

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2012**

**MURRAY INDEPENDENT SCHOOL DISTRICT  
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## INDEPENDENT AUDITORS' REPORT

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

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

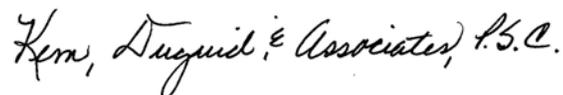
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Murray Independent School District as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2012 on our consideration of 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 47 through 50 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Murray Independent School District's financial statements as a whole. The introductory section, combining, and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying 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 financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken 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 express no opinion or provide any assurance on it.

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



Certified Public Accountants  
Hopkinsville, Kentucky

November 7, 2012

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

**MURRAY INDEPENDENT SCHOOL DISTRICT – MURRAY, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

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, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$8,232,543, as compared with the beginning cash balance of \$11,337,524. The ending cash balance consists of General Fund of \$4,028,857, Special Revenue of \$23,065, Construction Fund \$12,274, Facility Support Program (FSPK) Fund of \$2,198,289, Capital Outlay of \$340,850, Debt Service of \$3,188, Food Service Fund of \$128,125, Daycare Fund of \$450,224, School Activity Funds of \$232,776, Agency Fund (Head Start) of \$141,264, Career and Technical Center \$530,474 and the Private Purpose Trust Fund of \$143,157.
- On February 1, 2012, Murray Independent School District issued \$5,785,000 School Building Refunding Revenue Bonds 2012 to refund \$270,000 of the 2001B School Building Revenue Bonds and advance refund \$5,015,000 of the 2004 School Building Revenue Bonds. As a result, Debt Service payments were reduced by \$15,905 for a net present value savings of 5.892% for the 2001B refunding and \$372,627 for a net present value savings of 7.430% for the 2004 refunding.
- Total government-wide net assets decreased by \$776,379 for the fiscal year ended June 30, 2012. Total long-term obligations had a net decrease of \$3,286,882, while the unrestricted net assets decreased \$886,719 and restricted assets decreased \$2,753,462.
- The General Fund had \$10,629,532 in revenues, which primarily consisted of the state program (SEEK), property, utilities and motor vehicle taxes, and on-behalf payments for fringe benefits from the Commonwealth of Kentucky. General Fund revenues increased in comparison to prior year of \$10,356,530. Excluding interfund transfers, there were \$11,685,231 in General Fund expenditures. This compares to \$10,037,944 in General Fund expenditures for the prior year.
- The District approved a new facility plan that reflects the District's focus on investing in plant management because of the age and size of our facilities.
- The District has obtained approval for the construction of a new physical education facility to be attached to Murray High School with an estimated cost of \$1,250,000.
- The District remains committed to maintaining competitive teacher salaries, which exceed the state minimum requirements.
- The financial statements reflect a total of \$2,368,575 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions and health insurance. A like amount of expenses are also recorded in the financial statements.

**MURRAY INDEPENDENT SCHOOL DISTRICT– MURRAY, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 12 and 13 of this report.

**Fund financial statements**

The fund financial statements provide more detailed information regarding the District's accounting funds as opposed to the District as a whole, focusing on the District's major funds. A fund is a grouping of related accounts used to segregate sources of funding and spending on particular programs or activities. The District's funds are mandated by the state as part of a statewide uniform system of accounting for school districts to ensure compliance with finance and legal requirements. The District's major funds are the General Fund, Special Revenue Fund, Debt Service Fund, and Facility Support Program Excellence in Kentucky (FSPK) Fund. The District has three types of funds:

**Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

**MURRAY INDEPENDENT SCHOOL DISTRICT – MURRAY, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government’s near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, four Special Revenue Funds and a Debt Service Fund. The major funds are the General, Special Revenue, Facility Support Program Excellence in Kentucky (FSPK), and Debt Service. The nonmajor funds are Capital Outlay and Construction.

The District adopts an annual appropriated budget for its General Fund as well as its other governmental funds. A budgetary comparison statement has been provided for the General Fund, Special Revenue, and Facility Support Program Excellence in Kentucky (FSPK) to demonstrate compliance with this budget.

**Proprietary funds** – The District’s proprietary funds are food service and child daycare. 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, Head Start and the Murray Calloway County Career and Technical Center Escrow Fund. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

**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.

The notes to the financial statements can be found beginning on page 26 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$11,539,665 as of June 30, 2012.

A significant portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any 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.

**MURRAY INDEPENDENT SCHOOL DISTRICT – MURRAY, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued**

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 assets for the fiscal years ended June 30, 2012 and 2011:

**Net Assets for the Fiscal Years Ended June 30, 2012 and 2011**

	Governmental Activities		Business-type Activities		District Total	
	2012	2011	2012	2011	2012	2011
Current assets						
and other assets	\$ 7,031,145	\$ 10,810,930	\$ 633,108	570,692	\$ 7,664,253	\$ 11,381,622
Capital assets	14,065,966	14,413,555	116,513	139,075	14,182,479	14,552,630
<b>Total assets</b>	<u>21,097,111</u>	<u>25,224,485</u>	<u>749,621</u>	<u>709,767</u>	<u>21,846,732</u>	<u>25,934,252</u>
Current liabilities	945,613	980,205	333	802	945,946	981,007
Noncurrent liabilities	9,361,121	12,648,003	-	-	9,361,121	12,648,003
<b>Total liabilities</b>	<u>10,306,734</u>	<u>13,628,208</u>	<u>333</u>	<u>802</u>	<u>10,307,067</u>	<u>13,629,010</u>
Investment in capital assets, net of related debt	4,113,160	1,216,796	116,513	139,075	4,229,673	1,355,871
Restricted	2,616,958	5,370,420	-	-	2,616,958	5,370,420
Unrestricted	4,060,259	5,009,863	632,775	569,890	4,693,034	5,579,753
<b>Total net assets</b>	<u>\$ 10,790,377</u>	<u>\$ 11,597,079</u>	<u>\$ 749,288</u>	<u>\$ 708,965</u>	<u>\$ 11,539,665</u>	<u>\$ 12,306,044</u>

**Changes in net assets.** The District’s governmental activities net assets decreased by \$806,702 and business-type assets increased \$40,323.

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 of \$52,292. 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.

**MURRAY INDEPENDENT SCHOOL DISTRICT – MURRAY, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

Following is a summary schedule changes in the District’s net assets for the years ended June 30, 2012 and 2011:

**Changes in Net Assets for the Fiscal Years Ended June 30, 2012 and 2011**

	Governmental Activities		Business-Type Activities		District Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 155,934	\$ 158,670	\$ 605,866	\$ 543,707	\$ 761,800	\$ 702,377
Operating grants and contributions	6,055,657	6,249,491	424,197	400,217	6,479,854	6,649,708
Capital grants and contributions	80,423	80,424	-	-	80,423	80,424
General revenues:						
Property taxes	2,294,452	2,206,035	-	-	2,294,452	2,206,035
Other taxes	1,330,521	1,450,893	-	-	1,330,521	1,450,893
State aid	5,505,767	5,608,904	70,095	64,195	5,575,862	5,673,099
Investment earnings	77,581	81,543	1,390	1,960	78,971	83,503
Other	344,265	70,869	(33)	-	344,232	70,869
<b>Total revenues</b>	<b>15,844,600</b>	<b>15,906,829</b>	<b>1,101,515</b>	<b>1,010,079</b>	<b>16,946,115</b>	<b>16,916,908</b>
<b>Expenses:</b>						
Instruction	10,882,375	10,956,403	-	-	10,882,375	10,956,403
Student support services	568,663	460,900	-	-	568,663	460,900
Instructional support	679,110	696,543	-	-	679,110	696,543
District administration	969,812	363,600	-	-	969,812	363,600
School administration	663,792	598,154	-	-	663,792	598,154
Business support	(10,044)	142,356	-	-	(10,044)	142,356
Plant operation and maintenance	1,620,994	1,326,638	-	-	1,620,994	1,326,638
Student transportation	341,185	294,327	-	-	341,185	294,327
Community service activities	118,309	120,552	-	-	118,309	120,552
Interest on long-term debt	787,847	490,144	-	-	787,847	490,144
Other	29,259	7,146	-	-	29,259	7,146
Food service	-	-	896,966	852,000	896,966	852,000
Day care	-	-	164,226	166,615	164,226	166,615
<b>Total expenses</b>	<b>16,651,302</b>	<b>15,456,763</b>	<b>1,061,192</b>	<b>1,018,615</b>	<b>17,712,494</b>	<b>16,475,378</b>
Increase (Decrease) in net assets	<b>\$ (806,702)</b>	<b>\$ 450,066</b>	<b>\$ 40,323</b>	<b>\$ (8,536)</b>	<b>\$ (766,379)</b>	<b>\$ 441,530</b>

**MURRAY INDEPENDENT SCHOOL DISTRICT – MURRAY, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

**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 \$6,674,568, a decrease of \$3,779,453 from the prior year. The following schedule indicates the fund balances and the total changes in fund balances by major fund and other governmental (nonmajor) funds as reported in the basic financial statements for the fiscal years ended June 30, 2012 and 2011.

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

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

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

**MURRAY INDEPENDENT SCHOOL DISTRICT – MURRAY, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

Following is a summary of fund balances for the fiscal years ended June 30, 2012 and 2011:

**Governmental Funds Balances as of June 30, 2012 and 2011**

	<b>FYE 2012</b>	<b>FYE 2011</b>	<b>Increase (Decrease)</b>
<b>Governmental Funds</b>			
General Fund	\$ 4,119,967	\$ 5,083,601	\$ (963,634)
Special Revenue Fund	-	-	-
Building Fund	2,198,289	1,917,271	281,018
Construction	12,274	-	12,274
Capital Outlay	340,850	326,358	14,492
Debt Service Fund	3,188	3,126,791	(3,123,603)
	<u>\$ 6,674,568</u>	<u>\$ 10,454,021</u>	<u>\$ (3,779,453)</u>
<b>Proprietary Funds</b>			
Food Service Fund	\$ 292,810	\$ 320,754	\$ (27,944)
Day Care Fund	456,478	388,211	68,267
	<u>\$ 749,288</u>	<u>\$ 708,965</u>	<u>\$ 40,323</u>
<b>Fiduciary Funds</b>			
School Activity Funds	\$ 232,776	\$ 236,631	\$ (3,855)
Head Start	-	-	-
Career and Technical Center	-	-	-
	<u>\$ 232,776</u>	<u>\$ 236,631</u>	<u>\$ (3,855)</u>
<b>Trust and Agency</b>	<u>\$ 144,157</u>	<u>\$ 142,957</u>	<u>\$ 1,200</u>

**General Fund** – The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$3,002,590, while total fund balance reached \$6,674,568. 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 25.69% of total General Fund expenditures, while total fund balance represents 57.11% of that same amount.

During the current fiscal year, the total fund balance of the General Fund decreased by \$963,634. This decrease in total fund balances was primarily due to the transfer of SEEK funds into the joint Career Technical Center Escrow Account per the agreement between Murray Independent and Calloway County School Districts as well as a prior year SEEK adjustment received in FY2011 which was not repeated in FY2012. Revenues and transfers totaling \$10,747,237 increased by \$299,234, while expenditures and transfers totaling \$11,710,871, increased by \$1,646,717.

**MURRAY INDEPENDENT SCHOOL DISTRICT – MURRAY, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

**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 \$1,601,810 in contingency (12.17%). 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 did not include \$2,225,628 of state payments on-behalf of District employees for retirement and health benefits. These payments are reflected in the GAAP basis actual amounts as state program revenues and in each type of expenditure in relation to wages paid, with the major portion contained in instructional expenditures. Local revenues are budgeted conservatively resulting in a favorable variance of local revenues for the year.

- The District’s total revenues for General Fund activities for the fiscal year ended June 30, 2012, net of interfund transfers, beginning balances, and on-behalf payments, were \$8,403,904; compared to the total budgeted revenues of \$7,972,477.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2012, net of interfund transfers and on-behalf payments, were \$9,459,603; compared to the total budgeted expenditures, net of contingency (\$1,601,810), of \$11,551,973.
- The fund balance at the end of the 2012 fiscal year for all Governmental Funds was \$6,674,568 compared to \$10,454,021 in the prior year.

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, 2012, the District (excluding Head Start) had \$14,182,479 invested in capital assets net of depreciation: historical costs totaled \$23,851,327 with accumulated depreciation totaling \$9,668,848. These assets include school, athletic, and support facilities, as well as technology, food service, and other equipment. The amount of \$662,997 was expended on acquisition and improvements during the year. Depreciation charged to expense during the year totaled \$991,973, the majority of which was charged to governmental functions. More detailed information relating to capital assets may be found in Note 3 to the financial statements.

**MURRAY INDEPENDENT SCHOOL DISTRICT – MURRAY, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2012**

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2012 and 2011.

**Net Capital Assets for the Fiscal Years Ended June 30, 2012 and 2011**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>District Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 413,644	\$ 413,644	\$ -	\$ -	\$ 413,644	\$ 413,644
Construction in progress	-	276,000	-	-	-	276,000
Land improvements	744,788	484,487	-	-	744,788	484,487
Building and improvements	12,012,278	12,405,876	-	-	12,012,278	12,405,876
Technology equipment	457,918	380,139	5,635	2,558	463,553	382,697
Vehicles	154,096	201,466	-	-	154,096	201,466
Other	283,242	251,942	110,878	136,517	394,120	388,459
<b>Total</b>	<u><u>\$ 14,065,966</u></u>	<u><u>\$ 14,413,554</u></u>	<u><u>\$ 116,513</u></u>	<u><u>\$ 139,075</u></u>	<u><u>\$ 14,182,479</u></u>	<u><u>\$ 14,552,629</u></u>

**Long-Term Debt** – The District’s long-term general obligation bonds outstanding at June 30, 2012 were \$9,910,000. 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 \$858,510 of the bonds leaving the District to pay \$10,342,048. The liability for compensated absences remained steady 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 4 to the financial statements.

**OUTLOOK FOR THE FUTURE**

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

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,606,523	\$ 578,349	\$ 7,184,872
Accounts receivable:			
Taxes	98,928	-	98,928
Other	12,529	21,887	34,416
Intergovernmental - state	-	-	-
Intergovernmental - indirect federal	50,075	-	50,075
Inventory	-	32,872	32,872
Bond issue costs	119,077	-	119,077
Deferred interest	144,013	-	144,013
Capital assets:			
Non-depreciable	413,644	-	413,644
Depreciable (net)	13,652,322	116,513	13,768,835
 Total assets	 <u>21,097,111</u>	 <u>749,621</u>	 <u>21,846,732</u>
<b>LIABILITIES</b>			
Accounts payable	18,507	333	18,840
Deferred revenue	71,452	-	71,452
Accrued interest	67,784	-	67,784
Compensated absences	3,528	-	3,528
Long-term obligations:			
Portion due or payable within one year:			
Bonds payable	770,000	-	770,000
Leases payable	14,342	-	14,342
Portion due or payable after one year:			
Bonds payable	9,154,461	-	9,154,461
Leases payable	14,003	-	14,003
Compensated absences	192,657	-	192,657
 Total liabilities	 <u>10,306,734</u>	 <u>333</u>	 <u>10,307,067</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,113,160	116,513	4,229,673
Restricted for:			
SFCC	2,551,413	-	2,551,413
Construction	62,357	-	62,357
Debt service	3,188	-	3,188
Unrestricted	4,060,259	632,775	4,693,034
 Total net assets	 <u>\$ 10,790,377</u>	 <u>\$ 749,288</u>	 <u>\$ 11,539,665</u>

See accompanying notes to financial statements

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Functions/Programs</u>	Program Revenues				Net (Expenses) Revenues
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	
<b>Governmental Activities:</b>					
<b>Current:</b>					
Instruction	\$ 10,882,375	\$ -	\$ 5,110,766	\$ -	\$ (5,771,609)
Student services:					
Student	568,663	155,934	219,090	-	(193,639)
Instructional staff	679,110	-	247,106	-	(432,004)
District administration	969,812	-	64,391	-	(905,421)
School administration	663,792	-	109,310	-	(554,482)
Business	(10,044)	-	95,322	-	105,366
Plant operation and maintenance	1,620,994	-	60,824	-	(1,560,170)
Student transportation	341,185	-	31,842	-	(309,343)
Community service activities	118,309	-	117,006	-	(1,303)
Facilities acquisition and construction	-	-	-	-	-
Interest on long-term debt	787,847	-	-	80,423	(707,424)
Other	29,259	-	-	-	(29,259)
<b>Total governmental activities</b>	<b>16,651,302</b>	<b>155,934</b>	<b>6,055,657</b>	<b>80,423</b>	<b>(10,359,288)</b>
<b>Business-Type Activities:</b>					
Food service	896,966	389,911	424,197	-	(82,858)
Day care services	164,226	215,955	-	-	51,729
<b>Total business-type activities</b>	<b>1,061,192</b>	<b>605,866</b>	<b>424,197</b>	<b>-</b>	<b>(31,129)</b>
<b>Total activities</b>	<b>\$ 17,712,494</b>	<b>\$ 761,800</b>	<b>\$ 6,479,854</b>	<b>\$ 80,423.00</b>	<b>\$ (10,390,417)</b>
<b>Changes in Net Assets</b>					
Net revenues (expenses)			\$ (10,359,288)	\$ (31,129)	\$ (10,390,417)
<b>General Revenues</b>					
Taxes:					
Property			2,294,452	-	2,294,452
Motor vehicle			251,613	-	251,613
Utilities			919,039	-	919,039
Other			159,869	-	159,869
Investment earnings			77,581	1,390	78,971
State grants			5,505,767	70,095	5,575,862
Gain (loss) on sale of fixed assets			79,626	(33)	79,593
Miscellaneous			264,639	-	264,639
<b>Total general revenues</b>			<b>9,552,586</b>	<b>71,452</b>	<b>9,624,038</b>
<b>Change in net assets</b>			<b>(806,702)</b>	<b>40,323</b>	<b>(766,379)</b>
<b>Net assets, July 1, 2011</b>			<b>11,597,079</b>	<b>708,965</b>	<b>12,306,044</b>
<b>Net assets, June 30, 2012</b>			<b>\$ 10,790,377</b>	<b>\$ 749,288</b>	<b>\$ 11,539,665</b>

See accompanying notes to financial statements

**GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**MURRAY INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	General Fund	Special Revenue Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 4,028,857	\$ 23,065	\$ 2,198,289	\$ 3,188	\$ 353,124	\$ 6,606,523
Accounts receivable:						
Taxes	98,928	-	-	-	-	98,928
Other	12,529	-	-	-	-	12,529
Intergovernmental - state	-	-	-	-	-	-
Intergovernmental - indirect federal	-	50,075	-	-	-	50,075
	<u>4,140,314</u>	<u>73,140</u>	<u>2,198,289</u>	<u>3,188</u>	<u>353,124</u>	<u>6,768,055</u>
Total assets						
	<u>\$ 4,140,314</u>	<u>\$ 73,140</u>	<u>\$ 2,198,289</u>	<u>\$ 3,188</u>	<u>\$ 353,124</u>	<u>\$ 6,768,055</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities						
Accounts payable	\$ 16,819	\$ 1,688	\$ -	\$ -	\$ -	\$ 18,507
Accrued sick leave payable	3,528	-	-	-	-	3,528
Deferred revenue	-	71,452	-	-	-	71,452
	<u>20,347</u>	<u>73,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,487</u>
Total liabilities						
	<u>20,347</u>	<u>73,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,487</u>
Fund balances						
Nonspendable	11,627	-	-	-	-	11,627
Spendable:						
Restricted	62,357	-	2,198,289	3,188	353,124	2,616,958
Committed	956,838	-	-	-	-	956,838
Assigned	86,555	-	-	-	-	86,555
Unassigned	3,002,590	-	-	-	-	3,002,590
	<u>4,119,967</u>	<u>-</u>	<u>2,198,289</u>	<u>3,188</u>	<u>353,124</u>	<u>6,674,568</u>
Total fund balances						
	<u>4,119,967</u>	<u>-</u>	<u>2,198,289</u>	<u>3,188</u>	<u>353,124</u>	<u>6,674,568</u>
Total liabilities and fund balances	<u>\$ 4,140,314</u>	<u>\$ 73,140</u>	<u>\$ 2,198,289</u>	<u>\$ 3,188</u>	<u>\$ 353,124</u>	<u>\$ 6,768,055</u>

See accompanying notes to financial statements

**MURRAY INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

Total fund balance per fund financial statements		\$ 6,674,568
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$23,452,713 and the accumulated depreciation is \$9,386,747.		
		14,065,966
Certain assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. These assets at year-end consist of:		
Bond issue costs	119,077	
Deferred interest	<u>144,013</u>	263,090
Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:		
Bond obligations	(9,910,000)	
Reoffering premium	(14,461)	
Capital lease obligations	(28,345)	
Interest payable on bonds	(67,784)	
Noncurrent portion of accumulated sick leave	<u>(192,657)</u>	<u>(10,213,247)</u>
Net assets for governmental activities		<u><u>\$ 10,790,377</u></u>

See accompanying notes to financial statements

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Special Revenue Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
From local sources:						
Taxes						
Property	\$ 1,574,452	\$ -	\$ 720,000	\$ -	\$ -	\$ 2,294,452
Motor vehicle	251,613	-	-	-	-	251,613
Utilities	919,039	-	-	-	-	919,039
Other	159,869	-	-	-	-	159,869
Tuition and fees	155,934	-	-	-	-	155,934
Earnings on investments	56,904	-	18,222	-	2,455	77,581
Other local revenues	239,380	25,259	-	-	-	264,639
Intergovernmental - state	7,186,375	477,043	415,278	80,423	129,742	8,288,861
Intergovernmental - federal	-	3,352,986	-	-	-	3,352,986
<b>Total revenues</b>	<b>10,543,566</b>	<b>3,855,288</b>	<b>1,153,500</b>	<b>80,423</b>	<b>132,197</b>	<b>15,764,974</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
Instruction	6,797,051	3,485,587	-	-	-	10,282,638
Support Services:						
Student	445,674	122,901	-	-	-	568,575
Instructional staff	525,464	153,028	-	-	-	678,492
District administration	944,805	20,000	-	-	-	964,805
School administration	664,561	-	-	-	-	664,561
Business	361,259	-	-	-	-	361,259
Plant operations and maintenance	1,534,152	-	-	-	-	1,534,152
Student transportation	300,659	-	-	-	-	300,659
Community service activities	18,897	99,412	-	-	-	118,309
Facilities acquisition and construction	-	-	-	-	(12,274)	(12,274)
Debt service	92,709	-	2,227	4,077,469	-	4,172,405
<b>Total expenditures</b>	<b>11,685,231</b>	<b>3,880,928</b>	<b>2,227</b>	<b>4,077,469</b>	<b>(12,274)</b>	<b>19,633,581</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>(1,141,665)</b>	<b>(25,640)</b>	<b>1,151,273</b>	<b>(3,997,046)</b>	<b>144,471</b>	<b>(3,868,607)</b>
<b>Other financing sources (uses)</b>						
Proceeds from sale of fixed assets	85,966	-	-	-	-	85,966
Bond proceeds for refunding bonds, net	-	-	-	5,674,699	-	5,674,699
Payment to refunded bonds redeemed	-	-	-	(5,674,699)	-	(5,674,699)
Accrued interest on refunding	-	-	-	3,188	-	3,188
Operating transfers in	117,705	25,640	-	870,255	-	1,013,600
Operating transfers out	(25,640)	-	(870,255)	-	(117,705)	(1,013,600)
<b>Total other financing sources (uses)</b>	<b>178,031</b>	<b>25,640</b>	<b>(870,255)</b>	<b>873,443</b>	<b>(117,705)</b>	<b>89,154</b>
<b>Net changes in fund balances</b>	<b>(963,634)</b>	<b>-</b>	<b>281,018</b>	<b>(3,123,603)</b>	<b>26,766</b>	<b>(3,779,453)</b>
<b>Fund balances, July 1, 2011</b>	<b>5,083,601</b>	<b>-</b>	<b>1,917,271</b>	<b>3,126,791</b>	<b>326,358</b>	<b>10,454,021</b>
<b>Fund balances, June 30, 2012</b>	<b>\$ 4,119,967</b>	<b>\$ -</b>	<b>\$ 2,198,289</b>	<b>\$ 3,188</b>	<b>\$ 353,124</b>	<b>\$ 6,674,568</b>

See accompanying notes to financial statements

**MURRAY INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

Net change in fund balances - Total governmental funds \$ (3,779,453)

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

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

Capital outlay	623,366	
Depreciation expense	(964,615)	
Net capital outlay	(341,249)	(341,249)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, CIP closures/transfers) is to decrease net assets. (6,340)

Bond proceeds are reported as other financing sources in governmental funds and contribute to the change in fund balance. However, in the statement of net assets, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of bond principal is an expenditure in the governmental funds financial statements but is a reduction of the liability in the statement of net assets.

Debt issued, net	(5,677,887)	
Capital lease payments	32,285	
Bond repayments	8,995,000	
Total long-term debt repayment	3,349,398	3,349,398

(continued)

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES, continued**  
**FOR THE YEAR ENDED JUNE 30, 2012**

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

These activities are:

Amortization of deferred charges	(56,941)	
Amortization of bond issue costs	(29,259)	
Increase in accrued interest payable	88,913	
Increase in compensated absences	<u>(31,771)</u>	
Net decrease in expenditures		<u>(29,058)</u>
Change in net assets - governmental activities		<u><u>\$ (806,702)</u></u>

See accompanying notes to financial statements

**PROPRIETARY FUNDS FINANCIAL STATEMENTS**

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2012**

	<u>School Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 128,125	\$ 450,224	\$ 578,349
Accounts receivable	15,522	6,365	21,887
Inventory	32,872	-	32,872
	<u>176,519</u>	<u>456,589</u>	<u>633,108</u>
Total current assets			
Noncurrent assets			
Capital assets	398,613	-	398,613
Less: accumulated depreciation	<u>(282,100)</u>	<u>-</u>	<u>(282,100)</u>
	<u>116,513</u>	<u>-</u>	<u>116,513</u>
Total noncurrent assets			
	<u>293,032</u>	<u>456,589</u>	<u>749,621</u>
Total assets			
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	<u>222</u>	<u>111</u>	<u>333</u>
	<u>222</u>	<u>111</u>	<u>333</u>
Total current liabilities			
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	116,513	-	116,513
Unrestricted	<u>176,297</u>	<u>456,478</u>	<u>632,775</u>
	<u>\$ 292,810</u>	<u>\$ 456,478</u>	<u>\$ 749,288</u>
Total net assets			

See accompanying notes to financial statements

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	School Food Service Fund	Day Care Fund	Total
<b>OPERATING REVENUES</b>			
Lunchroom sales	\$ 389,911	\$ -	\$ 389,911
Day care services	-	215,955	215,955
<b>Total operating revenues</b>	<u>389,911</u>	<u>215,955</u>	<u>605,866</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	405,567	144,055	549,622
Contract services	18,922	-	18,922
Materials and supplies	444,466	11,740	456,206
Depreciation	27,358	-	27,358
Other	653	8,431	9,084
<b>Total operating expenses</b>	<u>896,966</u>	<u>164,226</u>	<u>1,061,192</u>
<b>Operating income (loss)</b>	<u>(507,055)</u>	<u>51,729</u>	<u>(455,326)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Federal grants	383,599	-	383,599
Donated commodities	40,598	-	40,598
State grants	7,570	-	7,570
State on-behalf payments	45,987	16,538	62,525
Gain (loss) on disposal of assets	(33)	-	(33)
Interest income	1,390	-	1,390
<b>Total non-operating revenues (expenses)</b>	<u>479,111</u>	<u>16,538</u>	<u>495,649</u>
<b>Change in net assets</b>	<u>(27,944)</u>	<u>68,267</u>	<u>40,323</u>
<b>Net assets, July 1, 2011</b>	<u>320,754</u>	<u>388,211</u>	<u>708,965</u>
<b>Net assets, June 30, 2012</b>	<u>\$ 292,810</u>	<u>\$ 456,478</u>	<u>\$ 749,288</u>

See accompanying notes to financial statements

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	School Food Service Fund	Day Care Fund	Total
<b>Cash flows from operating activities</b>			
Cash received from:			
Lunchroom sales	\$ 387,339	\$ -	\$ 387,339
Day care services	-	217,660	217,660
Cash paid to/for:			
Employees	(359,580)	(127,517)	(487,097)
Materials and supplies	(415,378)	(12,297)	(427,675)
Other activities	(19,574)	(8,432)	(28,006)
<b>Net cash provided (used) by operating activities</b>	<u>(407,193)</u>	<u>69,414</u>	<u>(337,779)</u>
<b>Cash flows from noncapital financing activities</b>			
Government grants	<u>391,168</u>	<u>-</u>	<u>391,168</u>
<b>Net cash provided (used) by noncapital financing activities</b>	<u>391,168</u>	<u>-</u>	<u>391,168</u>
<b>Cash flows from investing activities</b>			
Purchases of fixed assets	(4,829)	-	(4,829)
Receipt of interest income	<u>1,390</u>	<u>-</u>	<u>1,390</u>
<b>Net cash provided (used) by investing activities</b>	<u>(3,439)</u>	<u>-</u>	<u>(3,439)</u>
Net increase (decrease) in cash and cash equivalents	(19,464)	69,414	49,950
<b>Balances, beginning of year</b>	<u>147,589</u>	<u>380,810</u>	<u>528,399</u>
<b>Balances, end of year</b>	<u><u>\$ 128,125</u></u>	<u><u>\$ 450,224</u></u>	<u><u>\$ 578,349</u></u>

(continued)

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS, continued  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>School Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ (507,055)	\$ 51,729	\$ (455,326)
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities</b>			
Depreciation	27,358	-	27,358
Donated commodities	40,598	-	40,598
On-behalf payments	45,987	16,538	62,525
Change in assets and liabilities:			
Accounts receivable	(2,574)	1,705	(869)
Inventory	(11,597)	-	(11,597)
Accounts payable	90	(558)	(468)
<b>Net cash provided (used) by operating activities</b>	<u><u>\$ (407,193)</u></u>	<u><u>\$ 69,414</u></u>	<u><u>\$ (337,779)</u></u>
<b>Schedule of non-cash transactions:</b>			
Donated commodities received from Federal government	\$ 40,598	\$ -	\$ 40,598
On-behalf payments	45,987	16,538	62,525

See accompanying notes to financial statements

**FIDUCIARY FUNDS FINANCIAL STATEMENTS**

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2012**

	Private Purpose Trust Fund	Agency Funds
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 143,157	\$ 904,514
Accounts receivable	1,530	27,077
Capital assets less accumulated depreciation	-	467,346
	<u>                    </u>	<u>                    </u>
Total assets	<u>144,687</u>	<u>1,398,937</u>
<b>LIABILITIES</b>		
Accounts payable	530	12,176
Deferred revenue	-	156,165
Due to other governments	-	467,346
Career and Technical Center Escrow	-	530,474
Due to student groups	-	232,776
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>530</u>	<u>1,398,937</u>
<b>NET ASSETS</b>		
Unreserved	<u>144,157</u>	<u>-</u>
	<u>                    </u>	<u>                    </u>
Total net assets	<u><u>\$ 144,157</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012**

	Private Purpose Trust Fund
<b>ADDITIONS</b>	
Interest income	\$ 79
Other local revenues	74,622
Total additions	74,701
<b>DEDUCTIONS</b>	
Instruction	-
Community services	73,501
Total deductions	73,501
Change in net assets	1,200
Net assets, beginning of year	142,957
Net assets, end of year	\$ 144,157

See accompanying notes to financial statements

**MURRAY INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	Head Start	Career & Technical Center	Activity Funds	Total
<b>REVENUES</b>				
Earnings on investments	\$ 2,101	\$ 3,920	\$ -	\$ 6,021
Tuition and fees	23,087	-	-	23,087
Student activities	-	-	565,582	565,582
Other local revenues	(8,453)	526,554	-	518,101
Intergovernmental - state grants	4,604	-	-	4,604
Intergovernmental - federal grants	4,435,414	-	-	4,435,414
<b>Total revenues</b>	<b>4,456,753</b>	<b>530,474</b>	<b>565,582</b>	<b>5,552,809</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	4,003,537	-	-	4,003,537
Student	124,967	-	569,437	694,404
Instructional staff	144,899	-	-	144,899
Business support	130,203	-	-	130,203
Student transportation	42,409	-	-	42,409
Community service activities	10,738	-	-	10,738
<b>Total expenditures</b>	<b>4,456,753</b>	<b>-</b>	<b>569,437</b>	<b>5,026,190</b>
Excess (deficit) of revenues over (under) expenditures	-	530,474	(3,855)	526,619
Due to others, July 1, 2011	-	-	236,631	236,631
Due to others, June 30, 2012	\$ -	\$ 530,474	\$ 232,776	\$ 763,250

See accompanying notes to financial statements

**NOTES TO FINANCIAL STATEMENTS**

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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

Reporting Entity

The District is the level of government primarily accountable for activities related to public education. 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 District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

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

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

**Murray Independent School District Finance Corporation** – On February 11, 1993, 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 58.180) was formed as an agency of the District 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.

Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect on interfund activities.

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

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

**Fund Financial Statements:**

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the funds' principal operations. The funds' principal operating revenues are food service charges and day care charges. Operating expenses include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Agency funds have no measurement focus.

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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

The District has the following funds:

Governmental Fund Types

The *General Fund* is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It 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. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

*Capital Projects Funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

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

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenue to be used for authorized construction.

The *Bond and Interest and Redemption Fund* is a debt service fund used to account for the accumulation of resources for, and the payment of, bonded debt and lease obligations, interest, and related costs. This is a major fund of the District.

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Proprietary Funds

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA).

The *Day Care Fund* is used to account for after-school and summer day care program activities. The program is available for children before and after school during the school year and all day during the summer months. Revenues are generated by collection of fees from program participants. Expenditures are for operating activities of the program.

Fiduciary Fund Types (including agency and trust funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

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

The *Trust and Agency Fund* serves as a host to donations from the community to the Murray Family Resource Center, fees for extra-curricular education programs, fees for community education programs, fees for the Murray Alumni Association, an employee-generated fund, and serves as a pass-through fund for profits from the District's soft drink machines.

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 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.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in 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, fiduciary, and agency funds also use the accrual basis of accounting.

The records of the District are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

For government-wide financial statements and proprietary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989 are applied, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

**Revenues – Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. “Available” means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

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

**Deferred Revenue:**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

**Expenses/Expenditures:**

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Estimates

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

Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds.

Assets, Liabilities, and Equity

Cash and Cash Equivalents:

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

Prepaid Expenditures:

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

Inventories:

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory using the accrual basis of accounting. The Proprietary Fund inventory is recorded at the lower of cost, determined by first-in first-out ("FIFO") method, or market value.

Bond Issue Costs:

Costs associated with the issuance of bond obligations, including underwriter fees, fiscal and rating agency fees, paying agent fees, and attorney fees, are reported as expenditures in the governmental funds financial statements. These costs are capitalized and amortized over the lives of the respective bonds on the government-wide financial statements.

Deferred Interest:

The difference between the amount borrowed to advance refund existing debt and the amount escrowed for the payment of old debt is recorded as deferred interest and amortized over the remaining life of the refunded debt on the government-wide financial statements. Deferred interest on advance refunding issues is not reported on the governmental funds financial statements.

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Interfund Balances:

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

Capital Assets:

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. 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 not capitalized.

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>Governmental Activities 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

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Accrued Liabilities and Long-term Obligations:

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

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

Compensated Absences:

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

Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave when earned for all employees with more than five years of service.

The entire compensated absences liability is reported on the government-wide financial statements.

Fund Balance:

Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned 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.

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Net Assets:

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

Subsequent Events

Subsequent events have been evaluated through November 7, 2012, which is the date the financial statements were available to be issued.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

At June 30, 2012, the carrying amount of the District's deposits was \$8,232,543 and the bank balance was \$8,743,775.

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

Governmental funds	\$ 6,606,523
Proprietary funds	578,349
Fiduciary funds	904,514
Trust and Agency fund	<u>143,157</u>
	<u>\$ 8,232,543</u>

Funds of the District are considered to be public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. However, state statutes require the District's bank deposits to be collateralized. As of June 30, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Interest Rate Risk

The District does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, certificates of deposit are not subject to interest rate risk.

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 3 – CAPITAL ASSETS**

Capital Asset activity for the fiscal year ended June 30, 2012 was as follows:

<b>Governmental Activities</b>	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2012</b>
Capital assets not depreciated:				
Land	\$ 413,644	\$ -	\$ -	\$ 413,644
Construction in progress	276,000	-	276,000	-
Total nondepreciable historical cost	<u>689,644</u>	<u>-</u>	<u>276,000</u>	<u>413,644</u>
Capital assets depreciated:				
Land improvements	1,111,379	302,948	-	1,414,327
Building and improvements	18,333,419	263,726	-	18,597,145
Technology equipment	1,546,094	259,156	258,289	1,546,961
Vehicles	705,421	-	4,500	700,921
Other	713,438	73,536	7,259	779,715
Total depreciable historical cost	<u>22,409,751</u>	<u>899,366</u>	<u>270,048</u>	<u>23,039,069</u>
Less: accumulated depreciation				
Land improvements	626,892	43,300	653	669,539
Building and improvements	5,927,543	657,324	-	6,584,867
Technology equipment	1,165,955	178,457	255,369	1,089,043
Vehicles	503,955	45,598	2,728	546,825
Other	461,496	39,936	4,959	496,473
Total accumulated depreciation	<u>8,685,841</u>	<u>964,615</u>	<u>263,709</u>	<u>9,386,747</u>
Total depreciable historical cost - net	<u>13,723,910</u>	<u>(65,249)</u>	<u>6,339</u>	<u>13,652,322</u>
Governmental activities capital assets - net	<u>\$ 14,413,554</u>	<u>\$ (65,249)</u>	<u>\$ 282,339</u>	<u>\$ 14,065,966</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 3 – CAPITAL ASSETS, continued**

<b>Agency Funds</b>	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2012</b>
Capital assets depreciated:				
Building and improvements	\$ 75,857	\$ 2,165	\$ -	\$ 78,022
Technology equipment	172,541	21,381	15,740	178,182
Vehicles	1,058,669	114,195	81,110	1,091,754
General equipment	528,286	14,852	1,120	542,018
Total depreciable historical cost	<u>1,835,353</u>	<u>152,593</u>	<u>97,970</u>	<u>1,889,976</u>
Less: accumulated depreciation				
Building and improvements	62,595	651	-	63,246
Technology equipment	132,014	24,921	15,319	141,616
Vehicles	853,942	49,306	81,110	822,138
General equipment	359,194	37,266	830	395,630
Total accumulated depreciation	<u>1,407,745</u>	<u>112,144</u>	<u>97,259</u>	<u>1,422,630</u>
Agency funds capital assets - net	<u>\$ 427,608</u>	<u>\$ 40,449</u>	<u>\$ 711</u>	<u>\$ 467,346</u>
<b>Business-Type Activities</b>	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2012</b>
Capital assets depreciated:				
Technology equipment	\$ 28,985	\$ 4,829	\$ 3,174	\$ 30,640
Other	367,974	-	-	367,974
Total depreciable historical cost	<u>396,959</u>	<u>4,829</u>	<u>3,174</u>	<u>398,614</u>
Less: accumulated depreciation				
Technology equipment	26,427	1,719	3,141	25,005
Other	231,457	25,639	-	257,096
Total accumulated depreciation	<u>257,884</u>	<u>27,358</u>	<u>3,141.00</u>	<u>282,101</u>
Business -type activities, capital assets - net	<u>\$ 139,075</u>	<u>\$ (22,529)</u>	<u>\$ 33.00</u>	<u>\$ 116,513</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 3 – CAPITAL ASSETS, continued**

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

<b>Governmental Activities</b>	
Instruction	\$ 781,754
Support Services:	
Student	227
Instructional staff	618
District administration	31,443
School administration	21,404
Business	1,801
Plant operation and maintenance	86,842
Student transportation	<u>40,526</u>
	<u><u>\$ 964,615</u></u>

**NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS**

The amounts shown in the accompanying financial statements as lease and bonded debt obligations represent the District's future obligations to make payments relating to the bonds issued by the Murray Independent School District Finance Corporation on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2001-A	\$ 4,415,000	2.50% - 4.625%
2003	1,040,000	1.20% - 3.50%
2004	8,150,000	2.00% - 4.25%
2010	3,235,000	2.00% - 2.50%
2012	5,785,000	1.00% - 2.00%

The District, through the General Fund, (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds), is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by 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. Upon completion of such payments, the leased premises should become the property of the District. The District is obligated to maintain property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued**

The District has “participation agreements” with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

On February 1, 2012, Murray Independent School District issued \$5,785,000 School Building Refunding Revenue Bonds 2012 to refund \$270,000 of the 2001B School Building Revenue Bonds and advance refund \$5,0150,000 of the 2004 School Building Revenue Bonds. As a result, Debt Service payments were reduced by \$15,908 for a net present value savings of 5.892% for the 2001B refunding bonds and \$372,627 for a net present value savings of 7.430% for the 2004 refunding bonds.

On February 1, 2012, Murray Independent School District advance refunded a portion of the Series 2004 School Building Revenue Bonds. Payments due on and after September 1, 2012 will be paid from the escrow account. The bonds will be called beginning on September 1, 2012. Total bonds outstanding as of June 30, 2012 totaled \$5,401,805. As of June 30, 2012, the escrow account had a balance of \$5,401,805.

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, 2012, for debt service (principal and interest) are as follows:

Year	Principal	Interest	Participation	District's Portion
2012 - 2013	\$ 770,000	\$ 202,779	\$ 80,423	\$ 892,356
2013 - 2014	785,000	175,074	70,735	889,339
2014 - 2015	805,000	157,219	70,735	891,484
2015 - 2016	825,000	145,526	70,736	899,790
2016 - 2017	840,000	131,456	70,735	900,721
2017 - 2018	790,000	117,557	70,735	836,822
2018 - 2019	805,000	102,547	70,735	836,812
2019 - 2020	820,000	86,625	70,735	835,890
2020 - 2021	835,000	68,525	70,735	832,790
2021 - 2022	860,000	49,850	70,735	839,115
2022 - 2023	880,000	35,500	70,736	844,764
2023 - 2024	895,000	17,900	70,735	842,165
	<u>\$ 9,910,000</u>	<u>\$ 1,290,558</u>	<u>\$ 858,510</u>	<u>\$ 10,342,048</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued**

The changes in outstanding debt are as follows:

<u>Bonds</u>	<u>Balance June 30, 2011</u>	<u>New Issues/ Adjustments</u>	<u>Debt Payments/ Adjustments</u>	<u>Balance June 30, 2012</u>
Series 2001-A	\$ 3,325,000	\$ -	\$ 3,175,000	\$ 150,000
Series 2001-B	315,000	-	315,000	-
Series 2003	235,000	-	115,000	120,000
Series 2004	6,020,000	-	5,345,000	675,000
Series 2010	3,225,000	-	45,000	3,180,000
Series 2012	-	5,785,000	-	5,785,000
<b>Total series</b>	<u>13,120,000</u>	<u>5,785,000</u>	<u>8,995,000</u>	<u>9,910,000</u>
 <u>Capital Leases</u>				
KISTA 2001	18,723	-	18,723	-
KISTA 2003	6,607	-	3,238	3,369
KISTA 2004	10,616	-	3,894	6,722
KISTA 2005	24,684	-	6,430	18,254
<b>Total capital leases</b>	<u>60,630</u>	<u>-</u>	<u>32,285</u>	<u>28,345</u>
<b>Total debt</b>	<u>\$ 13,180,630</u>	<u>\$ 5,785,000</u>	<u>\$ 9,027,285</u>	<u>\$ 9,938,345</u>
Plus: Premium				<u>14,461</u>
<b>Net total</b>				<u>\$ 9,952,806</u>

**NOTE 5 – CAPITAL LEASE OBLIGATIONS**

The following is an analysis of the book value of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2012</u>
Office equipment	\$ 3,708
Buses	28,231

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 5 – CAPITAL LEASE OBLIGATIONS, continued**

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

Year ending June 30,	Capital Lease Obligations
2013	\$ 14,342
2014	9,649
2015	6,110
Total minimum lease payments	30,101
Less: Amount representing interest	(1,756)
Present value of net minimum lease payments	\$ 28,345

**NOTE 6 – FUND BALANCE REPORTING**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

*Restricted* – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Murray Independent School District (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 6 – FUND BALANCE REPORTING, continued**

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the Board.

*Unassigned* – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balances are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

	General Fund	Special Revenue	Facility Support Program (FSPK) Fund	Debt Service	Other Governmental Funds	Total
Nonspendable	\$ 11,627	\$ -	\$ -	\$ -	\$ -	\$ 11,627
Restricted:						
Future construction	62,357	-	2,198,289	-	12,274	2,272,920
Capital outlay	-	-	-	-	340,850	340,850
Debt service	-	-	-	3,188	-	3,188
Committed:						
Unfunded portion of full-day kindergarten	17,065	-	-	-	-	17,065
Unfunded portion of transportation	120,803	-	-	-	-	120,803
New school bus	75,000	-	-	-	-	75,000
Noncurrent sick leave payable (50%)	96,327	-	-	-	-	96,327
Section 7 personnel	510,000	-	-	-	-	510,000
Physical education facility	37,643	-	-	-	-	37,643
Salaries paid by EduJobs	100,000	-	-	-	-	100,000
Assigned	86,555	-	-	-	-	86,555
Unassigned	3,002,590	-	-	-	-	3,002,590
	<u>\$ 4,119,967</u>	<u>\$ -</u>	<u>\$ 2,198,289</u>	<u>\$ 3,188</u>	<u>\$ 353,124</u>	<u>\$ 6,674,568</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 7 – INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund balances at June 30, 2012.

**NOTE 8 – PENSION PLANS**

Kentucky Teachers' Retirement

*Plan description* – The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Any benefit amendments must be authorized by the State Legislature.

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

*Funding policy* – Contribution rates are established by KRS. Members are required to contribute 9.855% of the employees' salaries to KTRS for those employees hired prior to July 1, 2008 and 10.855% for employees hired after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.605% of the employees' salaries for employees hired prior to July 1, 2008 and 14.105% for employees hired after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

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

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

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 8 – PENSION PLANS, continued**

The District's payroll was \$9,680,090 for the year ended June 30, 2012. The payroll for employees covered under KTRS was \$6,741,723 for the year ended June 30, 2012. The Commonwealth contributed \$800,193 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ended June 30, 2012, 2011 and 2010 were \$126,110, \$104,494 and \$92,331, respectively, which represent those employees covered by federal programs.

County Employees' Retirement System

*Plan description* – Substantially all other employees (classified personnel) are covered by the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides for retirement, death, and disability benefits to plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State legislature.

Under the provision of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

*Funding policy* – Funding for the Plan is provided through payroll withholdings of 5% for employees hired prior to September 1, 2008 and 6% for employees hired after September 1, 2008, and a District contribution of 18.96% of the employee's total compensation subject to contribution. The payroll for employees covered under CERS was \$2,764,577 for the year ended June 30, 2012. The District's contributions to CERS were equal to the required contributions of \$524,164, \$484,669 and \$484,529 for the years ended June 30, 2012, 2011 and 2010, respectively.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

**NOTE 9 – CONTINGENCIES**

Grant Programs

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

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 10 – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE 11 – RISK MANAGEMENT AND LITIGATION**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards' Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards' Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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

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

**NOTE 12 – COBRA**

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

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

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 13 – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay	General Fund	COFT Property Insurance	\$ 117,705
General Fund	Special Revenue	KETS Offers	25,640
Building Fund	Debt Service	Debt payments	870,255

**NOTE 14 – COMPENSATED ABSENCES**

Upon retirement from the school system, employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be funded with current year's economic financial resources. These amounts are recorded in the account "accrued sick leave payable" in the General Fund. The amount estimated for expenditure for school year 2013 is \$3,528. Management has estimated that the long-term obligation will be approximately \$192,657.

**NOTE 15 – PROPERTY TAXES**

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business and personal property located in the District. The assessed value of the certified roll, upon which the levy for the 2011 fiscal year was based, was \$436,141,707.

The tax rates for the school year ended June 30, 2012 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.544 real estate and \$0.544 tangible per \$100 valuation.

Taxes are due on October 1 and become delinquent by January 1 following the October 1 levy date. Current general and PSC property tax collections for the year ended June 30, 2012 were 96.53% of the tax levy.

Property tax revenues and other governmental fund financial resource increments (i.e., bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period.

**NOTE 16 – DEFICIT OPERATING FUND BALANCES**

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

General Fund	\$ (963,634)
Debt Service	(3,123,603)

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 17 – ON-BEHALF PAYMENTS**

The Commonwealth of Kentucky (the “State”) is required to fund the matching contributions for the District’s personnel participating in the Teachers’ Retirement System of the State of Kentucky (See Note 8). The District also received on-behalf payments for certain fringe benefits from the State in the amount of \$1,487,959 and \$80,423 for debt service for the fiscal year ending June 30, 2012. These payments, as well as the KTRS matching contributions of \$800,193 are included as equal amounts of revenues and expenditures in the accompanying Statement of Activities.

**NOTE 18 – ANNUAL FINANCIAL REPORT DIFFERENCES**

Cash per AFR	\$ 7,181,684
Debt Service Fund	<u>3,188</u>
Cash per Statement of Net Assets	<u><u>\$ 7,184,872</u></u>

Cash in the debt service fund represents funds remaining from the 2012 bond issue for accrued interest.

**SUPPLEMENTARY INFORMATION**

**MURRAY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
From local sources:				
Taxes:				
Property	\$ 1,283,000	\$ 1,323,000	\$ 1,574,452	\$ 251,452
Motor vehicle	210,000	220,000	251,613	31,613
Utilities	850,000	900,000	919,039	19,039
Other	138,000	149,000	159,869	10,869
Tuition and fees	125,000	125,000	155,934	30,934
Earnings on investments	65,000	55,000	56,904	1,904
Other local revenues	19,000	164,700	239,380	74,680
Intergovernmental - state	4,118,648	5,034,777	4,960,747	(74,030)
Intergovernmental - federal	-	-	-	-
<b>Total revenues</b>	<b>6,808,648</b>	<b>7,971,477</b>	<b>8,317,938</b>	<b>346,461</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instruction	5,042,405	5,574,167	5,126,156	448,011
Support services:				
Student	345,376	349,520	347,874	1,646
Instructional staff	508,786	476,579	429,379	47,200
District administration	2,228,397	2,902,145	900,152	2,001,993
School administration	583,297	589,079	555,251	33,828
Business	271,849	297,531	265,937	31,594
Plant operations and maintenance	1,967,601	2,267,625	1,473,328	794,297
Student transportation	441,957	604,958	268,817	336,141
Debt service	94,732	92,179	92,709	(530)
<b>Total expenditures</b>	<b>11,484,400</b>	<b>13,153,783</b>	<b>9,459,603</b>	<b>3,694,180</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>(4,675,752)</b>	<b>(5,182,306)</b>	<b>(1,141,665)</b>	<b>4,040,641</b>
<b>Other financing sources (uses)</b>				
Proceeds from sale of fixed assets	1,000	1,000	85,966	84,966
Operating transfers in	-	117,705	117,705	-
Operating transfers out	(25,000)	(20,000)	(25,640)	(5,640)
<b>Total other financing     sources (uses)</b>	<b>(24,000)</b>	<b>98,705</b>	<b>178,031</b>	<b>79,326</b>
<b>Net change in fund balance</b>	<b>(4,699,752)</b>	<b>(5,083,601)</b>	<b>(963,634)</b>	<b>4,119,967</b>
<b>Fund balance, July 1, 2011</b>	<b>4,699,752</b>	<b>5,083,601</b>	<b>5,083,601</b>	<b>-</b>
<b>Fund balance, June 30, 2012</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,119,967</b>	<b>\$ 4,119,967</b>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
SPECIAL REVENUE  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u>
<b>REVENUES</b>				
From local sources:				
Other local revenues	\$ 26,122	\$ 24,202	\$ 25,259	\$ 1,057
Intergovernmental - state	443,550	482,683	477,043	(5,640)
Intergovernmental - federal	3,808,692	3,423,841	3,352,986	(70,855)
<b>Total revenues</b>	<u>4,278,364</u>	<u>3,930,726</u>	<u>3,855,288</u>	<u>(75,438)</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instruction	3,887,997	3,513,226	3,485,587	27,639
Support services:				
Student support	126,289	121,870	122,901	(1,031)
Instructional staff	155,011	202,146	153,028	49,118
District administration	20,000	20,000	20,000	-
Plant operation and maintenance	-	-	-	-
Community service activities	102,696	99,124	99,412	(288)
<b>Total expenditures</b>	<u>4,291,993</u>	<u>3,956,366</u>	<u>3,880,928</u>	<u>75,438</u>
<b>Excess (deficit) of revenues     over (under) expenditures</b>	<u>(13,629)</u>	<u>(25,640)</u>	<u>(25,640)</u>	<u>-</u>
<b>Other financing sources (uses)</b>				
Operating transfers in	13,629	25,640	25,640	-
Operating transfers out	-	-	-	-
<b>Total other financing         sources (uses)</b>	<u>13,629</u>	<u>25,640</u>	<u>25,640</u>	<u>-</u>
<b>Net change in fund balance</b>	-	-	-	-
<b>Fund balance, July 1, 2011</b>	-	-	-	-
<b>Fund balance, June 30, 2012</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FACILITY SUPPORT PROGRAM (FSPK) FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u>
<b>REVENUES</b>				
From local sources:				
Taxes				
Property	\$ 720,000	\$ 720,000	\$ 720,000	\$ -
Earnings on investments	10,000	10,000	18,222	8,222
Intergovernmental - state	462,080	462,080	415,278	(46,802)
<b>Total revenues</b>	<u>1,192,080</u>	<u>1,192,080</u>	<u>1,153,500</u>	<u>(38,580)</u>
<b>EXPENDITURES</b>				
Debt service	870,255	870,255	2,227	868,028
Contingency	1,845,825	321,825	-	321,825
<b>Total expenditures</b>	<u>2,716,080</u>	<u>1,192,080</u>	<u>2,227</u>	<u>1,189,853</u>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<u>(1,524,000)</u>	<u>-</u>	<u>1,151,273</u>	<u>1,151,273</u>
<b>Other financing sources (uses)</b>				
Operating transfers in				-
Operating transfers out	(276,000)	-	(870,255)	(870,255)
<b>Total other financing sources (uses)</b>	<u>(276,000)</u>	<u>-</u>	<u>(870,255)</u>	<u>870,255</u>
<b>Net change in fund balance</b>	(1,800,000)	-	281,018	281,018
<b>Fund balance, July 1, 2011</b>	<u>1,800,000</u>	<u>-</u>	<u>1,917,271</u>	<u>1,917,271</u>
<b>Fund balance, June 30, 2012</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,198,289</u>	<u>\$ 2,198,289</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2012**

**NOTE 1 – BUDGETARY INFORMATION**

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

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

The District does not budget for on-behalf payments, which are reported with the General, Food Service, and Day Care Funds in the fund financial statements and the budgetary comparison supplementary information.

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

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

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

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

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

**Reconciliation to the General Fund**

Revenues - budgetary basis	\$ 8,317,938
On-behalf payments	<u>2,225,628</u>
Total revenues - modified cash basis	<u><u>\$ 10,543,566</u></u>
Expenditures - budgetary basis	\$ 9,459,603
On-behalf payments	<u>2,225,628</u>
Total expenditures - modified cash basis	<u><u>\$ 11,685,231</u></u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2012**

	Construction Fund	SEEK Capital Outlay Fund	Total Nonmajor Governmental Funds
<b>ASSETS AND RESOURCES</b>			
Cash and cash equivalents	\$ 12,274	\$ 340,850	\$ 353,124
Total assets and resources	12,274	340,850	353,124
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities	-	-	-
Accounts payable	-	-	-
Total liabilities	-	-	-
Fund balances			
Nonspendable			
Spendable:			
Restricted	12,274	340,850	353,124
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
Total fund balances	12,274	340,850	353,124
Total liabilities and fund balances	\$ 12,274	\$ 340,850	\$ 353,124

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	Construction Fund	SEEK Capital Outlay Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
From local sources:			
Taxes:			
Property	\$ -	\$ -	\$ -
Earnings on investments	-	2,455	2,455
Intergovernmental - state	-	129,742	129,742
<b>Total revenues</b>	<u>-</u>	<u>132,197</u>	<u>132,197</u>
<b>EXPENDITURES</b>			
Facilities acquisition and construction	(12,274)	-	(12,274)
Debt service	-	-	-
<b>Total expenditures</b>	<u>(12,274)</u>	<u>-</u>	<u>(12,274)</u>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<u>12,274</u>	<u>132,197</u>	<u>144,471</u>
<b>Other financing sources (uses)</b>			
Operating transfers in	-	-	-
Operating transfers out	-	(117,705)	(117,705)
<b>Total other financing     sources (uses)</b>	<u>-</u>	<u>(117,705)</u>	<u>(117,705)</u>
<b>Net change in fund balance</b>	12,274	14,492	26,766
<b>Fund balance, July 1, 2011</b>	<u>-</u>	<u>326,358</u>	<u>326,358</u>
<b>Fund balance, June 30, 2012</b>	<u>\$ 12,274</u>	<u>\$ 340,850</u>	<u>\$ 353,124</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS  
 ALL ACTIVITY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Cash Balance</u> June 30, 2011	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance</u> June 30, 2012	<u>Accounts</u> <u>Receivable</u>	<u>Accounts</u> <u>Payable</u>	<u>Fund Balance</u> June 30, 2012
Murray High School	\$ 114,791	\$ 367,908	\$ 381,975	\$ 100,724	\$ -	\$ -	\$ 100,724
Murray Middle School	94,124	153,869	146,059	101,934	-	-	101,934
Murray Elementary School	27,716	43,805	41,403	30,118	-	-	30,118
Totals	<u>\$ 236,631</u>	<u>\$ 565,582</u>	<u>\$ 569,437</u>	<u>\$ 232,776</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,776</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS  
SCHOOL ACTIVITY FUND - MURRAY HIGH SCHOOL  
FOR THE YEAR ENDED JUNE 30, 2012**

	Fund Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2012
AP Exams	\$ 3,822	\$ 9,061	\$ 11,275	\$ 1,608	\$ -	\$ -	\$ 1,608
Academic Team	328	3,000	1,628	1,700	-	-	1,700
Art Department	1,809	892	2,304	397	-	-	397
Band	1,519	34,905	35,955	469	-	-	469
Black & Gold	1,185	5,829	7,014	-	-	-	-
Black History	115	-	47	68	-	-	68
Book Rental	9,814	18,951	28,756	9	-	-	9
Business	1,979	3,200	4,609	570	-	-	570
Cheer	4,003	13,478	8,711	8,770	-	-	8,770
Chemistry	-	-	-	-	-	-	-
Chorus	-	-	-	-	-	-	-
Speech	6,154	5,807	4,716	7,245	-	-	7,245
Drink Machine Fund	51	2,000	1,488	563	-	-	563
FBLA	267	3,236	3,103	400	-	-	400
FCA	446	1,808	1,396	858	-	-	858
French Club	460	1,239	1,183	516	-	-	516
Baseball Fundraiser	-	-	-	-	-	-	-
Library	50	28	-	78	-	-	78
Locks	819	300	-	1,119	-	-	1,119
Miscellaneous	786	6,706	7,190	302	-	-	302
Participation	610	457	248	819	-	-	819
Photo Fee	44	3,661	3,695	10	-	-	10
Spanish Club	2,526	2,810	3,124	2,212	-	-	2,212
STLP	99	-	99	-	-	-	-

(continued)

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS, continued**  
**SCHOOL ACTIVITY FUND - MURRAY HIGH SCHOOL**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Fund Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2012
Student Council	3,286	2,000	2,513	2,773	-	-	2,773
Student Fees	348	4,950	5,214	84	-	-	84
Tri-Alpha	11	-	-	11	-	-	11
TV Club	631	12,567	12,857	341	-	-	341
Yearbook	12,734	14,815	4,259	23,290	-	-	23,290
Workbooks	-	5,571	5,571	-	-	-	-
Tech Education	2,777	526	2,541	762	-	-	762
Class of 2006	-	-	-	-	-	-	-
Class Savings Account	2,889	818	236	3,471	-	-	3,471
Chess	1,504	1,000	1,122	1,382	-	-	1,382
Technology Fee	851	1,500	-	2,351	-	-	2,351
German	46	-	-	46	-	-	46
FRYSC	801	1,706	1,869	638	-	-	638
Family Consumer Science	-	45	45	-	-	-	-
Key Club	701	-	701	-	-	-	-
Beta Club	780	690	653	817	-	-	817
Class of 2010	401	-	401	-	-	-	-
Guidance Department	425	290	150	565	-	-	565
PTO	1,113	1,255	1,812	556	-	-	556
TSA	98	-	98	-	-	-	-
Dawg Pound	853	604	496	961	-	-	961
Japanese Club	55	-	-	55	-	-	55
Science Dept	2,230	3,344	5,574	-	-	-	-
Class of 2011	581	-	581	-	-	-	-

(continued)

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS, continued**  
**SCHOOL ACTIVITY FUND - MURRAY HIGH SCHOOL**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Fund Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2012
Y Club	-	13,781	13,781	-	-	-	-
Class of 2012	1,429	185	1,135	479	-	-	479
Math Department	500	-	-	500	-	-	500
Class of 2013	7,982	5,665	9,042	4,605	-	-	4,605
Mini-grants	997	-	-	997	-	-	997
Engineering Workshop	500	-	500	-	-	-	-
P.E.	107	519	344	282	-	-	282
Class of 2014	2,274	849	698	2,425	-	-	2,425
Interact Club	226	-	-	226	-	-	226
Robotics	217	-	217	-	-	-	-
Bass Club	-	-	-	-	-	-	-
Class of 2015	-	2,269	60	2,209	-	-	2,209
Athletics:							
District Softball Tournament	-	1,609	1,609	-	-	-	-
1st Region Baseball Team	-	8,120	8,120	-	-	-	-
Girls' Basketball	-	10,536	10,536	-	-	-	-
Girls' Soccer	-	4,369	4,369	-	-	-	-
G/B Golf	-	1,057	1,057	-	-	-	-
Athletic Miscellaneous	-	13,666	13,666	-	-	-	-
Athletic Receipts	26,304	99,341	107,622	18,023	-	-	18,023
Sub Sectional Soccer	-	-	-	-	-	-	-
Sectional Soccer	-	-	-	-	-	-	-
Softball	-	1,380	1,380	-	-	-	-
Baseball	-	5,482	5,482	-	-	-	-
G/B Swimming	-	5,559	5,559	-	-	-	-

(continued)

**MURRAY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS, continued**  
**SCHOOL ACTIVITY FUND - MURRAY HIGH SCHOOL**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Fund Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2012
G/B Tennis Tournament	315	1,257	1,547	25	-	-	25
G/B Track Volleyball	-	6,969	6,929	40	-	-	40
Athletic Game Administration	-	1,096	1,096	-	-	-	-
Boys' Basketball	-	23,005	23,005	-	-	-	-
Dance Team	-	5,175	5,173	2	-	-	2
Athletic Transportation	1,518	9,150	8,662	2,006	-	-	2,006
District Volleyball	-	16,157	16,157	-	-	-	-
4th District Basketball Tournament	-	-	-	-	-	-	-
Regional Cross Country	-	10,560	10,560	-	-	-	-
Football Playoffs 2nd Round	-	-	-	-	-	-	-
Boys' Soccer	-	4,035	4,035	-	-	-	-
Football Regional Championship	100	4,140	4,098	142	-	-	142
Archery	-	7,680	7,680	-	-	-	-
Change Acct	1,871	10,696	9,756	2,811	-	-	2,811
Region 1 Soccer Tournament	-	6,200	6,200	-	-	-	-
Football State Semifinals	-	2,351	2,351	-	-	-	-
G/B Cross Country	-	10,090	10,090	-	-	-	-
District Soccer Team	-	905	905	-	-	-	-
Football Playoff 1st Round	-	-	-	-	-	-	-
Football	-	3,590	3,590	-	-	-	-
	450.00	13,800	14,114	136	-	-	136
	114,791	480,292	494,359	100,724	-	-	100,724
Less interfund transfers	-	(112,384)	(112,384)	-	-	-	-
	<u>\$ 114,791</u>	<u>\$ 367,908</u>	<u>\$ 381,975</u>	<u>\$ 100,724</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,724</u>

**MURRAY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	
U.S. Department of Agriculture Passed through State Department of Education: School Breakfast Program ***	10.553*	7760005-11 7760005-12	\$ 17,446 <u>70,643</u>	\$ 88,089
National School Lunch Program ***	10.555*	7750002-11 7750002-12	54,563 <u>216,779</u>	271,342
Summer Food Service Program for Children ***	10.559*	7690024-11 7740023-12	832 <u>23,336</u>	<u>24,168</u>
Total U.S. Department of Agriculture				<u>383,599</u>
U.S. Department of Education Passed through State Department of Education: Title I Grants to Local Education Agencies ***	84.010	310000210 310010210 310010211 310000211	126,361 7,336 8,074 <u>190,123</u>	331,894
Vocational Education Basic Grants to States	84.048	462103209 462113210 462123210 462123211	414 1,532 558 <u>8,621</u>	11,125
Special Education Preschool Grants	** 84.173	380000210 380000211	4,300 <u>19,177</u>	23,477
Special Education Grants to States	** 84.027	381000209 381000210 381000211	10,348 233,638 <u>4,846</u>	248,832
Safe & Drug Free Schools and Communities State Grants	84.186	341000209		692
Improving Teacher Quality State Grants	84.367	323000211		58,069

(continued)

**MURRAY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	
Title VI Rural Education	84.358	314000209 314000210 314000211	640 30,254 <u>30,782</u>	61,676
English Language Acquisition	84.365	330000209 330000210	29,885 <u>3,648</u>	33,533
ARRA - Title I Grants to Local Educational Agencies	84.389	410000209		36,055
ARRA - Special Education Grants to States	84.391	481000209		2,258
ARRA - Special Educations - Preschool Grants	84.392	480000209		4,539
ARRA - Education Jobs Fund	84.410	EJOB0010		141,864
Learn to Serve America - School & Community Based Programs	94.004	100000210 100000110	1,851 <u>1,150</u>	<u>3,001</u>
Total U.S. Department of Education				<u>957,015</u>
U. S. Department of Health and Human Services				
Direct Programs:				
Head Start - MBE ***	93.600	04CH2692-43 04CH2692-44	466,228 <u>2,255,134</u>	2,721,362
Head Start - EHS ***	93.600	04CH2692-43 04CH2692-44	299,756 <u>1,116,165</u>	1,415,921
Passed through Western Kentucky University Head Start ***	93.600	04CH0201-002 04CH0201-002	116,707 <u>181,424</u>	<u>298,131</u>
Total U.S. Department of Health and Human Services				<u>4,435,414</u>
Total Expenditures of Federal Awards				<u><u>\$ 5,776,028</u></u>

\*Child Nutrition Cluster  
\*\*Special Education Cluster  
\*\*\*Major Programs

**MURRAY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

**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 (the "District") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial positions, changes in net assets or cash flows of the District.

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

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

**NOTE 3 – SUBRECIPIENTS**

There were no subrecipients during the fiscal year.

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



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

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

We have audited 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, 2012, which collectively comprise Murray Independent School District's basic financial statements and have issued our report thereon dated November 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*.

Internal Control Over Financial Reporting

Management of Murray Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Murray Independent School District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Murray Independent School District's internal control over financial reporting.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to material weaknesses, as defined above.

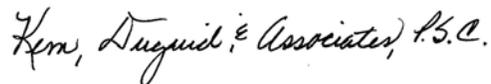
#### Compliance and Other Matters

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*.

In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*. However, we noted certain matters that we have reported to management of Murray Independent School District in a separate letter dated November 7, 2012.

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

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



Certified Public Accountants  
Hopkinsville, Kentucky

November 7, 2012

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



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Murray Independent School District 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, 2012. Murray Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Murray Independent School District's management. Our responsibility is to express an opinion on Murray Independent School District's compliance based on our audit.

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*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. 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. Our audit does not provide a legal determination of Murray Independent School District's compliance with those requirements.

In our opinion, Murray Independent School District complied, in all material respects, with the 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, 2012.

## Internal Control over Compliance

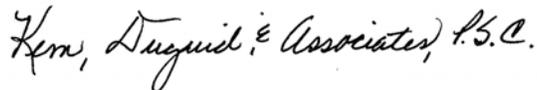
Management of Murray Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Murray Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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



Certified Public Accountants  
Hopkinsville, Kentucky

November 7, 2012

**MURRAY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Murray Independent School District.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Murray Independent School District were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit of Murray Independent School District
5. The auditor's report on compliance for the major federal award programs for Murray Independent School District expresses an unqualified opinion on all major federal programs.
6. The audit disclosed no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

Program Title	CFDA Number
Title I Cluster	84.010
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program	10.559
Head Start	93.600

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Murray Independent School District qualifies as a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

None.

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

None

**MURRAY INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

There were no prior audit findings for Murray Independent School District.

**MANAGEMENT LETTER COMMENTS FOR AUDIT**

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



November 7, 2012

Members of the Board of Education  
Murray Independent School District  
Murray, Kentucky

In planning and performing our audit of the financial statements of Murray Independent School District for the year ended June 30, 2012, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we did not become aware of any findings in regard to internal control. This letter does not affect our report dated November 7, 2012 on the financial statements of the Murray Independent School District.

We did perform a follow-up review on the prior year findings with the status of these findings documented on page 68 of this report.

Respectfully,

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

Certified Public Accountants  
Hopkinsville, Kentucky

**MURRAY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS FOR AUDIT  
JUNE 30, 2012**

**MURRAY ELEMENTARY SCHOOL**

- I. **Condition** – Cash disbursements testing of a randomly chosen sample revealed multiple instances of purchase order dated after check date.

**Recommendation** – All purchase orders should be dated and approved before the checks are written.

**Response** – The finding was not repeated for the fiscal year ended June 30, 2012.

**MURRAY MIDDLE SCHOOL**

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed multiple instances of receipts not being deposited in a timely manner.

**Recommendation** – All monies collected should be deposited in a timely manner according to Red Book procedures.

**Response** – The finding was not repeated for the fiscal year ended June 30, 2012.

**MURRAY HIGH SCHOOL**

- I. **Condition** – Cash receipts testing of a randomly chosen sample revealed multiple instances of receipts not being given to the treasurer or deposited in a timely manner.

**Recommendation** – All monies collected should be turned in to the treasurer on the day collected and deposited in a timely manner according to Red Book procedures.

**Response** – The finding was not repeated for the fiscal year ended June 30, 2012

- II. **Condition** – Ticket sales testing of a randomly chosen sample revealed instances of no ticket taker signature on Requisition and Report of Ticket Sales form.

**Recommendation** – Signatures of ticket taker, person in charge of sales and school treasurer should be recorded on Requisition and Report of Ticket Sales form.

**Response** – The finding was not repeated for the fiscal year ended June 30, 2012

**MURRAY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS FOR AUDIT  
JUNE 30, 2012**

III. **Condition** – Ticket sales testing of a randomly chosen sample revealed multiple instances of cash overages and shortages of up to \$200 with no explanation of discrepancy.

**Recommendation** – Overages and shortages of cash should be investigated and resolved when discovered.

**Response** – The finding was not repeated for the fiscal year ended June 30, 2012.