10: MEDICARE PART D ON BEHALF PAYMENTS**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Graham Independent School District paid state contributions for the years ended August 31, 2015, 2014, and 2013 in the amount of \$56,845, \$35,053, and \$33,118, respectively.

**NOTE 11: ON-BEHALF PAYMENTS**

The District records on-behalf payments from the State of Texas to be used for Teacher Retirement in the amount of \$965,738 for the year ended August 31, 2015.

**NOTE 12: COMMITMENTS AND CONTINGENCIES**

Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Litigation

No reportable litigation was pending against the District at August 31, 2015.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 13: DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2015 are summarized below.

<u>Fund</u>	<u>State Grants/ Entitlements</u>	<u>Federal Grant</u>	<u>Total</u>
ESEA I, A Improving Basic Program	\$	\$ 72,641	\$ 72,641
IDEA Part B Formula		83,700	83,700
IDEA Part B Preschool		773	773
National Breakfast and Lunch Program		22,156	22,156
ESEA II, A Training and Recruiting		13,439	13,439
Title III, A English Language Acquisition		1,019	1,019
Total	\$	\$ <u>193,728</u>	\$ <u>193,728</u>

**NOTE 14: DEFERRED INFLOWS OF RESOURCES**

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or resources, represents an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported in the governmental funds for unavailable revenues are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	\$ <u>212,661</u>	\$ <u>45,790</u>	\$ <u>258,451</u>
	\$ <u>212,661</u>	\$ <u>45,790</u>	\$ <u>258,451</u>

**NOTE 15: REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

For the year ended August 31, 2015, revenues from local and intermediate sources for governmental fund types consisted of the following:

	<u>General Fund</u>	<u>Child Nutrition</u>	<u>Debt Service Fund</u>	<u>Total</u>
Property taxes	\$ 7,712,693	\$	\$ 2,441,565	\$ 10,154,258
Food service sales		278,769		278,769
Penalties, interest & other tax revenues	70,683		25,766	96,449
Investment earnings	14,298	161	2,261	16,720
Miscellaneous	319,051			319,051
Athletic activities	148,050			148,050
	\$ <u>8,264,775</u>	\$ <u>278,930</u>	\$ <u>2,469,592</u>	\$ <u>11,013,297</u>

## GRAHAM INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 16: GASB STATEMENT NO. 68 AND PRIOR PERIOD ADJUSTMENT**

During fiscal year 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the District must assume their proportionate share of the Net Pension Liability of the Teachers Retirement System of Texas. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The prior period adjustment decreased net position by \$1,490,295. The restated beginning net position is \$25,522,018.

#### **NOTE 17: NEW ACCOUNTING PRONOUNCEMENTS**

In January 2013, the GASB issued Statement No. 69 *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. The District has determined there is no impact on its financial position, results of operations or cash flows.

In April 2013, the GASB issued Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement will improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. The District has determined there is no impact on its financial position, results of operations or cash flows for the fiscal years 2014 and 2015.

In November 2013, the GASB issued Statement No. 71 *Pension Transition of contributions Made Subsequent to the Measurement Date*. This statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual basis financial statements of employers and nonemployer contributing entities. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. Deferred Outflows, Deferred inflows, and Net pension Liability at August 31, 2014, were \$105,841, \$402,369, and \$1,193,767, respectively.

In February 2015, the GASB issued Statement No. 72 *Fair Value Measurement and Application*. This statement address accounting and financial reporting issues related to fair value measurements. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No 67. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement replaces Statements No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50 *Pension Disclosures*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

## GRAHAM INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 18: NEW ACCOUNTING PRONOUNCEMENTS - continued**

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement supersedes Statement No. 55 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In August 2015, the GASB issued Statement No 77 *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

**REQUIRED SUPPLEMENTARY INFORMATION**

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT G-1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
<b>REVENUES:</b>					
5700	Local and intermediate sources	\$ 7,533,717	\$ 7,583,062	\$ 8,264,775	\$ 681,713
5800	State program revenue	<u>11,798,702</u>	<u>11,798,702</u>	<u>11,968,409</u>	<u>169,707</u>
5020	Total Revenues	<u>19,332,419</u>	<u>19,381,764</u>	<u>20,233,184</u>	<u>851,420</u>
<b>EXPENDITURES:</b>					
	Current				
0011	Instruction	11,991,988	11,948,470	11,673,122	275,348
0012	Instructional resources & media services	280,269	280,269	221,553	58,716
0013	Curriculum & instructional staff development	214,419	272,004	265,888	6,116
0021	Instructional leadership	256,405	256,020	254,160	1,860
0023	School leadership	1,043,321	1,043,321	1,024,759	18,562
0031	Guidance, counseling & evaluation services	381,528	381,913	374,593	7,320
0033	Health services	94,202	94,202	91,685	2,517
0034	Student (pupil) transportation	688,210	854,800	808,368	46,432
0036	Extracurricular activities	867,948	890,781	867,497	23,284
0041	General administration	827,556	827,556	800,270	27,286
0051	Facilities maintenance and operations	2,175,138	2,293,064	2,311,693	(18,629)
0052	Security & monitoring services	5,000	5,000	4,551	449
0053	Data processing services	196,435	196,435	195,055	1,380
	Capital Outlay:				
0081	Facilities acquisition & construction	100,000	275,572	269,495	6,077
	Intergovernmental:				
0099	Other intergovernmental charges	<u>210,000</u>	<u>210,000</u>	<u>180,096</u>	<u>29,904</u>
6030	Total Expenditures	<u>19,332,419</u>	<u>19,829,407</u>	<u>19,342,785</u>	<u>486,622</u>
1100	Excess (deficiency) of revenues over (under) expenditures		(447,643)	890,399	1,338,042
	Other Financing Sources (Uses):				
8911	Transfers out (use)			<u>(99,086)</u>	<u>(99,086)</u>
1200	Net Change in Fund Balance		(447,643)	791,313	1,238,956
0100	Fund Balance - Beginning	<u>7,667,720</u>	<u>7,667,720</u>	<u>7,667,720</u>	
3000	Fund Balance - Ending	<u>\$ 7,667,720</u>	<u>\$ 7,220,077</u>	<u>\$ 8,459,033</u>	<u>\$ 1,238,956</u>

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT G-2

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR THE YEAR ENDED AUGUST 31, 2015

	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0049243%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,315,348
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District.	<u>8,186,049</u>
Total	\$ <u><u>9,501,397</u></u>
District's Covered-Employee Payroll	\$ 13,425,648
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its covered-Employee Payroll	9.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.25%

NOTE: GASB 68, 81, 2, a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2014 - the period from September 1, 2013 - August 31, 2014.

NOTE: Only one year of data is presented in accordance with GASB No. 68, paragraph 138, "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT G-3

**SCHEDULE OF DISTRICT CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2015**

	<u>2015</u>
Contractually Required Contribution	\$ 319,035
Contribution in Relation to the Contractually Required Contribution	<u>(319,035)</u>
Contribution Deficiency (Excess)	\$ <u><u>-</u></u>
District's Covered-Employee Payroll	\$ 13,425,648
Contribution as a Percentage of Covered-Employee Payroll	2.38%

NOTE: GASB 68, Paragraph 81, 2, b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2013 - August 31, 2014.

NOTE: Only one year of data is presented in accordance with GASB No. 68, paragraph 138, "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

*Changes of benefit terms*

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

*Changes of assumptions*

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

**OTHER SUPPLEMENTARY INFORMATION**

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

AUGUST 31, 2015

<u>Data Control Codes</u>		211 ESEA I, A Improving Basic Program	224 IDEA Part B Formula	225 IDEA Part B Preschool	237 Juvenile Justice & Delinquency Prevention
	<b>ASSETS</b>				
1110	Cash and cash equivalents	\$	\$	\$ 1,002	\$
1240	Receivable from other governments	72,641	83,700	773	
1000	Total Assets	\$ <u>72,641</u>	\$ <u>83,700</u>	\$ <u>1,775</u>	\$ <u>          </u>
	<b>LIABILITIES</b>				
2110	Accounts payable	\$	\$	\$	\$
2160	Accrued wages payable	23,296	16,034	694	
2170	Due to other funds	49,345	67,666	1,081	
2300	Unearned revenue				
2000	Total Liabilities	<u>72,641</u>	<u>83,700</u>	<u>1,775</u>	<u>          </u>
4000	Total Liabilities and Fund Balances	\$ <u>72,641</u>	\$ <u>83,700</u>	\$ <u>1,775</u>	\$ <u>          </u>

EXHIBIT H-1

240 National Breakfast and Lunch Program	244 Career and Technical Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Language Acquisition	410 State Textbook Fund	Total Nonmajor Governmental Funds
\$ 94,626	\$	\$	\$	\$ 132,570	\$ 228,198
22,156		13,439	1,019		193,728
<u>\$ 116,782</u>	<u>\$</u>	<u>\$ 13,439</u>	<u>\$ 1,019</u>	<u>\$ 132,570</u>	<u>\$ 421,926</u>
\$ 44,086	\$	\$	\$	\$ 121,302	\$ 165,388
14,582		5,411	845		60,862
37,176		8,028	174		163,470
20,938				11,268	32,206
<u>116,782</u>	<u></u>	<u>13,439</u>	<u>1,019</u>	<u>132,570</u>	<u>421,926</u>
<u>\$ 116,782</u>	<u>\$</u>	<u>\$ 13,439</u>	<u>\$ 1,019</u>	<u>\$ 132,570</u>	<u>\$ 421,926</u>

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA Part B Formula	225 IDEA Part B Preschool	237 Juvenile Justice & Delinquency Prevention
<b>REVENUES</b>				
5700	Local and intermediate sources	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	391,364	476,949	12,061
5020	Total Revenues	<u>391,364</u>	<u>476,949</u>	<u>12,061</u>
<b>EXPENDITURES</b>				
Current:				
0011	Instruction	366,081	268,309	12,061
0013	Curriculum and instructional staff development	25,283	5,125	
0031	Guidance, counseling, & evaluation		203,515	
0035	Food service			
0041	General administration			15,000
6030	Total Expenditures	<u>391,364</u>	<u>476,949</u>	<u>12,061</u>
1100	Excess (Deficiency) of Revenues over (Under) Expenditures			
<b>OTHER FINANCING SOURCES (USES)</b>				
7915	Transfers In			
7080	Total Other Financing Sources			
1200	Net Change in Fund Balance			
0100	Fund Balance - Beginning			
3000	Fund Balance - Ending	\$ <u>          </u>	\$ <u>          </u>	\$ <u>          </u>

EXHIBIT H-2

240 National Breakfast and Lunch Program	244 Career and Technical Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Language Acquisition	410 State Textbook Fund	Total Nonmajor Governmental Funds
\$ 278,930	\$	\$	\$	\$	\$ 278,930
52,714				173,748	226,462
739,492	25,108	98,995	24,424		1,783,393
<u>1,071,136</u>	<u>25,108</u>	<u>98,995</u>	<u>24,424</u>	<u>173,748</u>	<u>2,288,785</u>
	25,108	98,995	24,304 120	173,748	968,606
1,170,222					30,528
					203,515
					1,170,222
					15,000
<u>1,170,222</u>	<u>25,108</u>	<u>98,995</u>	<u>24,424</u>	<u>173,748</u>	<u>2,387,871</u>
<u>(99,086)</u>					<u>(99,086)</u>
<u>99,086</u>					<u>99,086</u>
<u>99,086</u>					<u>99,086</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

## **REQUIRED TEA SCHEDULES**

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FOR THE YEAR ENDED AUGUST 31, 2015

Last Ten Years Ended August 31	Tax Rates		3 Assessed/ Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2006 (and prior years)	Various	Various	Various
2007	1.3080	0.0640	568,513,450
2008	1.0314	0.3220	601,405,998
2009	1.0400	0.3105	657,215,690
2010	1.0400	0.3105	646,078,200
2011	1.0400	0.3140	655,621,935
2012	1.0400	0.3140	630,508,419
2013	1.0400	0.3070	689,063,920
2014	1.0400	0.3070	730,177,803
2015 (School Year Under Audit)	1.0400	0.3070	758,623,087
1000 Total			

EXHIBIT J-1

	10	20	31	32	40	50
	Beginning Balance 9/1/2014	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance 8/31/2015
\$	116,478	\$	1,200	\$ 21	\$ (15,051)	\$ 100,206
	11,761		501	25	(277)	10,958
	16,937		143	45	(5,200)	11,549
	12,920		898	268	(349)	11,405
	15,054		1,004	300	(349)	13,401
	17,107		1,143	345	(544)	15,075
	19,721		3,338	1,045	556	15,894
	55,467		19,080	5,768	1,981	32,600
	115,476		50,269	15,421	5,303	55,089
		<u>10,218,653</u>	<u>7,635,117</u>	<u>2,418,327</u>	<u>(32,162)</u>	<u>133,047</u>
\$	<u>380,921</u>	\$ <u>10,218,653</u>	\$ <u>7,712,693</u>	\$ <u>2,441,565</u>	\$ <u>(46,092)</u>	\$ <u>399,224</u>

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT J-4

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
		<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>REVENUES:</b>					
5700	Local and intermediate sources	\$ 329,886	\$ 329,886	\$ 278,930	\$ (50,956)
5800	State program revenues	34,631	34,631	52,714	18,083
5900	Federal program revenues	<u>856,169</u>	<u>856,169</u>	<u>739,492</u>	<u>(116,677)</u>
5020	Total Revenues	<u>1,220,686</u>	<u>1,220,686</u>	<u>1,071,136</u>	<u>(149,550)</u>
<b>EXPENDITURES:</b>					
	Current				
0035	Food services	<u>1,220,686</u>	<u>1,227,386</u>	<u>1,170,222</u>	<u>57,164</u>
6030	Total Expenditures	<u>1,220,686</u>	<u>1,227,386</u>	<u>1,170,222</u>	<u>57,164</u>
1100	Excess (deficiency) of revenues over (under) expenditures		(6,700)	(99,086)	(92,386)
	Other Financing Sources (Uses):				
7915	Transfers in (source)			<u>99,086</u>	<u>99,086</u>
1200	Net Change in Fund Balance		(6,700)		6,700
0100	Fund Balance - Beginning				
3000	Fund Balance - Ending	\$ <u>          </u>	\$ <u>(6,700)</u>	\$ <u>          </u>	\$ <u>6,700</u>

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

EXHIBIT J-5

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
 FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
<b>REVENUES:</b>					
5700	Local and intermediate sources	\$ 2,381,443	\$ 2,381,443	\$ 2,469,592	\$ 88,149
5800	State program revenues	<u>150,000</u>	<u>150,000</u>	<u>144,996</u>	<u>(5,004)</u>
5020	Total Revenues	<u>2,531,443</u>	<u>2,531,443</u>	<u>2,614,588</u>	<u>83,145</u>
<b>EXPENDITURES:</b>					
	Current				
0071	Debt service - principal on long term debt	1,475,000	1,475,000	1,475,000	
0072	Debt service - interest on long term debt	1,053,843	1,053,843	1,053,842	1
0073	Debt service - bond issuance cost and fees	<u>2,600</u>	<u>2,600</u>	<u>874</u>	<u>1,726</u>
6030	Total Expenditures	<u>2,531,443</u>	<u>2,531,443</u>	<u>2,529,716</u>	<u>1,727</u>
1200	Net Change in Fund Balance			84,872	84,872
0100	Fund Balance - Beginning	<u>1,096,907</u>	<u>1,096,907</u>	<u>1,096,907</u>	
3000	Fund Balance - Ending	<u>\$ 1,096,907</u>	<u>\$ 1,096,907</u>	<u>\$ 1,181,779</u>	<u>\$ 84,872</u>

**FEDERAL AWARDS SECTION**

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

To the Board of Trustees  
Graham Independent School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Graham Independent School District as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise Graham Independent School District's basic financial statements and have issued our report thereon dated November 20, 2015.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Graham Independent School District's financial statements are free of 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 statements 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 instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

This 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.

**MERRITT, MCLANE & HAMBY, P.C.**

Abilene, Texas  
November 20, 2015

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

To the Board of Trustees  
Graham Independent School District

**Report on Compliance for Each Major Federal Program**

We have audited Graham Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Graham Independent School District's major federal programs for the year ended August 31, 2015. Graham Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Graham Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan an 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 Graham Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our opinion, Graham Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

**Report on Internal Control over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness*

*in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

**MERRITT, MCLANE & HAMBY, P.C.**

Abilene, Texas  
November 20, 2015

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES**

YEAR ENDED AUGUST 31, 2015

I. Summary of Auditor's Report

Type of report on financial statements	Unqualified Opinion
Significant Deficiencies	None
Material weaknesses involving control deficiencies	None
Noncompliance material to the financial statements	None
Type of report on compliance with major programs	Unqualified Opinion
Findings and questioned costs for federal awards as Defined in Section .510(a), OMB Circular A-133	None
Dollar threshold considered between Type A and Type B federal programs	\$300,000
Low risk auditee statements	The District was not classified as a low risk auditee in the context of OMB Circular A-133.

Major Federal Programs include:

National Lunch and Breakfast Program	
84.027	IDEA B, Formula
84.173	IDEA B, Preschool
10.553	School Breakfast Program
10.555	National School Lunch Program
10.565	Commodity Supplemental Food Program

II Findings Required to be Reported in Accordance with *Government Auditing Standards*

None

III. Findings and Questioned Costs – Major Federal Awards Program Audit

None

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED AUGUST 31, 2015

Prior Year Findings:

Finding:

**2014-001      Actual Expenditures Exceeded Appropriations.**

Criteria:      In compliance with the Financial Accountability System Resource Guide, Budgeting module, Section 2.6.2, the District is required to amend the official budget before exceeding a functional expenditures category, i.e. instruction, administration, etc., in the total district budget.

Effect:      The District's expenditures exceeded their budget in the General Fund in student transportation, and in the Debt Service Fund in bond costs and fees.

Cause:      A bus purchase was approved and the budget amended in the prior year, but the delivery of the bus was delayed and therefore, the purchase was delayed until the current year. The immaterial fees in the Debt Service Fund were estimated.

Recommendation: It was recommended that the District review the timing of purchases to ensure that items are budgeted in the proper period.

Resolutions:      The District monitored these areas and budgeted appropriately.

Contact Person Responsible:      Mr. Don Davis, Director of Finance/Assistant Superintendent  
(940) 549-0595

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2015**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	Federal CFDA Number	Project Number	Federal Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<u>Passed through Texas Education Agency</u>			
ESEA Title I, Part A - Improving Basic Programs	84.010A	15610101215901	\$ 368,064
ESEA Title I, Part A - Improving Basic Programs	84.010A	16610101215901	23,300
Total CFDA Number 84.010A			<u>391,364</u>
Total Title I, Part A Cluster			<u>391,364</u>
* IDEA - Part B, Formula	84.027	156600012159016000	449,199
* IDEA - Part B, Formula	84.027	166600012159016000	27,750
Total CFDA Number 84.027			<u>476,949</u>
* IDEA - Part B, Preschool	84.173	156610012159016000	11,367
* IDEA - Part B, Preschool	84.173	166610012159016000	694
Total CFDA Number 84.173			<u>12,061</u>
Total Special Education Cluster (IDEA)			<u>489,010</u>
Career and Technical - Basic Grant	84.048	14520006215901	25,108
Title III, Part A - English Language Acquisition	84.365A	15671001252901	23,579
Title III, Part A - English Language Acquisition	84.365A	16671001252901	845
Total CFDA Number 84.365			<u>24,424</u>
ESEA Title II, Part A, Teacher/Principal Training	84.367A	15694501221950	93,732
ESEA Title II, Part A, Teacher/Principal Training	84.367A	16694501221950	5,263
Total CDFA Number 84.367			<u>98,995</u>
Total Passed Through State Texas Education Agency			<u>1,028,901</u>
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b><u>1,028,901</u></b>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
<u>Direct Award</u>			
Juvenile Justice and Delinquency Prevention	16.540	1431016	15,000
Total CFDA Number 16.540			<u>15,000</u>
<b>TOTAL DEPARTMENT OF JUSTICE</b>			<b><u>15,000</u></b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<u>Passed through Texas Education Agency</u>			
* School Breakfast Program	10.553	71401501	145,867
* National School lunch Program	10.555	71301501	520,993
Total Passed Through Texas Education Agency			<u>666,860</u>
<u>Non Cash Assistance</u>			
* Commodity Supplemental Food Program	10.565		72,632
Total Non Cash Assistance			<u>72,632</u>
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b><u>739,492</u></b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ <u>1,783,393</u></b>

\*Clustered Programs

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: The District utilizes the fund types specified in the Resource Guide.

Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

Note 2: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal expenditures were accounted for in the Special Revenue Fund, a component of the Governmental Fund Type.

The modified accrual basis of accounting is used for the Governmental Fund Types in the fund financial statements. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as unearned revenue until earned.

Note 3: The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions on OMB Circular A-133 Compliance Supplement, Part 3, Section H, period of Availability of Federal Funds.

**GRAHAM INDEPENDENT SCHOOL DISTRICT**

SCHEDULE L-1

SCHOOLS FIRST QUESTIONNAIRE

AUGUST 31, 2015

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No	
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes	
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal control over financial reporting and compliance for local, state, or federal funds?	No	
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No	
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes	
SF8	Did the school district receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	No	
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$	
SF11	Net Pension Asset at fiscal year end.	\$	
SF12	Net Pension Liability at fiscal year end.	\$	1,315,348
SF13	Pension Expense at fiscal year end.	\$	121,581