

MURRAY INDEPENDENT SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2015

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INTRODUCTORY SECTION

MURRAY INDEPENDENT SCHOOL DISTRICT

June 30, 2015

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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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension information on pages 4-11 and 47-53 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 12, 2015, 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 12, 2015



MURRAY INDEPENDENT SCHOOL DISTRICT

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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, 2015

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, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. The implementation of Governmental Accounting Standards Board (GASB) Statements No. 68 and 71, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*, during 2015 causes some financial information reported in the MD&A for 2015 and 2014 not to be comparable.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$9,723,925, as compared with the beginning cash balance of \$8,811,052. The ending cash balance consists of General Fund of \$3,361,711, Special Revenue of \$0, Construction Fund \$10,852, Facility Support Program (FSPK) Fund of \$2,848,622, Capital Outlay of \$507,160, District Activity Fund of \$99,274, School Food Service Fund of \$285,174, Daycare Fund of \$523,420, School Activity Funds of \$121,985, Career and Technical Center of \$1,712,439 and the Private Purpose Trust Fund of \$145,024.
- Total government-wide net position decreased by \$3,276,902 for the fiscal year ended June 30, 2015. Total long-term liabilities had a net increase of \$3,217,273, while the unrestricted net assets decreased \$3,324,656 and restricted assets increased \$37,500.
- The General Fund had \$11,966,611 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 \$11,235,817. Excluding interfund transfers, there were \$12,112,872 in General Fund expenditures. This compares to \$11,256,274 in General Fund expenditures for the prior year.
- The District, in a joint venture with Calloway County Schools, has begun preliminary work to construct a new Career and Technical Center facility. This projection for the completion of this construction project is late fiscal year 2016. The estimated cost of this project is \$7 million dollars which will be funded by bonds and funds deposited in the joint Career and Technical Center bank account per the long term non-resident agreement between the two districts
- Focus for the future is maintenance and renovation of current facilities.
- The District remains committed to maintaining competitive teacher salaries, which exceed the state minimum requirements.

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- The financial statements reflect a total of \$2,774,702 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.
- The financial statements for this fiscal year reflect changes as the result of recently issued accounting pronouncements in regard to the financial reporting and disclosure of pension plans. These changes are detailed in the notes to 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 \$9,328,362 as of June 30, 2015.

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

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

Following is a summary of the District’s government-wide net position for the fiscal years ended June 30, 2014 and 2015:

**Table 1
Net Position**

Assets	2014	2015
Current assets	\$ 7,523,543	\$ 8,040,735
Noncurrent assets	<u>14,049,430</u>	<u>13,247,222</u>
Total assets	<u>21,572,973</u>	<u>21,287,957</u>
Deferred Outflows of Resources	<u>-</u>	<u>511,904</u>
Liabilities		
Current liabilities	313,295	1,109,490
Noncurrent liabilities	<u>8,654,414</u>	<u>11,004,235</u>
Total liabilities	<u>8,967,709</u>	<u>12,113,725</u>
Deferred Inflows of Resources	<u>-</u>	<u>357,774</u>
Net position		
Net investment in capital assets	5,677,307	5,867,561
Restricted	2,842,436	2,879,936
Unrestricted	<u>4,085,521</u>	<u>760,865</u>
Total net position	<u>\$ 12,605,264</u>	<u>\$ 9,328,362</u>

Changes in net position. The District's governmental activities net position decreased by \$2,856,063 and business-type activities net position decreased \$420,839.

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 2015:

Table 2
Changes in Net Position

	2014	2015
Revenues		
Program revenues:		
Charges for services	\$ 805,804	\$ 802,098
Operating grants and contributions	4,586,198	4,987,165
General revenues:		
Local taxes	3,992,771	4,060,802
Investment earnings	101,231	102,742
Other local revenue	107,351	55,714
State aid - formula grants	8,270,166	10,214,428
Insurance recoveries	5,214	-
Gain (loss) on sale of assets	<u>243</u>	<u>12,692</u>
Total revenues	<u>17,868,978</u>	<u>20,235,641</u>
Program expenses		
Instruction	10,996,824	12,821,893
Support services:		
Student	600,925	669,009
Instructional staff	701,239	714,769
District administration	1,040,038	1,055,119
School administration	719,011	813,169
Business	337,521	400,101
Plant operations and maintenance	1,220,901	1,227,205
Student transportation	316,471	328,741
Non-instructional services	149,351	183,794
Interest on long-term debt	169,218	152,212
Food service	867,895	901,316
Day care	<u>156,536</u>	<u>201,658</u>
Total expenses	<u>17,275,930</u>	<u>19,468,986</u>
Change in net position	<u>\$ 593,048</u>	<u>\$ 766,655</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 \$6,952,969, an increase of \$602,148 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 \$2,280,908, while total fund balance was \$3,488,908. 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 18.83% of total General Fund expenditures, while total fund balance represents 28.80% of that same amount.

During the current fiscal year, the total fund balance of the General Fund decreased by \$19,477. This decrease in total fund balances was primarily due to mandated salary increases. Revenues and transfers totaling \$12,134,905 increased by \$840,714 while expenditures and transfers totaling \$12,154,382, increased by \$523,237

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 \$1,550,000 in contingency (10.84%). Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by DOE.

As noted on the Budgetary Comparison Schedule for the General Fund contained in the Required Supplementary Information, the General Fund budget includes \$2,455,400, of state payments on-behalf of District employees for retirement and health benefits in addition to district technology and debt service. 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, 2015, net of interfund transfers and beginning balances, were \$11,966,611; compared to the total budgeted revenues of \$11,179,583.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2015, net of interfund transfers were \$12,112,872; compared to the total budgeted expenditures, net of contingency (\$1,550,000), of \$13,251,759.

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, 2015, the District (excluding Head Start) had \$13,247,222 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 \$139,286 was expended on acquisition and improvements during the year. Depreciation charged to expense during the year totaled \$939,664, 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 2015.

Table 4

	Governmental Activities <u>2014</u>	Governmental Activities <u>2015</u>	Proprietary (Business-type) Activities <u>2014</u>	Proprietary (Business-type) Activities <u>2015</u>
Land	\$ 853,530	\$ 853,530	\$ -	\$ -
Land improvements	654,259	609,075	-	-
Buildings and improvements	12,012,438	11,333,249	-	-
Technology equipment	205,388	122,918	1,712	951
Vehicles	42,437	100,925	-	-
General equipment	<u>201,508</u>	<u>167,512</u>	<u>78,158</u>	<u>59,062</u>
Total capital assets	<u>\$13,969,560</u>	<u>\$13,187,209</u>	<u>\$ 79,870</u>	<u>\$ 60,013</u>

Long-Term Debt – The District's long-term general obligation bonds outstanding at June 30, 2015 were \$7,550,000. 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 \$579,289 of the bonds leaving the District to pay \$6,970,711. 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 13th Street, Murray, Kentucky 42071.

BASIC FINANCIAL STATEMENTS

MURRAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 6,827,619	\$ 808,594	\$ 7,636,213
Receivables			
Accounts	167,791	6,317	174,108
Intergovernmental - State and local	18,600	-	18,600
Intergovernmental - Federal	142,108	17,291	159,399
Inventories	-	14,915	14,915
Restricted investments	37,500	-	37,500
Capital assets not being depreciated			
Land	853,530	-	853,530
Capital assets, net of accumulated depreciation			
Land improvements	609,075	-	609,075
Buildings and improvements	11,333,249	-	11,333,249
Technology equipment	122,918	951	123,869
Vehicles	100,925	-	100,925
General equipment	167,512	59,062	226,574
Total assets	<u>20,380,827</u>	<u>907,130</u>	<u>21,287,957</u>
Deferred Outflows of Resources			
Pension - contributions subsequent to measurement date	460,714	51,190	511,904
Liabilities			
Accounts payable	57,765	2,248	60,013
Unearned revenue	132,284	-	132,284
Accrued interest	49,741	-	49,741
Long-term liabilities			
Portion due or payable within one year			
Insurance assessment	13,100	-	13,100
Bonds and capital lease	826,566	-	826,566
Accrued sick leave	27,786	-	27,786
Portion due or payable after one year			
Insurance assessment	26,199	-	26,199
Bonds and capital lease	6,733,095	-	6,733,095
Accrued sick leave	238,488	-	238,488
Pension liability	3,605,807	400,646	4,006,453
Total liabilities	<u>11,710,831</u>	<u>402,894</u>	<u>12,113,725</u>
Deferred Inflows of Resources			
Pension - difference between projected and actual earnings on investments	321,997	35,777	357,774
Net Position			
Net investment in capital assets	5,627,548	60,013	5,687,561
Restricted for			
SFCC	3,355,782	-	3,355,782
Construction	37,500	-	37,500
Unrestricted	(212,117)	459,636	247,519
Total net position	<u>\$ 8,808,713</u>	<u>\$ 519,649</u>	<u>\$ 9,328,362</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, 2015

<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	\$ 12,821,893	\$ 165,939	\$ 4,358,535	\$ (8,297,419)	\$ -	\$ (8,297,419)
Support services						
Student	669,009	91,024	-	(577,985)	-	(577,985)
Instructional staff	714,769	-	-	(714,769)	-	(714,769)
District administration	1,055,119	-	-	(1,055,119)	-	(1,055,119)
School administration	813,169	-	-	(813,169)	-	(813,169)
Business	400,101	-	-	(400,101)	-	(400,101)
Plant operations and management	1,227,205	-	-	(1,227,205)	-	(1,227,205)
Student transportation	328,741	-	-	(328,741)	-	(328,741)
Non-instructional services	183,794	-	-	(183,794)	-	(183,794)
Interest on long-term debt	152,212	-	-	(152,212)	-	(152,212)
Total governmental activities	<u>18,366,012</u>	<u>256,963</u>	<u>4,358,535</u>	<u>(13,750,514)</u>	<u>-</u>	<u>(13,750,514)</u>
Business-type activities						
Food service	901,316	341,369	603,206	-	43,259	43,259
Day care	201,658	203,766	25,424	-	27,532	27,532
Total business-type activities	<u>1,102,974</u>	<u>545,135</u>	<u>628,630</u>	<u>-</u>	<u>70,791</u>	<u>70,791</u>
Total primary government	<u>\$ 19,468,986</u>	<u>\$ 802,098</u>	<u>\$ 4,987,165</u>	<u>(13,750,514)</u>	<u>70,791</u>	<u>(13,679,723)</u>
General revenues:						
Taxes						
Property				2,741,140	-	2,741,140
Motor vehicle				270,232	-	270,232
Utilities				878,136	-	878,136
Other				171,294	-	171,294
Investment earnings				99,714	3,028	102,742
Other local revenue				55,714	-	55,714
State aid - formula grants				10,214,428	-	10,214,428
Gain on disposal of capital assets				12,692	-	12,692
Transfers				90,302	(90,302)	-
Total general revenues and transfers				<u>14,533,652</u>	<u>(87,274)</u>	<u>14,446,378</u>
Change in net position				783,138	(16,483)	766,655
Net position, beginning of year				11,664,776	940,488	12,605,264
Restatement - Implementation of GASB Statements No. 68 and 71				<u>(3,639,201)</u>	<u>(404,356)</u>	<u>(4,043,557)</u>
Total net position, beginning of year restated				<u>8,025,575</u>	<u>536,132</u>	<u>8,561,707</u>
Net position, end of year				<u>\$ 8,808,713</u>	<u>\$ 519,649</u>	<u>\$ 9,328,362</u>

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

MURRAY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	<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>
Assets						
Cash and cash equivalents	\$ 3,361,711	\$ -	\$ 2,848,622	\$ 10,852	\$ 606,434	\$ 6,827,619
Receivables						
Accounts	157,203	-	-	-	10,588	167,791
Intergovernmental - State and local	-	18,600	-	-	-	18,600
Intergovernmental - Federal	-	142,108	-	-	-	142,108
Due from other funds	25,978	-	-	-	-	25,978
Total assets	<u>\$ 3,544,892</u>	<u>\$ 160,708</u>	<u>\$ 2,848,622</u>	<u>\$ 10,852</u>	<u>\$ 617,022</u>	<u>\$ 7,182,096</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 55,984	\$ 2,446	\$ -	\$ 10,852	\$ 1,583	\$ 70,865
Unearned revenue	-	132,284	-	-	-	132,284
Due to other funds	-	25,978	-	-	-	25,978
Total liabilities	<u>55,984</u>	<u>160,708</u>	<u>-</u>	<u>10,852</u>	<u>1,583</u>	<u>229,127</u>
Fund Balances						
Restricted	-	-	2,848,622	-	507,160	3,355,782
Committed	1,082,448	-	-	-	108,279	1,190,727
Assigned	125,552	-	-	-	-	125,552
Unassigned	2,280,908	-	-	-	-	2,280,908
Total fund balances	<u>3,488,908</u>	<u>-</u>	<u>2,848,622</u>	<u>-</u>	<u>615,439</u>	<u>6,952,969</u>
Total liabilities and fund balances	<u>\$ 3,544,892</u>	<u>\$ 160,708</u>	<u>\$ 2,848,622</u>	<u>\$ 10,852</u>	<u>\$ 617,022</u>	<u>\$ 7,182,096</u>

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, 2015**

Total fund balances - governmental funds	\$	6,952,969
Amounts reported for governmental activities in the statement of net position are different because:		
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 \$24,993,089, and the accumulated depreciation is \$11,805,880.		13,187,209
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.		37,500
Deferred outflows of resources related to pensions are not reported in the governmental fund because the consumption of net position will occur in future periods.		460,714
Deferred inflows of resources related to pensions are not reported in the governmental fund because the acquisition of net position will occur in future periods.		(321,997)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and capital leases payable	(7,559,661)	
Accrued interest on bonds	(49,741)	
Accrued sick leave payable	(266,274)	
Insurance assessment	(26,199)	
Pension liability	<u>(3,605,807)</u>	
		<u>(11,507,682)</u>
Total net position - governmental activities	\$	<u>8,808,713</u>

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, 2015

	General Fund	Special Revenue Fund	Building Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
From local sources						
Taxes						
Property	\$ 1,963,327	\$ -	\$ 777,813	\$ -	\$ -	\$ 2,741,140
Motor vehicle	270,232	-	-	-	-	270,232
Utilities	878,136	-	-	-	-	878,136
Other	171,294	-	-	-	-	171,294
Earnings on investments	65,468	-	26,775	-	7,471	99,714
Other local revenues	302,785	42,512	-	-	128,802	474,099
Intergovernmental - State	8,315,369	656,061	557,710	-	214,427	9,743,567
Intergovernmental - Direct Federal	-	2,629,060	-	-	-	2,629,060
Intergovernmental - Indirect Federal	-	911,992	-	-	-	911,992
Total revenues	11,966,611	4,239,625	1,362,298	-	350,700	17,919,234
Expenditures						
Current						
Instruction	7,407,166	3,799,525	-	-	120,722	11,327,413
Support Services						
Student	507,552	122,714	-	-	172	630,438
Instructional staff	453,088	201,088	-	-	321	654,497
District administration	1,038,460	-	-	-	-	1,038,460
School administration	737,944	-	-	-	-	737,944
Business	379,719	-	-	-	-	379,719
Plant operation and management	1,097,848	20,000	-	-	105	1,117,953
Student transportation	392,257	-	-	-	433	392,690
Non-instructional services	36,660	129,456	-	-	-	166,116
Facilities acquisition and construction	-	-	-	8,352	-	8,352
Debt service						
Principal	60,896	-	-	-	750,000	810,896
Interest	1,282	-	-	-	156,150	157,432
Total expenditures	12,112,872	4,272,783	-	8,352	1,027,903	17,421,910
Excess (deficit) of revenues over expenditures	(146,261)	(33,158)	1,362,298	(8,352)	(677,203)	497,324
Other Financing Sources (Uses)						
Sale of assets	14,522	-	-	-	-	14,522
Transfers in	153,772	33,158	-	8,352	835,415	1,030,697
Transfers out	(41,510)	-	(835,415)	-	(63,470)	(940,395)
Total other financing sources (uses)	126,784	33,158	(835,415)	8,352	771,945	104,824
Net change in fund balances	(19,477)	-	526,883	-	94,742	602,148
Fund balances, beginning of year	3,508,385	-	2,321,739	-	520,697	6,350,821
Fund balances, end of year	\$ 3,488,908	\$ -	\$ 2,848,622	\$ -	\$ 615,439	\$ 6,952,969

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, 2015

Total net change in fund balances - governmental funds **\$ 602,148**

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 depreciation expense (\$919,807) exceeds capital outlays (\$139,311) in the period. (780,496)

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. (1,855)

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. 5,220

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. 810,896

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. (37,986)

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. 13,100

The actuarially determined pension expense does not consume current financial resources and, therefore, is not reported in the governmental funds. It is reported as expenses in the statement of activities. (288,603)

The payment of pension contributions consumes current financial resources in the governmental funds. In the statement of activities, however, current year pension contributions are reported as deferred outflows of resources. 460,714

Change in net position of governmental activities **\$ 783,138**

MURRAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total Enterprise Funds</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 285,174	\$ 523,420	\$ 808,594
Receivables			
Accounts	3,385	2,932	6,317
Intergovernmental - Federal	17,291	-	17,291
Inventories	<u>14,915</u>	<u>-</u>	<u>14,915</u>
Total current assets	<u>320,765</u>	<u>526,352</u>	<u>847,117</u>
Noncurrent assets			
Technology equipment	20,211	-	20,211
General equipment	382,210	-	382,210
Accumulated depreciation	<u>(342,408)</u>	<u>-</u>	<u>(342,408)</u>
Total noncurrent assets	<u>60,013</u>	<u>-</u>	<u>60,013</u>
Total assets	<u>380,778</u>	<u>526,352</u>	<u>907,130</u>
Deferred Outflows of Resources			
Pension - contributions subsequent to measurement date	<u>46,071</u>	<u>5,119</u>	<u>51,190</u>
Liabilities			
Current liabilities			
Accounts payable	<u>45</u>	<u>2,203</u>	<u>2,248</u>
Total current liabilities	<u>45</u>	<u>2,203</u>	<u>2,248</u>
Noncurrent liabilities			
Pension liability	<u>360,581</u>	<u>40,065</u>	<u>400,646</u>
Total noncurrent liabilities	<u>360,581</u>	<u>40,065</u>	<u>400,646</u>
Total liabilities	<u>360,626</u>	<u>42,268</u>	<u>402,894</u>
Deferred Inflows of Resources			
Pension - difference between projected and actual earnings on investments	<u>32,200</u>	<u>3,577</u>	<u>35,777</u>
Net Position			
Investment in capital assets	60,013	-	60,013
Unrestricted	<u>(25,990)</u>	<u>485,626</u>	<u>459,636</u>
Total net position	<u>\$ 34,023</u>	<u>\$ 485,626</u>	<u>\$ 519,649</u>

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, 2015

	Food Service Fund	Day Care Fund	Total Enterprise Funds
Operating Revenues			
Lunchroom sales	\$ 341,369	\$ -	\$ 341,369
Student fees	-	203,766	203,766
Total operating revenues	<u>341,369</u>	<u>203,766</u>	<u>545,135</u>
Operating Expenses			
Salaries, wages and benefits	386,328	170,469	556,797
Contract services	30,099	257	30,356
Materials and supplies	464,132	30,932	495,064
Depreciation	19,857	-	19,857
Other	900	-	900
Total operating expenses	<u>901,316</u>	<u>201,658</u>	<u>1,102,974</u>
Operating income (loss)	<u>(559,947)</u>	<u>2,108</u>	<u>(557,839)</u>
Non-Operating Revenues (Expenses)			
Interest income	3,028	-	3,028
State matching	8,769	-	8,769
Grants - child nutrition program	495,153	-	495,153
Donated commodities	44,664	-	44,664
State funding - on-behalf payments	54,620	25,424	80,044
Total non-operating revenues (expenses)	<u>606,234</u>	<u>25,424</u>	<u>631,658</u>
Income before transfers	<u>46,287</u>	<u>27,532</u>	<u>73,819</u>
Transfers out	<u>-</u>	<u>(90,302)</u>	<u>(90,302)</u>
Change in net position	46,287	(62,770)	(16,483)
Total net position, beginning of year	351,657	588,831	940,488
Restatement - Implementation of GASB Statements No. 68 and 71	<u>(363,921)</u>	<u>(40,435)</u>	<u>(404,356)</u>
Total net position, beginning of year, restated	<u>(12,264)</u>	<u>548,396</u>	<u>536,132</u>
Total net position, end of year	<u>\$ 34,023</u>	<u>\$ 485,626</u>	<u>\$ 519,649</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, 2015

	Food Service Fund	Day Care Fund	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 341,369	\$ -	\$ 341,369
Student fees	-	212,863	212,863
Cash paid for:			
Salaries, wages and benefits	(348,919)	(146,957)	(495,876)
Contract services	(30,099)	(257)	(30,356)
Materials and supplies	(409,547)	(29,086)	(438,633)
Other	(900)	-	(900)
Net cash provided (used) by operating activities	(448,096)	36,563	(411,533)
Cash Flows from Noncapital Financing Activities			
Federal grants received	490,048	-	490,048
State grants received	8,769	-	8,769
Transfer to other funds	-	(90,302)	(90,302)
Net cash provided (used) by noncapital financing activities	498,817	(90,302)	408,515
Cash Flows from Investing Activities			
Interest income	3,028	-	3,028
Net increase (decrease) in cash and cash equivalents	53,749	(53,739)	10
Cash and cash equivalents, beginning of year	231,425	577,159	808,584
Cash and cash equivalents, end of year	\$ 285,174	\$ 523,420	\$ 808,594
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (559,947)	\$ 2,108	\$ (557,839)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	19,857	-	19,857
Commodities used	44,664	-	44,664
Salaries, wages and benefits (on-behalf payments)	54,620	25,424	80,044
Changes in assets and liabilities			
Receivables, account	-	9,097	9,097
Inventories	9,877	-	9,877
Accounts payable	44	1,846	1,890
Pension contributions subsequent to the measurement date in excess of actuarially determined pension expense	(17,211)	(1,912)	(19,123)
Net cash provided (used) by operating activities	\$ (448,096)	\$ 36,563	\$ (411,533)
Noncash Noncapital Financing Activities			
Donated food commodities received from the U.S. Department of Agriculture	\$ 44,664	\$ -	\$ 44,664
State funding - on-behalf payments	\$ 54,620	\$ 25,424	\$ 80,044

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

MURRAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2015

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 145,024	\$ 1,942,688
Receivables		
Accounts	1,704	162,548
Capital assets, net of accumulated depreciation	-	424,252
Total assets	146,728	2,529,488
Liabilities		
Accounts payable	1,021	155,378
Unearned revenue	-	148,867
Due to other governments	-	424,252
Career and Technical Center Escrow	-	1,679,006
Due to student groups	-	121,985
Total liabilities	1,021	\$ 2,529,488
Net Position		
Net position held in trust	145,707	
Total net position	\$ 145,707	

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, 2015

	Private Purpose Trust Funds
Additions	
Interest	\$ 111
Other local revenues	63,453
Deductions	
Instruction	(981)
Community service	(64,442)
Change in net position	(1,859)
Net position, beginning of year	147,566
Net position, end of year	\$ 145,707

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, 2015

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, 2015

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, 2015

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.
- 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. This is a major fund of the District.

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

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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 2015 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.

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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, 2015 to finance the General Fund operations were \$.598 per \$100 valuation for real property, \$.598 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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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
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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 reports pension-related items 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 record pension-related items 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. Pensions

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

O. 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:

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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.

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.

P. 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.

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Q. 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.

R. Impact of Recently Issued Accounting Pronouncements

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. The District has implemented this statement in the year ended June 30, 2015. The implementation resulted in the presentation of a net pension liability, deferred outflows of resource, and deferred inflows of resources on the statement of net position that previously had not reported. As a result, the related beginning balances of \$4,043,557 have been recorded in the prior period adjustment explained in Note 2J.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. This Statement applies to all state and local governmental entities. The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. This statement has not had any impact on the District's financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions. The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a state or local government extends or receives a nonexchange financial guarantee. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013. This Statement has not had any impact on the District's financial statements.

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In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The implementation of this statement resulted in restatement of net position related to contributions subsequent to the previous year's measurement date.

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 \$9,723,925 and the bank balance was \$10,164,140. Of the District's bank balance, \$9,414,140 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.

Reconciliation to Government-wide Statement of Net Position:

Unrestricted cash, including time deposits	\$ 7,636,213
Private purpose trust cash, including time deposits (not included in government-wide statement)	145,024
Agency fund cash (not included in government-wide statement)	<u>1,942,688</u>
	<u>\$ 9,723,925</u>

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

Governmental activities	\$ 6,827,619
Business-type activities	808,594
Fiduciary funds	<u>2,087,712</u>
	<u>\$ 9,723,925</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT
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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, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance June 30, 2015</u>
Non-depreciable					
Land	\$ 853,530	\$ -	\$ -	\$ -	\$ 853,530
Totals	<u>853,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>853,530</u>
Depreciable					
Land improvements	1,414,327	-	-	-	1,414,327
Buildings and improvements	19,965,526	8,352	-	-	19,973,878
Technology equipment	1,249,539	33,331	81,120	1,179	1,202,929
Vehicles	746,212	90,302	61,955	-	774,559
General equipment	772,830	7,301	6,265	-	773,866
Totals	<u>24,148,434</u>	<u>139,286</u>	<u>149,340</u>	<u>1,179</u>	<u>24,139,559</u>
Less: Accumulated depreciation					
Land improvements	760,068	45,184	-	-	805,252
Buildings and improvements	7,953,088	687,541	-	-	8,640,629
Technology equipment	1,044,151	115,442	80,736	1,154	1,080,011
Vehicles	703,775	31,814	61,955	-	673,634
General equipment	571,322	39,826	4,794	-	606,354
Totals	<u>11,032,404</u>	<u>919,807</u>	<u>147,485</u>	<u>1,154</u>	<u>11,805,880</u>
Net Book Value	<u>13,116,030</u>	<u>(780,521)</u>	<u>1,855</u>	<u>25</u>	<u>12,333,679</u>
Governmental activities capital assets - net	<u>\$ 13,969,560</u>	<u>\$ (780,521)</u>	<u>\$ 1,855</u>	<u>\$ 25</u>	<u>\$ 13,187,209</u>

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<u>Business-Type Activities</u>	<u>Balance</u> July 1, 2014	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u> June 30, 2015
Depreciable					
Technology equipment	\$ 23,848	\$ -	\$ 2,973	\$ (664)	\$ 20,211
General equipment	382,210	-	-	-	382,210
Totals	<u>406,058</u>	<u>-</u>	<u>2,973</u>	<u>(664)</u>	<u>402,421</u>
Less: Accumulated depreciation					
Technology equipment	22,136	761	2,973	(664)	19,260
General equipment	304,052	19,096	-	-	323,148
Totals	<u>326,188</u>	<u>19,857</u>	<u>2,973</u>	<u>(664)</u>	<u>342,408</u>
Business-type activities capital assets - net	<u>\$ 79,870</u>	<u>\$ (19,857)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,013</u>
 <u>Agency Funds</u>					
Depreciable					
Buildings and improvements	\$ 16,984	\$ -	\$ -	\$ -	\$ 16,984
Technology equipment	159,397	-	-	(514)	158,883
Vehicles	1,176,340	19,895	80,930	-	1,115,305
General equipment	555,312	-	20,048	-	535,264
Totals	<u>1,908,033</u>	<u>19,895</u>	<u>100,978</u>	<u>(514)</u>	<u>1,826,436</u>
Less: Accumulated depreciation					
Buildings and improvements	3,566	680	-	-	4,246
Technology equipment	146,719	7,045	-	(489)	153,275
Vehicles	768,487	93,646	80,930	-	781,203
General equipment	461,071	22,437	20,048	-	463,460
Totals	<u>1,379,843</u>	<u>123,808</u>	<u>100,978</u>	<u>(489)</u>	<u>1,402,184</u>
Agency Funds capital assets - net	<u>\$ 528,190</u>	<u>\$ (103,913)</u>	<u>\$ -</u>	<u>\$ (25)</u>	<u>\$ 424,252</u>

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

Instruction	\$ 717,234
Support services:	
Student	37
Instructional staff	94
District administration	28,134
School administration	21,132
Business	77
Plant operations and management	123,096
Student transportation	30,003
	<u>\$ 919,807</u>

D. Long-Term Liabilities

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

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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>
2005-KISTA	\$ 61,612	3.00% - 3.625%	2015
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, 2014</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2015</u>
2005-KISTA	\$ 5,896	\$ -	\$ 5,896	\$ -
2010	2,815,000	-	330,000	2,485,000
2012	<u>5,540,000</u>	-	<u>475,000</u>	<u>5,065,000</u>
	<u>\$ 8,360,896</u>	<u>\$ -</u>	<u>\$ 810,896</u>	<u>\$ 7,550,000</u>

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

<u>Year</u>	<u>Murray Independent School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
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	755,933	79,957	64,067	6,668	906,625
2021-2024	<u>3,200,660</u>	<u>158,176</u>	<u>269,340</u>	<u>13,598</u>	<u>3,641,774</u>
	<u>\$ 6,970,711</u>	<u>\$ 698,160</u>	<u>\$ 579,289</u>	<u>\$ 57,324</u>	<u>\$ 8,305,484</u>

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

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	Balance at <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance at <u>June 30, 2015</u>	Due in <u>One Year</u>
Bonds	\$ 8,360,896	\$ -	\$ 810,896	\$ 7,550,000	\$ 825,000
Premium on bond issue	<u>11,227</u>	<u>-</u>	<u>1,566</u>	<u>9,661</u>	<u>1,566</u>
	8,372,123	-	812,462	7,559,661	826,566
Accrued sick leave	229,892	51,473	15,091	266,274	27,786
Insurance assessment	52,399	-	13,100	39,299	13,100
Pension liability:					
Governmental activities	4,120,845	829,815	1,344,853	3,605,807	-
Business-type activities	<u>457,872</u>	<u>92,202</u>	<u>149,428</u>	<u>400,646</u>	<u>-</u>
	4,578,717	922,017	1,494,281	4,006,453	-
	<u>\$13,233,131</u>	<u>\$ 973,490</u>	<u>\$2,334,934</u>	<u>\$11,871,687</u>	<u>\$ 867,452</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, 2014. The total amount of accumulated benefits for all employees eligible to retire at this date is \$243,285. 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, 2015 are as follows:

	General Fund	Special Revenue Fund	District Activity Fund	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund
Restricted for:							
SFCC escrow	\$ -	\$ -	\$ -	\$507,160	\$2,848,622	\$ -	\$ -
Committed for:							
Sick leave	135,584	-	-	-	-	-	-
Kindergarten	167,864	-	-	-	-	-	-
Transportation	150,000	-	-	-	-	-	-
Section 7 personnel	629,000	-	-	-	-	-	-
District activity	<u>-</u>	<u>-</u>	<u>108,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,082,448</u>	<u>-</u>	<u>108,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

MURRAY INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

	General Fund	Special Revenue Fund	District Activity Fund	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund
Assigned for:							
SBDM	\$ 105,671	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Encumbrances	19,881	-	-	-	-	-	-
	<u>125,552</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned	<u>2,280,908</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,488,908</u>	<u>\$ -</u>	<u>\$ 108,279</u>	<u>\$ 507,160</u>	<u>\$ 2,848,622</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	\$ 19,477
Day Care Fund	62,770
Private Purpose Trust Funds	1,859

H. Interfund Transactions

Interfund Receivables/Payables (Short-Term)

The General Fund extends short-term cash flow loans to funds outside the General Fund that receive funding on a reimbursement basis. Repayment is expected when available cash is in excess of that needed for operations. The balance of \$25,978 due to the General fund from Special Revenue is a short-term cash flow loan.

Transfers

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	KETS match	\$ 33,158
General	Construction	Construction	8,352
Capital Outlay	General	Property insurance	63,470
Building	Debt Service	Debt service	835,415
Daycare Services	General	Bus Purchase	90,302

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, 2015:

MURRAY INDEPENDENT SCHOOL DISTRICT
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Contributions to Kentucky Teachers' Retirement System	\$ 1,044,007
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	1,604,148
Technology	55,812
Debt service	<u>70,735</u>
	<u>\$ 2,774,702</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	\$ 2,623,923
Debt Service Fund	70,735
Business-type activities	
Food Service Fund	54,620
School Age Child Care Fund	<u>25,424</u>
	<u>\$ 2,774,702</u>

J. Restatement of Net Position

Due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, described above in Note 1R, beginning net position was restated to reflect the retrospective application. The restatement resulted in a \$4,578,718 reduction in the beginning net position to record the beginning net pension liability and an increase of \$535,161 to record beginning deferred outflows of resources – District's contributions subsequent to the measurement date. The net change to net position was a decrease of \$4,043,557.

NOTE 3 - OTHER INFORMATION

A. Retirement Plans

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

For the year ended June 30, 2015, the District's total payroll for all employees was \$10,330,414. Total covered payroll was \$2,705,831 for CERS and \$7,234,882 for KTRS. Covered payroll refers to all compensation paid by the District to active employees covered by the Plan.

County Employees Retirement System Non-Hazardous (CERS)

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit plan. CERS is administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that

MURRAY INDEPENDENT SCHOOL DISTRICT
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includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Employee membership data related to the Plan as of June 30, 2014 was as follows:

Retirees and beneficiaries currently receiving benefits	46,112
Terminated employees entitled to but not yet receiving benefits	70,231
Active plan members	<u>82,494</u>
	<u>198,837</u>

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

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years of service or 65 years old At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 – December 31, 2013 At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87 At least 10 years of service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87 Not available

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

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

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

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

June 30, 2015

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommended rates. The District's contributions to CERS for the year ended June 30, 2015 were \$478,169.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$4,006,453 for its proportionate share of the net pension liability. The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.123489%.

For the year ended June 30, 2015, the District recognized pension expense of \$320,670. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	357,774
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>511,904</u>	<u>-</u>
	<u>\$ 511,904</u>	<u>\$ 357,774</u>

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

<u>Year ended June 30:</u>	
2016	\$ 89,443
2017	89,443
2018	89,444
2019	89,444

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

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June 30, 2015

Inflation	3.50%
Projected salary increases	4.50%
Investment rate of return, net of investment expense and inflation	7.75%

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30%	8.45%
International equity	22%	8.85%
Emerging market equity	5%	10.50%
Private equity	7%	11.25%
Real estate	5%	7.00%
Core US fixed income	10%	5.25%
High yield US fixed income	5%	7.25%
Non US fixed income	5%	5.50%
TIPS	5%	5.00%
Commodities	5%	7.75%
Cash	1%	3.25%
Total	<u>100%</u>	

Discount rate – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan

**MURRAY INDEPENDENT SCHOOL DISTRICT
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employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District’s proportionate share of net pension liability	\$ 4,523,415	\$ 4,006,453	\$ 3,489,491

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report.

Teachers’ Retirement System of the State of Kentucky (KTRS)

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

Employee membership data related to the Plan as of June 30, 2014 was as follows:

Retirees and beneficiaries currently receiving benefits	48,576
Terminated vested employees entitled to but not yet receiving benefits	7,762
Inactive non-vested members	27,689
Active plan members	73,407
	157,434

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

1. Attain age 55 and complete five years of Kentucky service, or
2. Complete 27 years of Kentucky service

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly

MURRAY INDEPENDENT SCHOOL DISTRICT
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June 30, 2015

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

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

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

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

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% for salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.36% of salaries of members. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

The District's contributions to KTRS for the year ended June 30, 2015 were \$247,284.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the District did not report a liability for the District's proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The District recognized pension expense of \$2,170,928 related to KTRS. The District also recognized revenue of \$2,170,928 for KTRS support provided by the Commonwealth.

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.00%.

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

June 30, 2015

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

Inflation	3.50%
Projected salary increases	4.0 – 8.2%
Investment rate of return, net of investment expense and inflation	7.50%
Municipal bond index rate	4.35%
Single equivalent interest rate	5.23%

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

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

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

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

MURRAY INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Sensitivity of KTRS proportionate share of net pension liability to changes in the discount rate – The following table presents the net pension liability of the System, calculated using the discount rate selected, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
KTRS	4.23%	5.23%	6.23%
District’s proportionate share of net pension liability	\$ 27,122,640	\$ 21,592,157	\$ 17,027,992

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report.

Medical Insurance Plan

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

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

Funding policy – In order to fund the post-retirement healthcare benefit, 6% of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent is paid by member contributions and 0.75% from Commonwealth appropriation and 2.25% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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

**MURRAY INDEPENDENT SCHOOL DISTRICT
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June 30, 2015

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,.

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 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.

G. Joint Venture

On February 11, 2010 the District entered into a joint venture agreement with the Calloway County School District. The agreement stipulates that Murray Independent School District will fund the joint venture from SEEK monies released by Calloway County School District for nonresident pupils. These funds will be used to build and operate a 21st Century, state of the art, Career Technical Center for the benefit of students from both districts.

H. Subsequent Event

On August 1, 2015 the Murray Independent-Calloway County School Districts Finance Corporation issued School Building Revenue Bonds with a par value of \$5,290,000. These bonds are to build the Career Technical Center.

REQUIRED SUPPLEMENTARY INFORMATION

MURRAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>Final Budget</u>
			<u>Basis)</u>	<u>Positive</u>
				<u>(Negative)</u>
Revenues				
From local sources				
Taxes				
Property	\$ 1,604,000	\$ 1,779,000	\$ 1,963,327	\$ 184,327
Motor vehicle	230,000	235,000	270,232	35,232
Utilities	855,000	875,000	878,136	3,136
Other	142,000	140,000	171,294	31,294
Earnings on investments	45,000	50,000	65,468	15,468
Other local revenues	161,500	188,000	302,785	114,785
Intergovernmental - State	<u>7,804,218</u>	<u>7,912,583</u>	<u>8,315,369</u>	<u>402,786</u>
Total revenues	<u>10,841,718</u>	<u>11,179,583</u>	<u>11,966,611</u>	<u>787,028</u>
Expenditures				
Current				
Instruction	7,141,836	7,573,087	7,407,166	165,921
Support Services				
Student	499,581	528,388	507,552	20,836
Instructional staff	558,456	539,270	453,088	86,182
District administration	2,756,599	2,762,920	1,038,460	1,724,460
School administration	729,489	784,767	737,944	46,823
Business	305,547	362,815	379,719	(16,904)
Plant operation and management	1,651,321	1,608,821	1,097,848	510,973
Student transportation	550,917	553,619	392,257	161,362
Non-instructional services	20,000	25,100	36,660	(11,560)
Debt service				
Principal	60,896	60,896	60,896	-
Interest	2,076	2,076	1,282	794
Total expenditures	<u>14,276,718</u>	<u>14,801,759</u>	<u>12,112,872</u>	<u>2,688,887</u>
Excess (deficit) of revenues over expenditures	<u>(3,435,000)</u>	<u>(3,622,176)</u>	<u>(146,261)</u>	<u>3,475,915</u>
Other Financing Sources (Uses)				
Sale of assets	-	-	14,522	14,522
Transfers in	100,000	155,302	153,772	(1,530)
Transfers out	<u>(20,000)</u>	<u>(41,510)</u>	<u>(41,510)</u>	<u>-</u>
Total other financing sources (uses)	<u>80,000</u>	<u>113,792</u>	<u>126,784</u>	<u>12,992</u>
Net change in fund balances	(3,355,000)	(3,508,384)	(19,477)	3,488,907
Fund balances, beginning of year	<u>3,355,000</u>	<u>3,508,384</u>	<u>3,508,385</u>	<u>1</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,488,908</u>	<u>\$ 3,488,908</u>

See independent auditor's report.

MURRAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - SPECIAL REVENUE FUND
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources				
Other local revenues	\$ 2,000	\$ 30,206	\$ 42,512	\$ 12,306
Intergovernmental - State	629,178	650,494	656,061	5,567
Intergovernmental - Direct Federal	2,500,000	2,579,028	2,629,060	50,032
Intergovernmental - Indirect Federal	803,472	854,596	911,992	57,396
Total revenues	<u>3,934,650</u>	<u>4,114,324</u>	<u>4,239,625</u>	<u>125,301</u>
Expenditures				
Current				
Instruction	3,548,786	3,661,500	3,799,525	(138,025)
Support Services				
Student	103,608	126,920	122,714	4,206
Instructional staff	178,256	212,642	201,088	11,554
Plant operation and management	-	20,000	20,000	-
Non-instructional services	124,000	126,420	129,456	(3,036)
Total expenditures	<u>3,954,650</u>	<u>4,147,482</u>	<u>4,272,783</u>	<u>(125,301)</u>
Excess (deficit) of revenues over expenditures	<u>(20,000)</u>	<u>(33,158)</u>	<u>(33,158)</u>	<u>-</u>
Other Financing Sources (Uses)				
Transfers in	20,000	33,158	33,158	-
Total other financing sources (uses)	<u>20,000</u>	<u>33,158</u>	<u>33,158</u>	<u>-</u>
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report.

**MURRAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employee's Retirement System
Fiscal Years Ending June 30,**

	2014
District's proportion of the net pension liability (asset)	0.123%
District's proportionate share of the net pension liability (asset)	<u>\$ 4,006,453</u>
District's covered-employee payroll	\$ 2,835,096
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	141.32%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years information is available.

See independent auditor's report.

**MURRAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
County Employee's Retirement System
Fiscal Years Ending June 30,**

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 535,549	\$ 478,169
Contributions in relation to the contractually required contribution	<u>(535,549)</u>	<u>(478,169)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 2,835,096	\$ 2,705,831
Contributions as a percentage of covered-employee payroll	18.89%	17.67%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years information is available.

See independent auditor's report.

**MURRAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE COMMONWEALTH OF KENTUCKY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY ASSOCIATED WITH MURRAY INDEPENDENT
SCHOOL DISTRICT - SPECIAL FUNDING SITUATION
Kentucky Teachers' Retirement System
Fiscal Years Ending June 30,**

	2015
District's proportion of the net pension liability (asset)	0.000%
District's proportionate share of the net pension liability (asset)	\$ -
State's proportionate share of the net pension liability (asset) associated with the District	44,302,814
Total proportionate share of the net pension liability (asset)	\$ 44,302,814
District's covered-employee payroll	\$ 6,755,303
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years information is available.

**MURRAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
Kentucky Teachers' Retirement System
Fiscal Years Ending June 30,**

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 182,120	\$ 247,284
Contributions in relation to the contractually required contribution	<u>(182,120)</u>	<u>(247,284)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 6,755,303	\$ 7,234,882
Contributions as a percentage of covered-employee payroll	2.70%	3.42%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years information is available.

See independent auditor's report.

MURRAY INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2015

County Employees Retirement System

Changes of benefit terms - The following change was made by the Kentucky Legislature and reflected in the valuation performed as of June 30.

2014 - A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumptions - The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30:

2014 - The amortization period of the unfunded accrued liability was reset to a closed 30 year period.

Kentucky Teachers' Retirement System

Changes of benefit terms - None.

Changes of assumptions - None.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

**MURRAY INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**
June 30, 2015

	<u>District Activity</u>	<u>Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 99,274	\$ 507,160	\$ -	\$ 606,434
Receivables				
Accounts	10,588	-	-	10,588
Total assets	<u>\$ 109,862</u>	<u>\$ 507,160</u>	<u>\$ -</u>	<u>\$ 617,022</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,583	\$ -	\$ -	\$ 1,583
Total liabilities	<u>1,583</u>	<u>-</u>	<u>-</u>	<u>1,583</u>
Fund Balances				
Restricted	-	507,160	-	507,160
Committed	108,279	-	-	108,279
Total fund balances	<u>108,279</u>	<u>507,160</u>	<u>-</u>	<u>615,439</u>
Total liabilities and fund balances	<u>\$ 109,862</u>	<u>\$ 507,160</u>	<u>\$ -</u>	<u>\$ 617,022</u>

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, 2015

	District Activity	Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources				
Earnings on investments	\$ 2,569	\$ 4,902	\$ -	\$ 7,471
Other local revenues	128,802	-	-	128,802
Intergovernmental - State	<u>-</u>	<u>143,692</u>	<u>70,735</u>	<u>214,427</u>
Total revenues	<u>131,371</u>	<u>148,594</u>	<u>70,735</u>	<u>350,700</u>
Expenditures				
Current				
Instruction	120,722	-	-	120,722
Support Services				
Student	172	-	-	172
Instructional staff	321	-	-	321
Plant operation and management	105	-	-	105
Student transportation	433	-	-	433
Debt service				
Principal	-	-	750,000	750,000
Interest	<u>-</u>	<u>-</u>	<u>156,150</u>	<u>156,150</u>
Total expenditures	<u>121,753</u>	<u>-</u>	<u>906,150</u>	<u>1,027,903</u>
Excess (deficit) of revenues over expenditures	<u>9,618</u>	<u>148,594</u>	<u>(835,415)</u>	<u>(677,203)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	835,415	835,415
Transfers out	<u>-</u>	<u>(63,470)</u>	<u>-</u>	<u>(63,470)</u>
Total other financing sources (uses)	<u>-</u>	<u>(63,470)</u>	<u>835,415</u>	<u>771,945</u>
Net change in fund balances	9,618	85,124	-	94,742
Fund balances, beginning of year	<u>98,661</u>	<u>422,036</u>	<u>-</u>	<u>520,697</u>
Fund balances, end of year	<u>\$ 108,279</u>	<u>\$ 507,160</u>	<u>\$ -</u>	<u>\$ 615,439</u>

See independent auditor's report.

MURRAY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS
For the Year Ended June 30, 2015

Fund	July 1, 2014	Revenues	Expenditures	June 30, 2015
Activity Funds				
Murray Independent High School				
AP exams	\$ -	\$ 20,081	\$ 20,081	\$ -
Academic team	2,755	2,000	1,050	3,705
Art	-	645	645	-
Band	1,539	9,260	10,785	14
Black & Gold	-	685	685	-
Black history	-	400	278	122
Book rental	-	17,189	17,189	-
Business	-	1,737	1,737	-
Cheer	3,888	-	2,406	1,482
Chorus	1,233	1,265	1,715	783
Speech	2,197	21,016	21,117	2,096
FBLA	1,142	4,717	5,339	520
FCA	-	100	-	100
French club	652	425	509	568
Library	92	7	44	55
Locks	-	274	274	-
Miscellaneous	121	4,752	4,873	-
Photo Fee	380	-	380	-
Spanish club	548	1,680	2,228	-
Student council	1,039	-	1,035	4
Student fees	420	5,906	6,326	-
TV club	4,272	800	5,012	60
Yearbook	29,953	17,077	17,338	29,692
Workbooks	-	5,643	5,643	-
Chess	1,360	1,000	578	1,782
Technology fee	-	1,375	1,210	165
Beta club	1,778	1,830	1,519	2,089
Guidance department	-	135	135	-
PTO	201	710	223	688
Dawg pound	288	-	-	288
Science	-	2,420	2,420	-
Y club	254	-	-	254
Math	350	-	-	350
Class of 2015	2,842	1,141	3,705	278
Class of 2016	3,215	4,902	2,814	5,303
Class of 2017	3,124	1,846	593	4,377
Project graduation	1,154	16,110	15,942	1,322
Engineering	199	462	489	172
Interest	-	955	874	81
Apex	-	120	120	-
Reading	-	230	230	-
Alg 2 lab	-	356	356	-
Class of 2018	-	1,986	-	1,986
Project UNIFY	-	1,250	685	565
Class of 2019	-	1,655	-	1,655
Girl's basketball	75	16,645	16,720	-
Girl's soccer	-	4,320	4,320	-
G/B golf	-	1,090	1,090	-
Athletic miscellaneous	-	7,603	7,603	-
Athletic	-	89,431	89,431	-
Softball	-	6,440	6,440	-
Baseball	-	4,346	4,346	-
G/B swimming	-	7,752	7,752	-

See independent auditor's report.

**MURRAY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS**

For the Year Ended June 30, 2015

<u>Fund</u>	<u>July 1, 2014</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2015</u>
G/B tennis	\$ -	\$ 1,059	\$ 1,059	\$ -
G/B track	-	12,662	12,662	-
Volleyball	-	3,053	3,053	-
Athletic game administration	-	19,515	19,515	-
Boy's basketball	-	12,992	12,992	-
Dance team	251	1,724	1,975	-
Athletic transportation	-	16,799	16,799	-
District basketball tournament	-	8,524	8,524	-
Boy's soccer	-	6,520	6,520	-
Archery	5,851	7,340	12,605	586
Change account	-	11,000	11,000	-
Regional track meet	-	764	764	-
Hoopfest tournament	-	1,322	1,322	-
All A state tournamen	-	8,130	8,130	-
District softball	-	749	749	-
G/B cross country	-	2,959	2,959	-
Football	-	18,186	18,186	-
Football playoffs 1st round	-	2,015	2,015	-
	<u>71,173</u>	<u>427,082</u>	<u>437,113</u>	<u>61,142</u>
Less: inter-fund transfers	-	95,779	95,779	-
Total Murray Independent High School	<u>71,173</u>	<u>331,303</u>	<u>341,334</u>	<u>61,142</u>
Murray Independent Middle School	52,273	142,529	135,457	59,345
Murray Independent Elementary School	<u>1,809</u>	<u>37,363</u>	<u>37,674</u>	<u>1,498</u>
Total activity funds	<u>125,255</u>	<u>511,195</u>	<u>514,465</u>	<u>121,985</u>
Head Start	-	4,827,439	4,827,439	-
Career & Technical Center	<u>1,218,834</u>	<u>632,788</u>	<u>172,616</u>	<u>1,679,006</u>
Total agency funds	<u>\$ 1,344,089</u>	<u>\$ 5,971,422</u>	<u>\$ 5,514,520</u>	<u>\$ 1,800,991</u>

See independent auditor's report.

MURRAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
U.S. Department of Agriculture				
Passed Through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	510-4500	\$ 101,549	\$ 101,549
National School Lunch Program	10.555	510-4500	368,144	368,144
National School Lunch Program - Donated Commodities	10.555	510-4950	44,664	44,664
Summer Food Service Program or Children	10.559	510-4500	22,067	22,067
Total Nutrition Cluster			<u>536,424</u>	<u>536,424</u>
Total U.S. Department of Agriculture			<u>536,424</u>	<u>536,424</u>
U.S. Department of Education				
Passed Through State Department of Education:				
Title I Cluster:				
Title I Grants to Local Educational Agencies	84.010	220-4500-310A	292,953	185,087
Title I Grants to Local Educational Agencies	84.010	220-4500-3104	285,557	166,763
Title I Grants to Local Educational Agencies	84.010	220-4500-3144	9,023	5,902
Title I Grants to Local Educational Agencies	84.010	220-4500-314A	4,314	4,829
Total Title I Cluster			<u>591,847</u>	<u>362,581</u>
Special Education Cluster:				
Special Education_Grants to States	84.027	220-4500-3374	249,282	227,827
Special Education_Grants to States	84.027	220-4500-3373	275,364	59
Special Education_Grants to States	84.027	220-4500-337A	278,494	44,204
		Sub-total	<u>803,140</u>	<u>272,090</u>
Special Education_Preschool Grants	84.173	220-4500-3434	18,937	2,057
Special Education_Preschool Grants	84.173	220-4500-343A	18,937	7,393
		Sub-total	<u>37,874</u>	<u>9,450</u>
Total Special Education Cluster			<u>841,014</u>	<u>281,540</u>
English Language Acquisition State Grants	84.365	220-4500-3454	8,863	8,100
Career and Technical Education - Basic Grants to States	84.048	220-4500-3484	11,678	4,083
Career and Technical Education - Basic Grants to States	84.048	220-4500-348A	10,828	9,243
Career and Technical Education - Basic Grants to States	84.048	220-4500-3484A	466	466
			<u>22,972</u>	<u>13,792</u>
Rural Education	84.358	220-4500-350A	31,955	26,015
Improving Teacher Quality State Grants	84.367	220-4500-4014	62,091	16,698
Improving Teacher Quality State Grants	84.367	220-4500-4013	64,527	1,499
Improving Teacher Quality State Grants	84.367	220-4500-401A	62,035	44,734
Improving Teacher Quality State Grants	84.367	220-4500-4013T	25,000	10,150
		Sub-total	<u>213,653</u>	<u>73,081</u>
Race to the Top	84.395	220-4500-4521	12,716	501
Investing in Innovation I3 Fund	84.411	220-4500-491A	1,850	724
Total U.S. Department of Education			<u>1,724,870</u>	<u>766,334</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, 2015

Federal Grantor/ Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
U.S. Department of Health & Human Services				
Direct Programs:				
Head Start - MBE	93.600	220-6554M	1,217,791	210,301
Head Start - MBE	93.600	220-655AM	<u>1,300,529</u>	<u>1,114,831</u>
		Sub-total	<u>2,518,320</u>	<u>1,325,132</u>
Head Start - EHS	93.600	220-6554E	1,012,123	127,570
Head Start - EHS	93.600	220-655AE	<u>1,121,945</u>	<u>1,005,581</u>
		Sub-total	<u>2,134,068</u>	<u>1,133,151</u>
		Total Direct	<u>4,652,388</u>	<u>2,458,283</u>
Passed Through Western Kentucky University:				
Head Start	93.600	220-6554	164,368	17,102
Head Start	93.600	220-655A	<u>156,554</u>	<u>153,675</u>
		Sub-total	<u>320,922</u>	<u>170,777</u>
Head Start	93.600	220-6554W	137,922	47,859
Head Start	93.600	220-655AW	<u>142,570</u>	<u>97,801</u>
		Sub-total	<u>280,492</u>	<u>145,660</u>
		Total Indirect	<u>601,414</u>	<u>316,437</u>
Total Head Start			<u>5,253,802</u>	<u>2,774,720</u>
Total U.S. Department of Health & Human Services			<u>5,253,802</u>	<u>2,774,720</u>
Total federal awards			<u>\$ 7,515,096</u>	<u>\$ 4,077,478</u>
Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures				
Total expenditures of federal awards				\$ 4,077,478
Total expenditures of state and local awards				731,729
Expenditure of federal awards in the food service fund				<u>(536,424)</u>
Total expenditures as reported in the special revenue fund on statement revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 4,272,783</u>

MURRAY INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Murray Independent School District under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of 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.

INTERNAL CONTROL AND COMPLIANCE SECTION

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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, 2015, 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 12, 2015.

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 12, 2015, 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 12, 2015

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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, 2015. 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, 2015.

Report on Internal Control Over Compliance

Management of Murray Independent School District's 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 12, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

June 30, 2015

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:
 Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified? yes x none reported

Type of 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
84,010	Title I Cluster
10.553; 10.555; 10.559	Child Nutrition 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

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

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Murray, KY 42071

Phone 270.753.2424
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www.atacpa.net

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, 2015, 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 12, 2015, 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 12, 2015

**MURRAY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER POINTS**

June 30, 2015

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, 2015

FINANCIAL STATEMENT FINDINGS

None reported

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

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.

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

Current Status: This condition continues to exist.