

**MURRAY INDEPENDENT SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

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## **INTRODUCTORY SECTION**

**MURRAY INDEPENDENT SCHOOL DISTRICT**

June 30, 2014

**BOARD OF EDUCATION**

Dr. Richard Crouch, chairman  
Stuart Alexander, vice-chairman  
Mark Vinson, member  
Donnie Winchester, member  
Laura Pitman, member

**ADMINISTRATIVE STAFF**

Bob Rogers, Superintendent  
Sarah Kaegi, Finance Officer

## **FINANCIAL SECTION**

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112-A Robertson Rd. N.  
Murray, KY 42071

Phone 270.753.2424  
Fax 270.753.3878  
[www.atacpa.net](http://www.atacpa.net)

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## Independent Auditor's Report

Kentucky State Committee for School District Audits  
Murray Independent Board of Education  
Murray, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Murray Independent School District, as of and for the year ended June 30, 2014, 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 from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Murray Independent School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-11 and 41-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

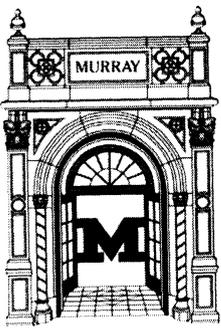
The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with Government Auditing Standards, we have also issued our report dated November 13, 2014, on our consideration of the Murray Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Murray Independent School District's internal control over financial reporting and compliance.

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 13, 2014



# MURRAY INDEPENDENT SCHOOL DISTRICT

BOARD OF EDUCATION  
Richard Crouch, Chairman  
Stuart Alexander, Vice-Chairman  
Laura Pitman  
Mark Vinson  
Donnie Winchester

208 South 13th Street  
Murray, Kentucky 42071  
PH 270.753.4363 FX 270.759.4906

Bob Rogers, Superintendent of Schools &  
Secretary of the Board of Education

## MURRAY INDEPENDENT SCHOOL DISTRICT – MURRAY, KY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2014

As management of the Murray Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

### FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$8,811,052, as compared with the beginning cash balance of \$8,412,494. The ending cash balance consists of General Fund of \$3,428,502, Special Revenue of \$126,157, Construction Fund \$71,615, Facility Support Program (FSPK) Fund of \$2,321,739, Capital Outlay of \$422,036, District Activity Fund of \$46,966, School Food Service Fund of \$231,425, Daycare Fund of \$577,159, School Activity Funds of \$125,255, Agency Fund (Head Start) of \$93,734, Career and Technical Center of \$1,218,834 and the Private Purpose Trust Fund of \$147,630.
- Total government-wide net position increased by \$507,018 for the fiscal year ended June 30, 2014. Total long-term liabilities had a net decrease of \$704,395, while the unrestricted net assets decreased \$331,327 and restricted assets decreased \$203,296.
- The General Fund had \$11,235,817 in revenues, which primarily consisted of the state program (SEEK), property, utilities and motor vehicle taxes, and on-behalf payments for fringe benefits from the Commonwealth of Kentucky. General Fund revenues increased in comparison to prior year of \$10,998,207. Excluding interfund transfers, there were \$11,256,274 in General Fund expenditures. This compares to \$11,148,654 in General Fund expenditures for the prior year.
- The District completed the construction of a new physical education facility attached to Murray High School at a cost of \$1,322,381 during the 2013-2014 fiscal year. Focus for the future is maintenance of current facilities.
- The District remains committed to maintaining competitive teacher salaries, which exceed the state minimum requirements.
- The financial statements reflect a total of \$2,398,840 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions, health insurance, technology and debt service. A like amount of expenses are also recorded in the financial statements.

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can be readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, the District provides additional

information with the governmental funds statements that explain the relationship (or differences) between them.

- *Proprietary funds* – The District’s proprietary funds are food service and day care. The proprietary fund statements are the same as the business-type activities in the government-wide statements, but provide more detail and additional information, such as cash flows.
- *Fiduciary funds* – The District is fiduciary for assets that belong to others and is responsible for ensuring that assets reported in the fiduciary funds are used only for their intended purposes. The District’s fiduciary funds consist of student activities funds. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

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

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$12,605,264 as of June 30, 2014.

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

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

Following is a summary of the District’s government-wide net position for the fiscal years ended June 30, 2014 and 2013:

**Table 1  
Net Position**

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Current assets	\$ 7,523,543	\$ 7,812,383
Noncurrent assets	<u>14,049,430</u>	<u>13,803,471</u>
<b>Total assets</b>	<u>21,572,973</u>	<u>21,615,854</u>
<b>Liabilities</b>		
Current liabilities	313,295	953,448
Noncurrent liabilities	<u>8,654,414</u>	<u>8,564,160</u>
<b>Total liabilities</b>	<u>8,967,709</u>	<u>9,517,608</u>
<b>Net position</b>		
Net investment in capital assets	5,677,307	4,635,666
Restricted	2,842,436	3,045,732
Unrestricted	<u>4,085,521</u>	<u>4,416,848</u>
<b>Total net position</b>	<u>\$ 12,605,264</u>	<u>\$ 12,098,246</u>

**Changes in net position.** The District's governmental activities net position increased by \$389,390 and business-type activities net position increased \$117,628.

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

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

Following is a summary schedule changes in the District's net position for the years ended June 30, 2014 and 2013:

**Table 2**  
**Changes in Net Position**

	2014	2013
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 805,804	\$ 696,487
Operating grants and contributions	4,586,198	6,364,342
Capital grants and contributions	-	80,423
General revenues:		
Local taxes	3,992,771	3,787,921
Investment earnings	101,231	87,516
Other local revenue	107,351	250,057
State aid - formula grants	8,270,166	6,004,951
Insurance recoveries	5,214	-
Gain (loss) on sale of assets	<u>243</u>	<u>12,732</u>
<b>Total revenues</b>	<u>17,868,978</u>	<u>17,284,429</u>
<b>Program expenses</b>		
Instruction	10,996,824	10,824,519
Support services:		
Student	600,925	583,700
Instructional staff	701,239	712,235
District administration	1,040,038	922,243
School administration	719,011	681,697
Business	337,521	337,796
Plant operations and maintenance	1,220,901	678,087
Student transportation	316,471	324,840
Non-instructional services	149,351	179,770
Interest on long-term debt	169,218	260,779
Food service	867,895	857,614
Day care	<u>156,536</u>	<u>152,482</u>
<b>Total expenses</b>	<u>17,275,930</u>	<u>16,515,762</u>
<b>Change in net position</b>	<u>\$ 593,048</u>	<u>\$ 768,667</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$6,350,821, a decrease of \$540,250 from the prior year.

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

At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$2,347,928, while total fund balance was \$3,508,385. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 20.85% of total General Fund expenditures, while total fund balance represents 31.16% of that same amount.

During the current fiscal year, the total fund balance of the General Fund decreased by \$336,954. This decrease in total fund balances was primarily due to the transfer of funds into the Construction Fund for the construction of the new physical education facility at Murray High School. Revenues and transfers totaling \$11,294,191 increased by \$179,946, while expenditures and transfers totaling \$11,631,145, increased by \$242,272.

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

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

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District's funds budgets are prepared to account for most transactions on a cash receipt/cash disbursement basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. By law, the budget must have a minimum 2% contingency. The District adopted a General Fund budget with \$1,592,304 in contingency (11.01%). Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by DOE.

On the Budgetary Comparison Schedule for the General Fund contained in the Required Supplementary Information, the General Fund budget includes \$2,329,445 of state payments on-behalf of District employees for retirement and health benefits. These payments are reflected in the GAAP basis actual amounts as state program revenues and in each type of expenditure in relation to wages paid, with the major portion contained in instructional expenditures. Local revenues are budgeted conservatively resulting in a favorable variance of local revenues for the year.

- The District's total revenues for General Fund activities for the fiscal year ended June 30, 2014, net of interfund transfers and beginning balances, were \$11,235,817; compared to the total budgeted revenues of \$10,538,168.
- The District's total expenditures for General Fund activities for the fiscal year ended June 30, 2014, net of interfund transfers were \$11,256,274; compared to the total budgeted expenditures, net of contingency (\$1,592,304), of \$12,491,534.

Significant Board action that impacts the District's finances includes the award of multiple contracts and salary increases mandated by the Legislature.

Fund 2 is made up of state, local, and federal grants. These grants include Title I, No Child Left Behind Funding, Preschool, Special Education funding, and others. These funds have restricted use, according to the guidelines for each. Expenses include salaries and benefits, supplies, and transportation.

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

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** – At June 30, 2014, the District (excluding Head Start) had \$14,049,430 invested in capital assets net of depreciation. These assets include school, athletic, and support facilities, as well as technology, food service, and other equipment. The amount of \$1,351,776 was expended on acquisition and improvements during the year. Depreciation charged to expense during the year totaled \$930,940, the majority of which was charged to governmental functions. More detailed information relating to capital assets may be found in Note 2C to the financial statements.

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2014 and 2013.

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>	Proprietary (Business-type) Activities <u>2014</u>	Proprietary (Business-type) Activities <u>2013</u>
Land	\$853,530	\$ 891,030	\$ -	\$ -
Construction in progress	0	135,471	-	-
Land improvements	654,259	699,443	-	-
Buildings and improvements	12,012,438	11,350,293	-	-
Technology equipment	205,388	322,583	1,712	2,497
Vehicles	42,437	74,635	-	-
General equipment	<u>201,508</u>	<u>241,857</u>	<u>78,158</u>	<u>85,662</u>
Total capital assets	<u>\$13,969,560</u>	<u>\$13,715,312</u>	<u>\$ 79,870</u>	<u>\$ 88,159</u>

**Long-Term Debt** – The District's long-term general obligation bonds outstanding at June 30, 2014 were \$8,360,896. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest payments under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to pay \$638,614 of the bonds leaving the District to pay \$7,722,282. The liability for compensated absences

increased for the fiscal year. Other long-term obligations, mostly leases on buses, will decrease as the leases are paid down.

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

More detailed information about the District's long-term liabilities may be found in Note 2D to the financial statements.

## **OUTLOOK FOR THE FUTURE**

The most crucial aspect in the financial future of the District is continued adequate funding from the State. The District's major source of revenue is state aid, primarily Kentucky SEEK funding.

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

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations, and demonstrate the District's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Superintendent or District Finance Officer (270.753.4363) or by mail at 208 South 13<sup>th</sup> Street, Murray, Kentucky 42071.

## **BASIC FINANCIAL STATEMENTS**

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**

June 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 6,417,015	\$ 808,584	\$ 7,225,599
Receivables			
Accounts	189,679	27,600	217,279
Intergovernmental - State and local	9,400	-	9,400
Intergovernmental - Federal	8,973	-	8,973
Inventories	-	24,792	24,792
Restricted investments	37,500	-	37,500
Capital assets not being depreciated			
Land	853,530	-	853,530
Capital assets, net of accumulated depreciation			
Land improvements	654,259	-	654,259
Buildings and improvements	12,012,438	-	12,012,438
Technology equipment	205,388	1,712	207,100
Vehicles	42,437	-	42,437
General equipment	201,508	78,158	279,666
Total assets	<u>20,632,127</u>	<u>940,846</u>	<u>21,572,973</u>
<b>Liabilities</b>			
Accounts payable	120,978	358	121,336
Unearned revenue	138,564	-	138,564
Accrued interest	53,395	-	53,395
Long-term liabilities			
Portion due or payable within one year			
Insurance assessment	13,100	-	13,100
Bonds and capital lease	812,462	-	812,462
Accrued sick leave	14,146	-	14,146
Portion due or payable after one year			
Insurance assessment	39,299	-	39,299
Bonds and capital lease	7,559,661	-	7,559,661
Accrued sick leave	215,746	-	215,746
Total liabilities	<u>8,967,351</u>	<u>358</u>	<u>8,967,709</u>
<b>Net Position</b>			
Net investment in capital assets	5,597,437	79,870	5,677,307
Restricted for			
SFCC	2,743,775	-	2,743,775
District activity	98,661	-	98,661
Unrestricted	3,224,903	860,618	4,085,521
<b>Total net position</b>	<u>\$ 11,664,776</u>	<u>\$ 940,488</u>	<u>\$ 12,605,264</u>

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

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2014

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities						
Instruction	\$ 10,996,824	\$ 185,257	\$ 4,007,159	\$ (6,804,408)	\$ -	\$ (6,804,408)
Support services						
Student	600,925	65,729	-	(535,196)	-	(535,196)
Instructional staff	701,239	-	-	(701,239)	-	(701,239)
District administration	1,040,038	-	-	(1,040,038)	-	(1,040,038)
School administration	719,011	-	-	(719,011)	-	(719,011)
Business	337,521	-	-	(337,521)	-	(337,521)
Plant operations and management	1,220,901	-	-	(1,220,901)	-	(1,220,901)
Student transportation	316,471	-	-	(316,471)	-	(316,471)
Non-instructional services	149,351	-	-	(149,351)	-	(149,351)
Interest on long-term debt	169,218	-	-	(169,218)	-	(169,218)
Total governmental activities	<u>16,251,499</u>	<u>250,986</u>	<u>4,007,159</u>	<u>(11,993,354)</u>	<u>-</u>	<u>(11,993,354)</u>
Business-type activities						
Food service	867,895	339,969	559,512	-	31,586	31,586
Day care	156,536	214,849	19,527	-	77,840	77,840
Total business-type activities	<u>1,024,431</u>	<u>554,818</u>	<u>579,039</u>	<u>-</u>	<u>109,426</u>	<u>109,426</u>
Total primary government	<u>\$ 17,275,930</u>	<u>\$ 805,804</u>	<u>\$ 4,586,198</u>	<u>(11,993,354)</u>	<u>109,426</u>	<u>(11,883,928)</u>
<b>General revenues:</b>						
Taxes						
Property				2,615,347	-	2,615,347
Motor vehicle				266,797	-	266,797
Utilities				924,705	-	924,705
Other				185,922	-	185,922
Investment earnings				98,243	2,988	101,231
Other local revenue				107,351	-	107,351
State aid - formula grants				8,270,166	-	8,270,166
Insurance recoveries				-	5,214	5,214
Gain on disposal of capital assets				243	-	243
Total general revenues				<u>12,468,774</u>	<u>8,202</u>	<u>12,476,976</u>
<b>Change in net position</b>				<b>475,420</b>	<b>117,628</b>	<b>593,048</b>
Net position, beginning of year				11,275,386	822,860	12,098,246
Prior period adjustment				(86,030)	-	(86,030)
Total net position, beginning of year restated				<u>11,189,356</u>	<u>822,860</u>	<u>12,012,216</u>
Net position, end of year				<u>\$ 11,664,776</u>	<u>\$ 940,488</u>	<u>\$ 12,605,264</u>

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

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Cash and cash equivalents	\$ 3,428,502	\$ 126,157	\$ 2,321,739	\$ 71,615	\$ 469,002	\$ 6,417,015
Receivables						
Accounts	137,334	-	-	-	52,345	189,679
Intergovernmental - State and local	-	9,400	-	-	-	9,400
Intergovernmental - Federal	-	8,973	-	-	-	8,973
<b>Total assets</b>	<b>\$ 3,565,836</b>	<b>\$ 144,530</b>	<b>\$ 2,321,739</b>	<b>\$ 71,615</b>	<b>\$ 521,347</b>	<b>\$ 6,625,067</b>
<b>Liabilities and Fund Balances</b>						
Liabilities						
Accounts payable	\$ 55,847	\$ 5,966	\$ -	\$ 71,615	\$ 650	\$ 134,078
Unearned revenue	-	138,564	-	-	-	138,564
Accrued sick leave	1,604	-	-	-	-	1,604
<b>Total liabilities</b>	<b>57,451</b>	<b>144,530</b>	<b>-</b>	<b>71,615</b>	<b>650</b>	<b>274,246</b>
Fund Balances						
Restricted	-	-	2,321,739	-	520,697	2,842,436
Committed	1,041,027	-	-	-	-	1,041,027
Assigned	119,430	-	-	-	-	119,430
Unassigned	2,347,928	-	-	-	-	2,347,928
<b>Total fund balances</b>	<b>3,508,385</b>	<b>-</b>	<b>2,321,739</b>	<b>-</b>	<b>520,697</b>	<b>6,350,821</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,565,836</b>	<b>\$ 144,530</b>	<b>\$ 2,321,739</b>	<b>\$ 71,615</b>	<b>\$ 521,347</b>	<b>\$ 6,625,067</b>

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

**MURRAY INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2014**

<b>Total fund balances - governmental funds</b>		<b>\$ 6,350,821</b>
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$25,001,964, and the accumulated depreciation is \$11,032,404.</p>		13,969,560
<p>Investment of funds held in a restricted escrow account for future construction are not financial resources and therefore are not reported as assets in governmental funds.</p>		37,500
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>		
Bonds and capital leases payable	(8,372,123)	
Accrued interest on bonds	(53,395)	
Accrued sick leave payable	(228,288)	
Insurance assessment	(39,299)	
	(8,693,105)	(8,693,105)
<b>Total net position - governmental activities</b>		<b><u>\$ 11,664,776</u></b>

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

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2014

	General Fund	Special Revenue Fund	Building Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
From local sources						
Taxes						
Property	\$ 1,867,483	\$ -	\$ 747,864	\$ -	\$ -	\$ 2,615,347
Motor vehicle	266,797	-	-	-	-	266,797
Utilities	924,705	-	-	-	-	924,705
Other	185,922	-	-	-	-	185,922
Earnings on investments	65,228	-	27,966	-	5,049	98,243
Other local revenues	365,287	71,092	-	10,000	99,311	545,690
Intergovernmental - State	7,560,395	537,062	501,124	-	208,625	8,807,206
Intergovernmental - Direct Federal	-	2,414,417	-	-	-	2,414,417
Intergovernmental - Indirect Federal	-	868,327	-	-	-	868,327
Total revenues	<u>11,235,817</u>	<u>3,890,898</u>	<u>1,276,954</u>	<u>10,000</u>	<u>312,985</u>	<u>16,726,654</u>
<b>Expenditures</b>						
Current						
Instruction	6,794,645	3,456,396	-	-	650	10,251,691
Support Services						
Student	472,634	124,785	-	-	-	597,419
Instructional staff	496,887	202,095	-	-	-	698,982
District administration	949,352	20,002	-	-	-	969,354
School administration	703,212	-	-	-	-	703,212
Business	337,377	-	-	-	-	337,377
Plant operation and management	1,123,125	-	-	-	-	1,123,125
Student transportation	288,478	-	-	-	-	288,478
Non-instructional services	23,502	109,302	-	-	-	132,804
Facilities acquisition and construction	-	-	-	1,196,910	-	1,196,910
Debt service						
Principal	64,116	-	-	-	730,000	794,116
Interest	2,946	-	-	-	172,661	175,607
Total expenditures	<u>11,256,274</u>	<u>3,912,580</u>	<u>-</u>	<u>1,196,910</u>	<u>903,311</u>	<u>17,269,075</u>
Excess (deficit) of revenues over expenditures	<u>(20,457)</u>	<u>(21,682)</u>	<u>1,276,954</u>	<u>(1,186,910)</u>	<u>(590,326)</u>	<u>(542,421)</u>
<b>Other Financing Sources (Uses)</b>						
Sale of assets	2,171	-	-	-	-	2,171
Transfers in	56,203	21,682	-	603,189	831,926	1,513,000
Transfers out	(374,871)	-	(1,081,926)	-	(56,203)	(1,513,000)
Total other financing sources (uses)	<u>(316,497)</u>	<u>21,682</u>	<u>(1,081,926)</u>	<u>603,189</u>	<u>775,723</u>	<u>2,171</u>
<b>Net change in fund balances</b>	<b>(336,954)</b>	<b>-</b>	<b>195,028</b>	<b>(583,721)</b>	<b>185,397</b>	<b>(540,250)</b>
Fund balances, beginning of year	<u>3,845,339</u>	<u>-</u>	<u>2,126,711</u>	<u>583,721</u>	<u>335,300</u>	<u>6,891,071</u>
Fund balances, end of year	<u>\$ 3,508,385</u>	<u>\$ -</u>	<u>\$ 2,321,739</u>	<u>\$ -</u>	<u>\$ 520,697</u>	<u>\$ 6,350,821</u>

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

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2014

**Total net change in fund balances - governmental funds** **\$ (540,250)**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,202,091) exceed depreciation expense (\$908,415) in the period. 293,676

In the statement of activities, only the gain or loss on the sale of assets is reported. This is the amount by which the costs of retired assets exceed their accumulated depreciation. (1,928)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 6,389

Repayment of long-term liabilities such as bond principal and capital leases are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position. 794,116

In the statement of activities, certain operating expenses - accumulated sick leave - are recognized when they are incurred during the year. In the governmental funds, however, expenditures for these items are limited to only those that use current financial resources. (37,284)

In the governmental funds, the KSBIT insurance assessment amount repaid during the year (\$13,100) is recorded as an expenditure. However, in the government-wide statements of net position, the total KSBIT insurance assessment (\$52,399) was recorded as a long-term liability in the year assessed, and the amount repaid during the current year (\$13,100) reduces long-term liabilities. (39,299)

**Change in net position of governmental activities** **\$ 475,420**

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
June 30, 2014

	<b>Food Service Fund</b>	<b>Day Care Fund</b>	<b>Total Enterprise Funds</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 231,425	\$ 577,159	\$ 808,584
Receivables			
Accounts	15,571	12,029	27,600
Inventories	24,792	-	24,792
Total current assets	271,788	589,188	860,976
Noncurrent assets			
Technology equipment	23,848	-	23,848
General equipment	382,210	-	382,210
Accumulated depreciation	(326,188)	-	(326,188)
Total noncurrent assets	79,870	-	79,870
Total assets	351,658	589,188	940,846
<b>Liabilities</b>			
Current liabilities			
Accounts payable	1	357	358
Total current liabilities	1	357	358
Total liabilities	1	357	358
<b>Net Position</b>			
Net investment in capital assets	79,870	-	79,870
Unrestricted	271,787	588,831	860,618
<b>Total net position</b>	<b>\$ 351,657</b>	<b>\$ 588,831</b>	<b>\$ 940,488</b>

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

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2014

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total Enterprise Funds</u>
<b>Operating Revenues</b>			
Lunchroom sales	\$ 339,969	\$ -	\$ 339,969
Student fees	-	214,849	214,849
Total operating revenues	<u>339,969</u>	<u>214,849</u>	<u>554,818</u>
<b>Operating Expenses</b>			
Salaries, wages and benefits	391,707	133,853	525,560
Contract services	19,914	279	20,193
Materials and supplies	432,794	22,404	455,198
Depreciation	22,525	-	22,525
Other	955	-	955
Total operating expenses	<u>867,895</u>	<u>156,536</u>	<u>1,024,431</u>
Operating income (loss)	<u>(527,926)</u>	<u>58,313</u>	<u>(469,613)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest income	2,988	-	2,988
State matching	8,576	-	8,576
Grants - child nutrition program	458,124	-	458,124
Donated commodities	39,020	-	39,020
State funding - on-behalf payments	53,792	19,527	73,319
Insurance recoveries	5,214	-	5,214
Total non-operating revenues (expenses)	<u>567,714</u>	<u>19,527</u>	<u>587,241</u>
<b>Change in net position</b>	<b>39,788</b>	<b>77,840</b>	<b>117,628</b>
Total net position, beginning of year	<u>311,869</u>	<u>510,991</u>	<u>822,860</u>
Total net position, end of year	<u>\$ 351,657</u>	<u>\$ 588,831</u>	<u>\$ 940,488</u>

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

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2014

	<b>Food Service Fund</b>	<b>Other Enterprise Fund</b>	<b>Total Enterprise Funds</b>
<b>Cash Flows from Operating Activities</b>			
Cash received from:			
Lunchroom sales	\$ 339,969	\$ -	\$ 339,969
Student fees	-	213,836	213,836
Cash paid for:			
Salaries, wages and benefits	(337,915)	(114,326)	(452,241)
Contract services	(19,914)	(279)	(20,193)
Materials and supplies	(394,585)	(22,058)	(416,643)
Other	(955)	-	(955)
Net cash provided (used) by operating activities	(413,400)	77,173	(336,227)
<b>Cash Flows from Noncapital Financing Activities</b>			
Federal grants received	458,156	-	458,156
State grants received	8,576	-	8,576
Net cash provided by noncapital financing activities	466,732	-	466,732
<b>Cash Flows from Capital and Related Financing Activities</b>			
Insurance recoveries	5,214		5,214
Purchases of capital assets	(14,236)	-	(14,236)
Net cash used by capital and related financing activities	(9,022)	-	(9,022)
<b>Cash Flows from Investing Activities</b>			
Interest income	2,988	-	2,988
<b>Net increase in cash and cash equivalents</b>	<b>47,298</b>	<b>77,173</b>	<b>124,471</b>
Cash and cash equivalents, beginning of year	184,127	499,986	684,113
<b>Cash and cash equivalents, end of year</b>	<b>\$ 231,425</b>	<b>\$ 577,159</b>	<b>\$ 808,584</b>
<b>Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ (527,926)	\$ 58,313	\$ (469,613)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	22,525	-	22,525
Commodities used	39,020	-	39,020
Salaries, wages and benefits (on-behalf payments)	53,792	19,527	73,319
Changes in assets and liabilities			
Accounts receivable	-	(1,013)	(1,013)
Inventories	(812)	-	(812)
Accounts payable	1	346	347
Net cash provided (used) by operating activities	\$ (413,400)	\$ 77,173	\$ (336,227)
<b>Noncash Noncapital Financing Activities</b>			
Donated food commodities received from the U.S. Department of Agriculture	\$ 39,020	\$ -	\$ 39,020
State funding - on-behalf payments	\$ 53,792	\$ 19,527	\$ 73,319

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

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
June 30, 2014

	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 147,630	\$ 1,437,823
Receivables		
Accounts	-	104,702
Capital assets, net of accumulated depreciation	-	528,191
Total assets	147,630	2,070,716
<b>Liabilities</b>		
Accounts payable	64	49,799
Unearned revenue	-	148,637
Due to other governments	-	528,191
Career and Technical Center Escrow	-	1,218,834
Due to student groups	-	125,255
Total liabilities	64	\$ 2,070,716
<b>Net Position</b>		
Net position held in trust	147,566	
Total net position	\$ 147,566	

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

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS**

For the Year Ended June 30, 2014

	<u>Private Purpose Trust Funds</u>
<b>Additions</b>	
Interest	\$ 109
Other local revenues	60,253
<b>Deductions</b>	
Instruction	(3,681)
Community service	<u>(56,476)</u>
<b>Change in net position</b>	<b>205</b>
Net position, beginning of year	<u>147,361</u>
Net position, end of year	<b><u>\$ 147,566</u></b>

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

## **NOTES TO FINANCIAL STATEMENTS**

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

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

The accounting policies of the Murray Independent School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

**A. Reporting Entity**

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

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

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

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

Murray Independent School District Finance Corporation – On February 11, 1993, the Murray Independent, Kentucky, Board of Education resolved to authorize the establishment of the Murray Independent School District Finance corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Murray Independent Board of Education also comprise the Corporation's Board of Directors.

**B. Basis of Presentation**

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the governmental and business-type activities. Direct

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

expenses are those that are specifically associated with a particular function. Program revenues include charges paid for goods or services offered by the program and grants and contributions that are restricted to meeting the financial requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each function is self-financing or is subsidized by the general revenues of the District. The District does not allocate indirect expenses.

Fund Financial Statements – Fund financial statements are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three primary categories: governmental, business-type (proprietary), and fiduciary. An emphasis is placed on major funds within the governmental and business-type categories, and a fund is considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual fund are at least 5 percent of the corresponding total for all governmental and business-type funds combined.

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

The District has the following funds:

I. Governmental Fund Types

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

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

2. The Special Revenue District Activity Fund includes funds restricted to expenditures for purposes specified by Redbook requirements. Project accounting is employed to maintain integrity for the various sources of funds.
- c. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
  2. The Facility Support Program of Kentucky Building Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
  3. The Construction Funds account for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- c. The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Funds)

- a. The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program and School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). This is a major fund of the District.
- b. The Day Care Fund is used to account for school day and after-school day care program activities. Revenues are generated by collection of fees from program participants. Expenditures are for operating activities of the program.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

III. Fiduciary Fund Type (includes agency and private purpose trust funds)

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

The Fiscal Agent Fund was established to administer grants for which the Murray Independent School District has agreed to be the fiscal agent. The District serves as a fiscal agent for the

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

Head Start Program. This program administers Head Start funding to eleven local school districts. The District has a delegate agreement with each of these school districts. The District also serves as fiscal agent for the Murray-Calloway County Career and Technical Center Escrow Fund which was established in joint agreement between the Murray Independent School District and the Calloway County School District in order to build a new facility for the two school districts.

The Private Purpose Trust Fund is used to report trust arrangements which benefit individuals, private organizations or other governments.

**C. Basis of Accounting**

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes levied to finance fiscal year 2014 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and, matching requirements, in which the District must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received, payments made by the State on behalf of the District and changes in the accrued sick leave liability during the year are reported in the statement of cash flows of the proprietary fund as a noncash, noncapital financing activity.

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

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

**D. Property Taxes**

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

The property tax rates for the year ended June 30, 2014 to finance the General Fund operations were \$.595 per \$100 valuation for real property, \$.595 per \$100 valuation for business tangible personal property, and \$.544 per \$100 valuation for motor vehicles.

**E. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed as a current operating expenditure. The District maintains a capitalization threshold as outlined in the Kentucky Department of Education Capital Asset Guide as follows:

<u>Description</u>	<u>Capitalization Threshold</u>
Buildings and improvements	\$ 15,000
Land improvements	15,000
Leasehold improvements	15,000
Software	5,000
Equipment (including technology)	5,000
Vehicles	5,000

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

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**NOTES TO FINANCIAL STATEMENTS**

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**F. Interfund Activity**

Interfund transactions are reflected as loans or transfers. Loans are reported as receivables and payables as appropriate, and are referred to as either "due to/from other funds". These loans are subject to elimination upon consolidation. Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All other interfund transactions are treated as transfers. Transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

**G. Budgetary Process**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. An approved budget can be amended by the Board and all budget appropriations lapse at year-end.

**H. Encumbrance Accounting**

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

**I. Cash, Cash Equivalents and Investments**

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

The District may invest funds in a bank depository selected by the Board, bonds of the United States, or instruments issued by political subdivisions of Kentucky, however, such investments must be approved by the Kentucky Department of Education.

**J. Inventories**

Inventories are stated at cost using the first-in, first-out method for both the governmental fund types and proprietary funds.

Inventories are expensed when used in the government-wide financial statements and recorded as expenditures in the governmental fund types when purchased.

Nonmonetary assistance is reported in the proprietary fund at the market value of the commodities received/used.

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

**K. Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category..

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

**L. Restricted Assets**

Certain investments of the District's Debt Service Fund are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and they are maintained in a separate account.

Certain investments of the District's General Fund are classified as restricted assets on the government-wide statement of net position because their use is limited by agreements with third parties and they are maintained in a separate escrow account for restricted purposes.

**M. Accrued and Long-Term Liabilities**

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

In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**N. Fund Balances**

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

**Nonspendable fund balance**

This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

**Restricted fund balance**

This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.

**Committed fund balance**

This classification includes amounts that can only be used for the specific purposes determined by a formal action of the District's highest level of decision-making authority, the Board of Education of the Murray Independent School District. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally (for example: resolution).

**Assigned fund balance**

This classification includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designee, the Superintendent and/or Board Treasurer, have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

**Unassigned fund balance**

This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

**O. Net Position**

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

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**P. Estimates**

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

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

**Q. Impact of Recently Issued Accounting Pronouncements**

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for financial statements for periods beginning after December 15, 2012. This statement improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows or resources and deferred inflows of resources to ensure consistency in financial reporting. The District implemented this statement in the year ended June 30, 2013.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact that the adoption of Statement 68 will have on the District's financial statements.

**NOTE 2 - DETAILED NOTES ON ACCOUNTS**

**A. Deposits**

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

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

At fiscal year-end, the carrying amount of the District's deposits was \$8,811,052 and the bank balance was \$9,431,733. Of the District's bank balance, \$8,681,733 was collateralized as discussed above because it was uninsured, while \$750,000 was covered by Federal Deposit Insurance.

For purposes of the Statement of Cash Flows, the District considers all investments with a maturity of three months or less when purchased to be cash equivalents.

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

Reconciliation to Government-wide Statement of Net Position:	
Unrestricted cash, including time deposits	\$ 7,225,599
Private purpose trust cash, including time deposits (not included in government-wide statement)	147,630
Agency fund cash (not included in government-wide statement)	<u>1,437,823</u>
	<u>\$ 8,811,052</u>

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

Governmental activities	\$ 6,417,015
Business-type activities	808,584
Fiduciary funds	<u>1,585,453</u>
	<u>\$ 8,811,052</u>

**B. Restricted Investments**

The District entered into an agreement with the Calloway County School District to purchase property from an individual to build a vocational school to be used jointly by the two districts. The joint agreement between the two school districts and the individual stipulates that \$75,000 be held in escrow by a third party agent and restricted for the construction of a road on the property. Murray Independent School District's portion of the restricted funds is \$37,500.

The District does not have an investment policy for interest rate risk, credit risk, custodial credit risk or concentration of credit risk beyond the requirements of KRS 66.480. For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation is exposed to custodial credit risk in that it is uninsured and held by the counterparty's trust department in the District's name.

**C. Capital Assets**

Changes in the capital assets during the year are summarized below:

<u>Governmental Activities</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance June 30, 2014</u>
Non-depreciable					
Land	\$ 891,030	\$ -	\$ -	\$ (37,500)	\$ 853,530
Construction in progress	<u>135,471</u>	<u>1,186,910</u>	<u>1,322,381</u>	<u>-</u>	<u>-</u>
Totals	<u>1,026,501</u>	<u>1,186,910</u>	<u>1,322,381</u>	<u>(37,500)</u>	<u>853,530</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

	Balance July 1, 2013	Additions	Deductions	Transfers	Balance June 30, 2014
Depreciable					
Land improvements	\$ 1,414,327	\$ -	\$ -	\$ -	\$ 1,414,327
Buildings and improvements	18,643,145	1,322,381	-	-	19,965,526
Technology equipment	1,458,160	15,159	224,225	445	1,249,539
Vehicles	746,212	-	-	-	746,212
General equipment	779,715	-	6,885	-	772,830
Totals	23,041,559	1,337,540	231,110	445	24,148,434
Less: Accumulated depreciation					
Land improvements	714,884	45,184	-	-	760,068
Buildings and improvements	7,292,852	660,236	-	-	7,953,088
Technology equipment	1,135,577	130,448	222,297	423	1,044,151
Vehicles	671,577	32,198	-	-	703,775
General equipment	537,858	40,349	6,885	-	571,322
Totals	10,352,748	908,415	229,182	423	11,032,404
Net Book Value	12,688,811	429,125	1,928	22	13,116,030
Governmental activities capital assets - net	\$ 13,715,312	\$ 1,616,035	\$ 1,324,309	\$ (37,478)	\$ 13,969,560
 <u>Business-Type Activities</u>					
Depreciable					
Technology equipment	\$ 23,848	\$ -	\$ -	\$ -	\$ 23,848
General equipment	367,974	14,236	-	-	382,210
Totals	391,822	14,236	-	-	406,058
Less: Accumulated depreciation					
Technology equipment	21,351	785	-	-	22,136
General equipment	282,312	21,740	-	-	304,052
Totals	303,663	22,525	-	-	326,188
Business-type activities capital assets - net	\$ 88,159	\$ (8,289)	\$ -	\$ -	\$ 79,870
 <u>Agency Funds</u>					
Depreciable					
Buildings and improvements	\$ 78,022	\$ -	\$ 61,038	\$ -	\$ 16,984
Technology equipment	180,435	-	20,593	(445)	159,397
Vehicles	1,189,497	106,093	119,250	-	1,176,340
General equipment	558,742	-	3,430	-	555,312
Totals	2,006,696	106,093	204,311	(445)	1,908,033
Less: Accumulated depreciation					
Buildings and improvements	63,925	679	61,038	-	3,566
Technology equipment	158,618	9,117	20,593	(423)	146,719
Vehicles	798,750	88,987	119,250	-	768,487
General equipment	431,446	31,777	2,153	-	461,070
Totals	1,452,739	130,560	203,034	(423)	1,379,842
Agency Funds capital assets - net	\$ 553,957	\$ (24,467)	\$ 1,277	\$ (22)	\$ 528,191

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

Depreciation expense has been recorded as a direct expense in the applicable governmental activity functions, as follows:

Instruction	\$ 734,198
Support services:	
Student	83
Instructional staff	94
District administration	30,080
School administration	20,511
Business	144
Plant operations and management	96,178
Student transportation	<u>27,127</u>
	<u>\$ 908,415</u>

**D. Long-Term Liabilities**

The District's debt is the responsibility of the governmental activities.

The original amount of each bond issue, the bond issue dates, interest rates, and maturity dates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>
2004-KISTA	\$ 36,547	1.00% - 3.50%	2015
2005-KISTA	61,612	3.00% - 3.625%	2015
2004	8,150,000	2.00% - 4.25%	2014
2010	3,235,000	2.00% - 2.50%	2021
2012	5,785,000	1.00% - 2.00%	2024

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Murray Independent Fiscal Court and the Murray Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1986, the District entered into "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs.

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

<u>Issue</u>	<u>Balance at July 1, 2013</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
2004-KISTA	\$ 3,415	\$ -	\$ 3,415	\$ -
2005-KISTA	11,597	-	5,701	5,896
2004	340,000	-	340,000	-
2010	3,135,000	-	320,000	2,815,000
2012	<u>5,665,000</u>	-	<u>125,000</u>	<u>5,540,000</u>
	<u>\$ 9,155,012</u>	<u>\$ -</u>	<u>\$ 794,116</u>	<u>\$ 8,360,896</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2014 for debt service (principal and interest) are as follows:

Year	Murray Independent School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2015	\$ 751,571	\$ 119,024	\$ 59,325	\$ 11,410	\$ 941,330
2016	764,933	134,857	60,067	10,668	970,525
2017	779,032	121,690	60,968	9,768	971,458
2018	728,118	108,704	61,882	8,852	907,556
2019	742,035	94,776	62,965	7,770	907,546
2020-2024	<u>3,956,593</u>	<u>238,133</u>	<u>333,407</u>	<u>20,266</u>	<u>4,548,399</u>
	<u>\$ 7,722,282</u>	<u>\$ 817,184</u>	<u>\$ 638,614</u>	<u>\$ 68,734</u>	<u>\$ 9,246,814</u>

Changes in the long-term liability accounts during the year are summarized below:

	Balance at July 1, 2013	Increases	Decreases	Balance at June 30, 2013	Due in One Year
Bonds	\$ 9,155,012	\$ -	\$ 794,116	\$ 8,360,896	\$ 810,896
Premium on bond issue	12,793	-	1,566	11,227	1,566
	9,167,805	-	795,682	8,372,123	812,462
Accrued sick leave	191,004	61,544	22,656	229,892	14,146
Insurance assessment	-	52,399	-	52,399	13,100
	<u>\$ 9,358,809</u>	<u>\$ 113,943</u>	<u>\$ 818,338</u>	<u>\$ 8,654,414</u>	<u>\$ 839,708</u>

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

**E. Compensated Absences and Accumulated Sick Leave**

Certified and classified employees of the District are entitled to payment of 30% of the value of accumulated sick and personal days upon retirement. Kentucky Revised Statutes allow the District to restrict up to 50% of accumulated benefits for all employees eligible to retire as of September 15, 2013. The total amount of accumulated benefits for all employees eligible to retire at this date is \$174,398. There is no balance restricted in the General Fund at the balance sheet date. The District recognizes the expense of these benefits when payment is made by the governmental fund to a retiring employee.

Accrued sick leave benefits are estimated by the vesting method. This entire future obligation is reported in the government-wide financial statements.

**F. Fund Balances**

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2014 are as follows:

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

	General Fund	Special Revenue Fund	District Activity Fund	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund
Restricted for:							
SFCC escrow	\$ -	\$ -	\$ -	\$ 335,300	\$ 2,321,739	\$ -	\$ -
Construction	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Other	-	-	98,661	86,736	-	-	-
	<u>-</u>	<u>-</u>	<u>98,661</u>	<u>422,036</u>	<u>2,321,739</u>	<u>-</u>	<u>-</u>
Committed for:							
Sick leave	87,199	-	-	-	-	-	-
Kindergarten	149,000	-	-	-	-	-	-
Transportation	150,000	-	-	-	-	-	-
Section 7 personnel	597,000	-	-	-	-	-	-
Insurance assessment	57,828	-	-	-	-	-	-
	<u>1,041,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Assigned for:							
SBDM	108,673	-	-	-	-	-	-
Encumbrances	10,757	-	-	-	-	-	-
	<u>119,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned	<u>2,347,928</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,508,385</u>	<u>\$ -</u>	<u>\$ 98,661</u>	<u>\$ 422,036</u>	<u>\$ 2,321,739</u>	<u>\$ -</u>	<u>\$ -</u>

**G. Deficit Operating/Fund Balances**

There are no funds of the District that currently have a deficit fund balance. However, the following fund had operations that resulted in a current year deficit of revenues/transfers-in over expenditures/transfers-out:

General Fund	\$ 336,954
Construction Fund	583,721
Agency Fund	123,592

**H. Transfers**

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS match	\$ 21,682
General	Construction	Construction	353,189
Capital Outlay	General	Property insurance	56,203
Building	Debt Service	Debt service	831,926
Building	Construction	Construction	250,000

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

**I. On-Behalf Payments**

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2014:

Contributions to Kentucky Teachers'	
Retirement System	\$ 813,531
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	1,493,408
Technology	21,166
Debt service	<u>70,735</u>
	<u>\$ 2,398,840</u>

The District includes on-behalf payments in their budgets. The total of these payments, has been included in revenues and the applicable expenditure functions in these financial statements, as follows:

Governmental activities	
General Fund	\$ 2,254,786
Debt Service Fund	70,735
Business-type activities	
Food Service Fund	53,792
School Age Child Care Fund	<u>19,527</u>
	<u>\$ 2,398,840</u>

**J. Prior Period Adjustment**

Due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, described above in Note 1Q, beginning net position has been decreased by \$86,030 from \$11,275,386 to \$11,189,356. The difference represents a restatement for bond issue costs that were amortized under the prior standards but expensed in the period incurred under the new standards.

**NOTE 3 - OTHER INFORMATION**

**A. Retirement Plans**

**Pension plan**

The District contributes to the Kentucky Teachers' Retirement System (KTRS) and the County Employees' Retirement System (CERS). These are cost-sharing, multiple employer defined benefit plans. KTRS administers retirement and disability annuities, and death and survivor benefits to certified employees and beneficiaries of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). CERS administers similar programs for its employees and beneficiaries of county governmental entities, which includes classified employees of the District.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

<http://ktrs.ky.gov/>. CERS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

Contribution rates for both plans are determined by the legislature. KTRS members are required to contribute 11.355% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.605% of salaries. The federal program for any salaries paid by that program pays the matching contribution. The District is required to contribute 1.50% of all KTRS member salaries to KTRS. CERS members hired before September 1, 2008, are required to contribute 5% of their salaries to CERS. CERS members hired on or after September 1, 2008, are required to contribute an additional 1% their salaries to CERS. The District is required to contribute 18.89% of all CERS salaries.

The District's total payroll for the year was \$9,759,522. The payroll for employees covered under KTRS was \$6,755,303 and for CERS was \$2,835,096.

The contribution requirement for CERS for the year ended June 30, 2014 was \$683,683 which consisted of \$535,549 from the District and \$148,134 from the employees. The Commonwealth contributed \$813,531 to KTRS for the benefit of participating employees. The District contributions to KTRS were \$182,120, which represents \$90,038 for those employees covered by federal programs and \$92,083 for all KTRS employees.

The three-year trend information for the District's contribution requirement to KTRS and CERS is as follows:

<u>Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>
6/30/14	\$ 717,669	100%
6/30/13	683,941	100%
6/30/12	650,274	100%

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations (all dollar amounts are \$1,000's) performed as of June 30, 2013, (the actuarial reports for the year ended June 30, 2014 are not yet available):

	<u>Actuarial</u> <u>Value</u> <u>of Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Underfunded</u> <u>AAL</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>Underfunded</u> <u>Actuarial Liability</u> <u>as Percentage</u> <u>of Covered</u> <u>Payroll</u>
KTRS	\$ 14,962,758	\$ 28,817,232	\$ 13,854,474	51.9%	\$ 3,480,066	398.1%
CERS	7,438,786	12,503,082	5,064,296	60.0%	2,697,950	187.7%

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets. The District also offers employees the option to participate in a defined contribution plan under Internal Revenue Code Sections 403(b) and 457. The District does not contribute to these plans.

**Medical insurance plan**

In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly. KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the medical insurance plan. That report can be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>.

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

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**B. Contingencies and Commitments**

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

**C. Insurance and Related Activities**

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

**D. Litigation**

The Board's legal counsel has advised that the District is not subject to any litigation or unasserted claims as of June 30, 2014.

**E. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases general and auto liability, physical damage insurance, errors and omissions, and general liability coverage from Peel & Holland, Inc. The District purchases worker's compensation insurance through

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

Kentucky Employers' Mutual Insurance. The District pays an annual premium to each fund for coverage.

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

**F. COBRA**

All terminated employees have been notified of available continuing insurance coverage as mandated under COBRA.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND**  
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
From local sources				
Taxes				
Property	\$ 1,520,000	\$ 1,540,000	\$ 1,867,483	\$ 327,483
Motor vehicle	230,000	230,000	266,797	36,797
Utilities	850,000	850,000	924,705	74,705
Other	140,000	140,000	185,922	45,922
Earnings on investments	40,000	45,000	65,228	20,228
Other local revenues	195,450	256,961	365,287	108,326
Intergovernmental - State	<u>7,402,102</u>	<u>7,476,207</u>	<u>7,560,395</u>	<u>84,188</u>
Total revenues	<u>10,377,552</u>	<u>10,538,168</u>	<u>11,235,817</u>	<u>697,649</u>
<b>Expenditures</b>				
Current				
Instruction	7,001,015	7,158,061	6,794,645	363,416
Support Services				
Student	465,472	480,209	472,634	7,575
Instructional staff	534,841	528,729	496,887	31,842
District administration	2,460,913	2,754,562	949,352	1,805,210
School administration	723,517	753,661	703,212	50,449
Business	296,842	368,588	337,377	31,211
Plant operation and management	1,552,720	1,420,675	1,123,125	297,550
Student transportation	506,607	527,792	288,478	239,314
Non-instructional services	19,000	24,500	23,502	998
Debt service				
Principal	64,117	64,117	64,116	1
Interest	2,944	2,944	2,946	(2)
Total expenditures	<u>13,627,988</u>	<u>14,083,838</u>	<u>11,256,274</u>	<u>2,827,564</u>
Excess (deficit) of revenues over expenditures	<u>(3,250,436)</u>	<u>(3,545,670)</u>	<u>(20,457)</u>	<u>3,525,213</u>
<b>Other Financing Sources (Uses)</b>				
Sale of assets	-	-	2,171	2,171
Transfers in	100,436	73,520	56,203	(17,317)
Transfers out	<u>(145,000)</u>	<u>(373,189)</u>	<u>(374,871)</u>	<u>(1,682)</u>
Total other financing sources (uses)	<u>(44,564)</u>	<u>(299,669)</u>	<u>(316,497)</u>	<u>(16,828)</u>
<b>Net change in fund balances</b>	<b>(3,295,000)</b>	<b>(3,845,339)</b>	<b>(336,954)</b>	<b>3,508,385</b>
Fund balances, beginning of year	<u>3,295,000</u>	<u>3,845,339</u>	<u>3,845,339</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,508,385</u>	<u>\$ 3,508,385</u>

See independent auditor's report

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF BUDGETARY COMPARISON - SPECIAL REVENUE FUND**  
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
From local sources				
Other local revenues	\$ 22,000	\$ 75,629	\$ 71,092	\$ (4,537)
Intergovernmental - State	481,776	568,757	537,062	(31,695)
Intergovernmental - Direct Federal	139,668	2,510,353	2,414,417	(95,936)
Intergovernmental - Indirect Federal	693,858	849,379	868,327	18,948
Total revenues	<u>1,337,302</u>	<u>4,004,118</u>	<u>3,890,898</u>	<u>(113,220)</u>
<b>Expenditures</b>				
Current				
Instruction	932,530	3,566,776	3,456,396	110,380
Support Services				
Student	123,451	123,652	124,785	(1,133)
Instructional staff	179,092	210,384	202,095	8,289
District administration	20,000	20,000	20,002	(2)
Non-instructional services	102,229	104,988	109,302	(4,314)
Total expenditures	<u>1,357,302</u>	<u>4,025,800</u>	<u>3,912,580</u>	<u>113,220</u>
Excess (deficit) of revenues over expenditures	<u>(20,000)</u>	<u>(21,682)</u>	<u>(21,682)</u>	<u>-</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	20,000	21,682	21,682	-
Total other financing sources (uses)	<u>20,000</u>	<u>21,682</u>	<u>21,682</u>	<u>-</u>
<b>Net change in fund balances</b>	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report

## **OTHER SUPPLEMENTARY INFORMATION SECTION**

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

**MURRAY INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2014**

	<u>District Activity</u>	<u>Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 46,966	\$ 422,036	\$ -	\$ 469,002
Receivables				
Accounts	52,345	-	-	52,345
<b>Total assets</b>	<b><u>\$ 99,311</u></b>	<b><u>\$ 422,036</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 521,347</u></b>
<b>Liabilities and Fund Balances</b>				
Liabilities				
Accounts payable	\$ 650	\$ -	\$ -	\$ 650
<b>Total liabilities</b>	<u>650</u>	<u>-</u>	<u>-</u>	<u>650</u>
Fund Balances				
Restricted	98,661	422,036	-	520,697
<b>Total fund balances</b>	<u>98,661</u>	<u>422,036</u>	<u>-</u>	<u>520,697</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 99,311</u></b>	<b><u>\$ 422,036</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 521,347</u></b>

*See independent auditor's report*

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2014

	<u>District Activity</u>	<u>Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Revenues</b>				
From local sources				
Earnings on investments	\$ -	\$ 5,049	\$ -	\$ 5,049
Other local revenues	99,311	-	-	99,311
Intergovernmental - State	-	137,890	70,735	208,625
Total revenues	<u>99,311</u>	<u>142,939</u>	<u>70,735</u>	<u>312,985</u>
<b>Expenditures</b>				
Current				
Instruction	650	-	-	650
Debt service				
Principal	-	-	730,000	730,000
Interest	-	-	172,661	172,661
Total expenditures	<u>650</u>	<u>-</u>	<u>902,661</u>	<u>903,311</u>
Excess (deficit) of revenues over expenditures	<u>98,661</u>	<u>142,939</u>	<u>(831,926)</u>	<u>(590,326)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	831,926	831,926
Transfers out	-	(56,203)	-	(56,203)
Total other financing sources (uses)	<u>-</u>	<u>(56,203)</u>	<u>831,926</u>	<u>775,723</u>
<b>Net change in fund balances</b>	<b>98,661</b>	<b>86,736</b>	<b>-</b>	<b>185,397</b>
Fund balances, beginning of year	-	335,300	-	335,300
Fund balances, end of year	<u>\$ 98,661</u>	<u>\$ 422,036</u>	<u>\$ -</u>	<u>\$ 520,697</u>

See independent auditor's report

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES AND EXPENDITURES**  
**AGENCY FUNDS**  
For the Year Ended June 30, 2014

Fund	July 1, 2013	Revenues	Expenditures	June 30, 2014
<b>Activity Funds</b>				
Murray Independent High School				
AP exams	\$ 4,218	\$ 16,983	\$ 21,201	\$ -
Academic team	2,556	2,060	1,861	2,755
Art	398	900	1,298	-
Band	2,963	30,341	31,765	1,539
Black & Gold	1,781	2,332	4,113	-
Black history	68	-	68	-
Book rental	6,345	18,936	25,281	-
Business	1,071	1,560	2,631	-
Cheer	5,474	404	1,990	3,888
Chorus	1,130	2,995	2,892	1,233
Speech	3,285	21,579	22,667	2,197
Drink machine	21	-	21	-
FBLA	369	5,850	5,077	1,142
FCA	8	1,542	1,550	-
French club	477	752	577	652
Baseball fundraiser	91	1	-	92
Library	901	285	1,186	-
Locks	1,625	12,405	13,909	121
Miscellaneous	98	322	420	-
Participation	-	580	200	380
Photo Fee	563	1,133	1,148	548
Student council	1,351	832	1,144	1,039
Student fees	1,215	6,346	7,141	420
TV club	1,515	4,884	2,127	4,272
Yearbook	26,931	16,768	13,746	29,953
Workbooks	-	7,381	7,381	-
Tech education	762	210	972	-
Chess	1,856	1,000	1,496	1,360
Technology fee	868	1,425	2,293	-
FRYSC	1,157	-	1,157	-
Beta club	1,404	960	586	1,778
Guidance department	664	155	819	-
PTO	1,621	805	2,225	201
Dawg pound	989	-	701	288
Science	1,656	2,861	4,517	-
Y club	84	5,560	5,390	254
Math	500	-	150	350
Class of 2013	241	-	241	-
Minigrants	1,562	-	1,562	-
P.E.	717	345	1,062	-
Class of 2014	4,297	2,030	6,327	-
Interact club	226	-	226	-
Bass club	955	-	955	-
Class of 2015	4,239	5,363	6,760	2,842
Class of 2016	2,575	2,190	1,550	3,215
Weather club	500	1,409	1,909	-
Class of 2017	-	4,787	1,663	3,124
Project graduation	-	15,202	14,048	1,154

*See independent auditor's report*

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES AND EXPENDITURES**  
**AGENCY FUNDS**  
For the Year Ended June 30, 2014

Fund	July 1, 2013	Revenues	Expenditures	June 30, 2014
Engineering	\$ -	\$ 550	\$ 351	\$ 199
Girl's basketball	-	12,773	12,698	75
Girl's soccer	-	4,995	4,995	-
G/B golf	-	1,157	1,157	-
Athletic miscellaneous	-	3,727	3,727	-
Athletic	1,116	89,380	90,496	-
Softball	285	2,080	2,365	-
Baseball	-	1,918	1,918	-
G/B swimming	-	2,857	2,857	-
G/B tennis	-	1,621	1,621	-
G/B track	-	7,057	7,057	-
Volleyball	-	5,277	5,277	-
Athletic game administration	-	20,202	20,202	-
Boy's basketball	81	9,675	9,756	-
Dance team	242	40	31	251
Athletic transportation	-	19,668	19,668	-
District volleyball	-	1,477	1,477	-
Boy's soccer	-	4,260	4,260	-
Archery	6,311	16,702	17,162	5,851
Change account	-	19,500	19,500	-
Football state semifinals	-	7,118	7,118	-
Regional track meet	-	734	734	-
G/B cross country	-	1,737	1,737	-
Football state semifinals	-	25,480	25,480	-
Football playoffs 1st round	-	2,719	2,719	-
	<u>99,362</u>	<u>464,177</u>	<u>492,366</u>	<u>71,173</u>
Less: inter-fund transfers	-	100,975	100,975	-
<b>Total Murray Independent High School</b>	<u>99,362</u>	<u>363,202</u>	<u>391,391</u>	<u>71,173</u>
Murray Independent Middle School	118,145	195,237	261,109	52,273
Murray Independent Elementary School	<u>31,340</u>	<u>67,216</u>	<u>96,747</u>	<u>1,809</u>
<b>Total activity funds</b>	<u><b>248,847</b></u>	<u><b>625,655</b></u>	<u><b>749,247</b></u>	<u><b>125,255</b></u>
Head Start	-	4,804,423	4,804,423	-
Career & Technical Center	<u>599,997</u>	<u>618,837</u>	<u>-</u>	<u>1,218,834</u>
<b>Total agency funds</b>	<u><b>\$ 848,844</b></u>	<u><b>\$ 6,048,915</b></u>	<u><b>\$ 5,553,670</b></u>	<u><b>\$ 1,344,089</b></u>

See independent auditor's report

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
<b>U.S. Department of Agriculture</b>				
Passed Through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	510-4500	\$ 95,801	\$ 95,801
National School Lunch Program	10.555	510-4500	337,626	337,626
National School Lunch Program - Donated Commodities	10.555	510-4950	39,020	39,020
Summer Food Service Program or Children	10.559	510-4500	24,697	24,697
Total Nutrition Cluster			<u>497,144</u>	<u>497,144</u>
Total U.S. Department of Agriculture			<u>497,144</u>	<u>497,144</u>
<b>U.S. Department of Education</b>				
Passed Through State Department of Education:				
Title I Cluster:				
Title I Grants to Local Educational Agencies	84.010	220-4500-3104	285,806	119,043
Title I Grants to Local Educational Agencies	84.010	220-4500-3103	309,747	183,434
Title I Grants to Local Educational Agencies	84.010	220-4500-3144	9,023	2,868
Title I Grants to Local Educational Agencies	84.010	220-4500-3143	8,243	6,047
Total Title I Cluster			<u>612,819</u>	<u>311,392</u>
Special Education Cluster:				
Special Education_Grants to States	84.027	220-4500-3374	249,282	21,455
Special Education_Grants to States	84.027	220-4500-3373	275,305	258,442
Special Education_Grants to States	84.027	220-4500-3373P	1,400	1,400
Special Education_Grants to States	84.027	220-4500-3372P	2,786	2,786
		Sub-total	<u>528,773</u>	<u>284,083</u>
Special Education_Preschool Grants	84.173	220-4500-3434	18,937	16,880
Special Education_Preschool Grants	84.173	220-4500-3433	18,488	600
Special Education_Preschool Grants	84.173	220-4500-3433P	627	627
		Sub-total	<u>38,052</u>	<u>18,107</u>
Total Special Education Cluster			<u>566,825</u>	<u>302,190</u>
English Language Acquisition State Grants	84.365	220-4500-3454	7,915	7,915
Career and Technical Education - Basic Grants to States	84.048	220-4500-3484	11,678	7,595
Career and Technical Education - Basic Grants to States	84.048	220-4500-3483	10,131	1,526
Career and Technical Education - Basic Grants to States	84.048	220-4500-3483A	609	609
			<u>22,418</u>	<u>9,730</u>
Rural Education	84.358	220-4500-3504	26,978	26,978
Improving Teacher Quality State Grants	84.367	220-4500-4014	62,091	45,393
Improving Teacher Quality State Grants	84.367	220-4500-4013	64,527	16,528
Improving Teacher Quality State Grants	84.367	220-4500-4013T	25,000	4,448
		Sub-total	<u>151,618</u>	<u>66,369</u>
Race to the Top	84.395	220-4500-4521	12,716	8,272
Total U.S. Department of Education			<u>1,401,289</u>	<u>732,846</u>

*See independent auditor's report*  
*The accompanying notes are integral part of this schedule*

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2014

<u>Federal Grantor/ Pass-Through Grantor/CFDA Program Title</u>	<u>Federal CFDA Number</u>	<u>MUNIS Account Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
<b>U.S. Department of Health &amp; Human Services</b>				
Direct Programs:				
Head Start - MBE	93.600	220-6554M	1,255,579	1,007,491
Head Start - MBE	93.600	220-6553M	1,178,169	194,681
		Sub-total	<u>2,433,748</u>	<u>1,202,172</u>
Head Start - EHS	93.600	220-6554E	1,090,406	884,554
Head Start - EHS	93.600	220-6553E	975,375	165,955
		Sub-total	<u>2,065,781</u>	<u>1,050,509</u>
		Total Direct	<u>4,499,529</u>	<u>2,252,681</u>
Passed Through Western Kentucky University:				
Head Start	93.600	220-6554	164,368	147,267
Head Start	93.600	220-6553	166,733	14,470
		Sub-total	<u>331,101</u>	<u>161,737</u>
Head Start	93.600	220-6554W	148,943	90,063
Head Start	93.600	220-6553W	140,483	45,417
		Sub-total	<u>289,426</u>	<u>135,480</u>
		Total Indirect	<u>620,527</u>	<u>297,217</u>
Total Head Start			<u>5,120,056</u>	<u>2,549,898</u>
Total U.S. Department of Health & Human Services			<u>5,120,056</u>	<u>2,549,898</u>
<b>Total federal awards</b>			<u>\$ 7,018,489</u>	<u>\$ 3,779,888</u>
<b>Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures</b>				
Total expenditures of federal awards				\$ 3,779,888
Total expenditures of state and local awards				629,836
Expenditure of federal awards in the food service fund				<u>(497,144)</u>
<b>Total expenditures as reported in the special revenue fund on statement revenues, expenditures and changes in fund balances - governmental funds</b>				<u>\$ 3,912,580</u>

*See independent auditor's report  
The accompanying notes are integral part of this schedule*

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2014

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Murray Independent School District under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Murray Independent School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Murray Independent School District.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**NOTE 3 - FOOD DISTRIBUTION**

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

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**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With Government Auditing Standards**

Kentucky State Committee for School District Audits  
Members of the Murray Independent Board of Education  
Murray, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Murray Independent School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Murray Independent School District's basic financial statements and have issued our report thereon dated November 13, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Murray 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 Murray Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Murray Independent School District's internal control.

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Murray 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of the District in a separate letter dated November 13, 2014, as required by the auditor's contract with the Kentucky Department of Education.

## **Purpose of this Report**

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

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 13, 2014

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**Report on Compliance for Each Major Federal Program and Report on  
Internal Control Over Compliance Required by OMB Circular A-133**

**Independent Auditor's Report**

Kentucky State Committee for School District Audits  
Members of the Murray Independent Board of Education  
Murray, Kentucky

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

We have audited Murray 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 Murray Independent School District's major federal programs for the year ended June 30, 2014. Murray 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 Murray Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Murray 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 Murray Independent School District's compliance.

## Opinion on Each Major Federal Program

In our opinion, Murray Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of Murray 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 Murray 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 Murray 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.

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 13, 2014

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**MURRAY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2014

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u>      </u> yes	<u>  x  </u> no	
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  x  </u> none reported	

Noncompliance material to financial statements noted?        yes   x   no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?	<u>      </u> yes	<u>  x  </u> no	
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  x  </u> none reported	

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Clusters
84,027; 84.173	Special Education Cluster
93.600	Head Start

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

Auditee qualified as low-risk auditee?   x   yes       

**FINANCIAL STATEMENT FINDINGS**

None reported

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported

## **MANAGEMENT LETTER POINTS**

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Bob Rogers, Superintendent  
Murray Independent Board of Education  
Murray, Kentucky

In planning and performing our audit of the financial statements of Murray Independent School District for the year ended June 30, 2014, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated November 13, 2014, on the financial statements of Murray Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Sincerely,

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 13, 2014

**MURRAY INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS**

June 30, 2014

**MANAGEMENT LETTER POINTS**

- I. **Condition:** A lack of segregation of duties related to user access within the District's MUNIS system. Certain users who authorize transactions and have custody of assets within the organization are also superusers of the MUNIS accounting software.

**Criteria:** Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement AU-C Section 315 addresses the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment, including the entity's internal control. Segregation of duties is a basic component of internal control and is referenced in the above professional standard.

**Cause:** Due to the limited number of available staff, user rights within the system for certain employees include unlimited access to all modules in MUNIS.

**Effect:** Unlimited access within the MUNIS system paired with users who authorize transactions and have custody of assets in the organization provide opportunity for manipulation of accounting records and misappropriation of assets.

**Recommendation:** Superusers should not be granted the authority to authorize transactions.

**Response:** Due to the frequent need to perform functions only available to superusers the District accepts the risks described above.

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
June 30, 2014

**FINANCIAL STATEMENT FINDINGS**

None reported

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported

**MANAGEMENT LETTER POINTS**

None