

**MCKINNEY  
INDEPENDENT SCHOOL DISTRICT**

Financial Report for the Year Ended

June 30, 2015



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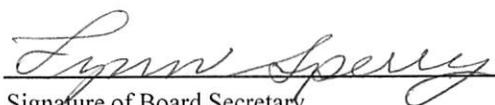
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CERTIFICATE OF BOARD

McKinney Independent School District	Collin	043-907
_____ Name of School District	_____ County	_____ Co.- Dist. Number

We, the undersigned, certify that the attached financial reports of the above-named school district were reviewed and (  ) approved (  ) disapproved for the year ended June 30, 2015, at a meeting of the Board of School Trustees of such school district on the 27<sup>th</sup> day of October, 2015.

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

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

If the auditor's report was disapproved, the reason(s) therefore is/are (attach list if necessary):



## **FINANCIAL SECTION**



**EVANS, PINGLETON and HOWARD, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS  
8950 GARY BURNS DRIVE, SUITE D  
FRISCO, TEXAS 75034  
972-335-9754/FAX 972-335-9758

**Independent Auditor's Report**

Board of School Trustees  
**McKinney Independent School District**  
1 Duvall Street  
McKinney, Texas 75069

Members of the Board:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McKinney Independent School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McKinney Independent School District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2015, on our consideration of the McKinney Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McKinney Independent School District's internal control over financial reporting and compliance.

*Evans, Pingleton and Howard, PLLC*

Frisco, Texas  
September 12, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the McKinney Independent School District annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2015. Please read in conjunction with the District's financial statements, which follow this section.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net position (Exhibit A-1) and the Statement of Activities (Exhibit B-1). These statements provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (Exhibits C-1 and C-3) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (following Exhibit D-2) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA and begin with Exhibit F-1. Exhibits labeled Exhibit G, TEA Required Schedules, and Federal Awards, contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

### REPORTING THE DISTRICT AS A WHOLE

#### *Government-wide Statements: The Statement of Net position and the Statement of Activities*

The government-wide statements (Exhibits A-1 and B-1) report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net position, Exhibit A-1, includes all of the government's assets and liabilities. The Statement of Activities, Exhibit B-1, accounts for all of the current period's revenues and expenses.

The two government-wide statements report the District's *net position* and how they have changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, consider additional non-financial factors such as changes in the District's tax base.

Within the government-wide financial statements of the District, most of the District's basic services are included, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes, grants and state revenues finance most of the activities.

## REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

### *Fund Financial Statements*

The fund financial statements (Exhibits C-1 and C-3) provide more detailed information about the District's most significant funds, not the District as a whole. Funds are a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives.

- Some funds are required by State law and bond covenants.
- Other funds are established to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are reported in governmental funds. The funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances at the end of the fiscal period. The governmental funds statements provide a detailed, short-term view of the District's general operations and the basic services it provides. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in reconciliation narratives following each of the fund financial statements. (Exhibits C-2 and C-4)
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position, Exhibits D-1 and D-2 respectively. These resources are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purpose.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net Position.** The District's combined net position was \$100,788,638 on June 30, 2015. (See Table A-1).

**Table A-1**  
**The District's Net position**

	Governmental Activities		Percentage
	2015	2014	Change
Current & Other Assets	\$156,835,875	\$142,179,502	10.31%
Capital & Non-Current Assets	495,064,357	488,676,874	1.31%
<b>Total Assets</b>	<b>\$651,901,232</b>	<b>\$630,856,376</b>	<b>3.34%</b>
<b>Deferred outflows of resources</b>	<b>4,710,932</b>	<b>-</b>	<b>100.00%</b>
Current Liabilities	\$59,738,838	\$56,798,602	5.18%
Long Term Liabilities	488,590,641	462,941,145	5.54%
<b>Total Liabilities</b>	<b>\$548,329,479</b>	<b>\$519,739,747</b>	<b>5.50%</b>
<b>Deferred Resource Inflow #2</b>	<b>\$7,494,047</b>	<b>\$251,523</b>	<b>2879.47%</b>
<b>Net position</b>			
Invested in Capital Assets			
net of related debt	\$33,022,837	\$25,773,308	28.13%
Restricted	25,329,735	24,855,650	1.91%
Unrestricted	42,436,066	60,236,148	-29.55%
<b>Total Net Position</b>	<b>\$100,788,638</b>	<b>\$110,865,106</b>	<b>-9.09%</b>

### Governmental Activities - Net position

Current assets increased 10.31% from the previous year as unexpended funds from the 2015 bond sale in April were short term invested. Deferred outflow and inflow of resources have significant increases due to the first year reporting of the asset/liability of the District's applicable portion of the Teacher Retirement System (TRS) of Texas pension plan. This reporting is in compliance with Governmental Accounting Standards Board (GASB) Statement no. 68.

**Table A-2  
Changes in Net Position**

	Governmental Activities		Percentage
	2015	2014	Change
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for services	\$8,753,579	\$8,681,379	.83%
Operating grants & contributions	24,101,510	20,784,914	15.96%
<u>General Revenues</u>			
Property taxes	173,371,448	158,833,075	9.15%
State aid - formula	66,111,929	65,240,231	1.34%
Investment earnings	143,114	104,786	36.58%
Grants & contributions not restricted	813,724	302,748	168.78%
Other	7,785,834	6,042,169	28.86%
<b>Total Revenues &amp; Extraordinary Items</b>	<b>\$281,081,138</b>	<b>\$259,989,302</b>	<b>8.11%</b>
<b>Expenses</b>			
Instruction and instructional related	158,720,595	147,656,056	7.49%
Instructional leadership/school administration	16,341,219	15,618,367	4.63%
Guidance, social work, health, transportation	16,587,013	16,061,689	3.27%
Food services	9,653,046	9,210,466	4.81%
Extracurricular activities	8,231,832	7,837,180	5.04%
General administration	4,102,561	4,167,625	-1.56%
Plant maintenance & security	19,228,117	19,767,903	-2.73%
Community services	2,545,145	2,241,395	13.55%
Data processing services	4,269,475	5,008,528	-14.76%
Debt service-interest & bond issuance costs	22,583,590	20,556,563	9.86%
Contracted instructional services between public schools	423,226	207,902	103.57%
Other intergovernmental charges	1,082,554	992,896	9.03%
<b>Total Expenses</b>	<b>\$263,768,373</b>	<b>\$249,326,570</b>	<b>5.79%</b>
<b>Change in Net Position</b>	<b>17,312,766</b>	<b>10,662,732</b>	<b>62.37%</b>
<b>Net Position-Beginning</b>	<b>110,865,107</b>	<b>100,202,374</b>	<b>10.64%</b>
<b>Prior Period Adjustment</b>	<b>-27,389,235</b>		<b>100.00%</b>
<b>Net Position-Ending</b>	<b>\$100,788,638</b>	<b>\$110,865,106</b>	<b>-9.09%</b>

## Governmental Activities-Changes in Net position

- Property taxes increased as total appraised property values improved.
- Grants and contributions not restricted increased as payments for School Health and Related Services payments from Texas Medicaid Services increased due improved reporting provided by a new contractor employed by the District.
- Payments to contracted instructional services increased as the District's first year of Chapter 41 payment to the state was reflected here.

Table A-3 presents the cost of each of the District's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this period was \$263,768,373.
- The amount paid by MISD taxpayers for these governmental activities through property taxes was \$173,371,449.
- Some of the cost (\$8,753,579) was paid by those who directly benefited from the programs or by grants and contributions of \$24,101,510.
- State aid formula grants paid for \$66,111,929 of the costs.

**Table A-3**  
**Net Cost of Selected District Functions**

	<u>Total Cost of Services</u>			<u>Net Cost of Services</u>		
	<u>2015</u>	<u>2014</u>	% Change	<u>2015</u>	<u>2014</u>	% Change
Instruction	\$151,571,899	\$140,827,715	7.6%	\$135,371,429	\$127,663,283	6.04%
School leadership	13,465,466	12,806,487	5.15%	12,805,976	12,166,528	5.26%
Plant maintenance & operations	18,178,252	18,596,890	-2.25%	17,123,124	17,737,511	-3.46%
Debt service-interest & fiscal charges	22,583,590	20,556,563	9.86%	22,583,590	20,556,563	9.86%

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, governmental funds (as presented in the balance sheet on Exhibit C-1) reported a combined fund balance of \$128,572,134 as compared to a fund balance ending June 30, 2014 of \$113,455,730. The general fund reflected the biggest increase as tax collections exceeded expectations with \$1.6 million received in rollback taxes in FY 15.

## General Fund Budgetary Highlights

During the course of the fiscal year, the District reviews and revises its budget on a monthly basis in accordance with Texas Education Agency Financial Accountability System Resource Guide standards. General Fund revenues for the fiscal year ended June 30, 2015 exceeded budget by \$4,801,533 due primarily to tax collections exceeding expectations. These collections included approximately \$1,600,000 in unanticipated rollback taxes. Total expenditures for the fiscal year were \$9,120,282 under budget. This was attributable primarily to the categories of Instruction where the budget was based on full staffing for the entire year; however, there were miscellaneous vacancies throughout the year. Fuel and utility expenditures were less due to decreasing fuel prices and mild weather throughout the fiscal year. Facilities Maintenance and Operations and Student Transportation also under spent a significant portion of their non-payroll budget.

At the end of fiscal year 2014, the ending general fund balance of \$60.1 million represented 30.3% of the 2014-2015 final operating budget. At fiscal year-end 2015, the ending fund balance of \$72.8 million represented 35.2% of the 2015-2016 operating budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2015, the District had invested \$495,064,354 in a broad range of capital assets, including land, equipment, buildings, and construction in progress. (See Table A-4) Additional information on capital assets is contained in Note 4, Section D of the Notes to the Financial Statements.

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

	<u>2015</u>	<u>2014</u>	<u>Total %</u> <u>Change</u>
Land	\$40,071,014	\$37,176,570	7.79%
Buildings & improvements	598,192,059	545,292,695	9.70%
Furniture & equipment	14,321,360	13,718,262	4.40%
Construction in progress	19,916,755	54,182,302	-63.24%
Totals at historical cost	<u>\$672,501,188</u>	<u>\$650,369,829</u>	3.40%
Total accumulated depreciation	<u>177,436,834</u>	<u>161,692,955</u>	9.74%
Net capital assets	<u>\$495,064,354</u>	<u>\$488,676,874</u>	1.31%

Construction in progress decreased as the McKinney High School renovation was completed and moved to the buildings and improvements category.

At the 2015 year-end, the District had \$491,960,538 in bonds outstanding as compared to \$487,801,145 at 2014 year-end. More detailed information about the District's debt is presented in the Notes to the Financial Statements.

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

	<u>2015</u>	<u>2014</u>	<u>Total %</u> <u>Change</u>
Bonds payable	<u>\$ 491,960,538</u>	<u>\$ 487,801,145</u>	.85%
Total bonds & notes payable	<u>\$ 491,960,538</u>	<u>\$ 487,801,145</u>	.85%

All of the District's bonds except the Series 2009 and 2010 Bonds presently carry AAA Ratings by virtue of the Texas Permanent School Fund Bond Guarantee Program. The District's underlying ratings (and stand alone ratings in the case of the Series 2009 and 2010 Bonds) are as follows:

Moody's Investor Services "Aa2"  
Standard & Poor's "AA"

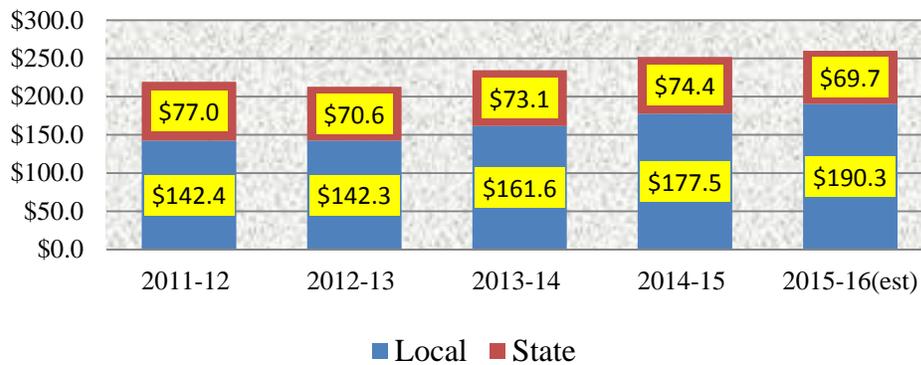
## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Net taxable appraised value used for the 2016 budget preparation has increased approximately \$922.5 million, which represents an increase of 8.7% from 2015 values. New construction for 2016 amounts to approximately \$297.7 million. Value lost for new exemptions totals \$48.3 million.
- A comparison of budgeted general operating fund spending per pupil (based on fall enrollment) in the 2014-15 fiscal year of \$7,976 to the budgeted 2015-16 spending per pupil of \$8,297 represents a budgeted increase in spending per pupil of 4.0%.
- The District's 2016 fall enrollment is expected to be approximately 24,915 which represents a .8 % increase over 2015.

These indicators were taken into account when adopting the general fund budget for 2015-16. Revenues available for appropriation in the general fund budget are \$204,745,340, an increase of 4.0% over the final 2014-15 budget of \$196,797,556. The difference is due primarily to new Texas Education Agency (TEA) legislation.

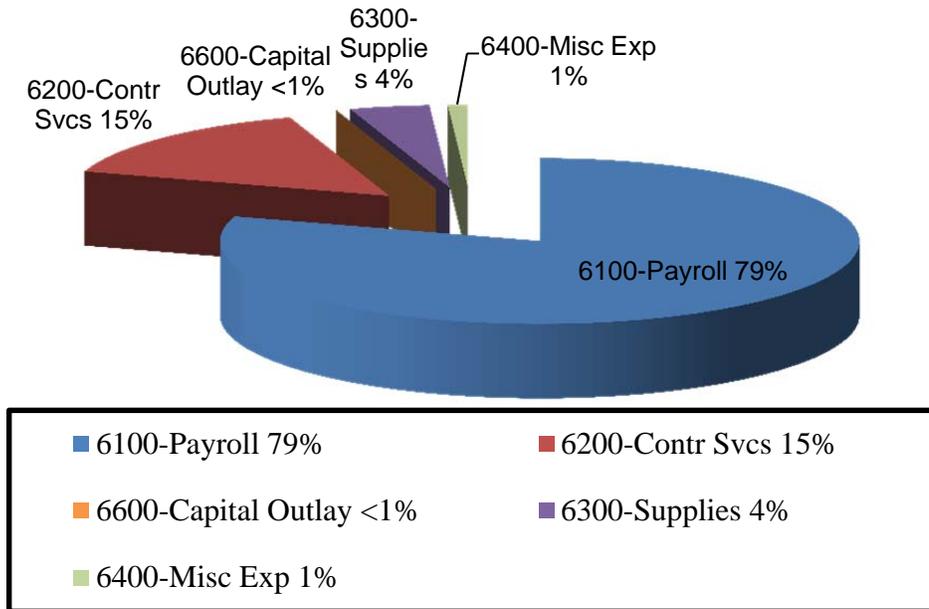
The District's projected 2015-16 tax rate remains at \$1.670. The following chart demonstrates the relationship of state and local funding for the past four years along with estimated amounts for 2015-16.

**State vs. Local Revenue (in millions)  
(General & Debt Service Funds)**



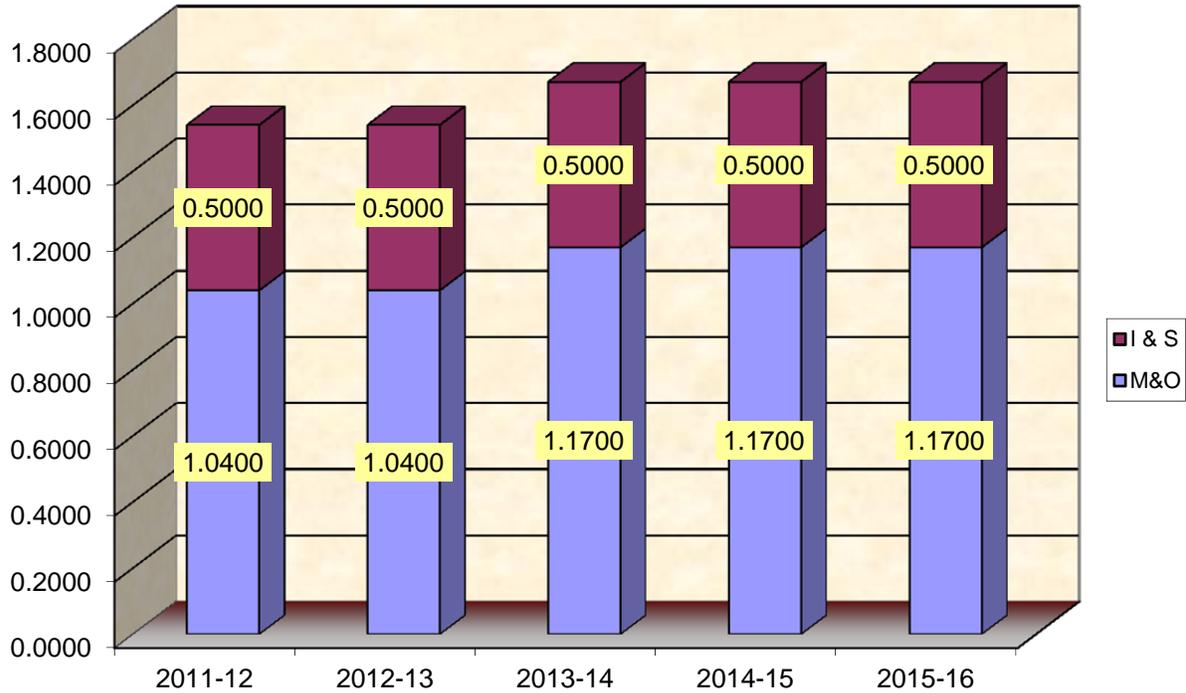
General fund expenditures for 2015-16 are budgeted to increase 4.4% to \$206.7 million. The largest increase is expected in payroll costs due to district wide salary increases granted in FY 16.

### 2015-2016 Percent of General Fund Budget by Object



The District's projected tax rate will remain at \$1.670 in 2015, with the debt portion at \$0.500 and the M&O portion at \$1.17. The average taxable value of an average residence is expected to increase from \$224,875 in 2015 to \$239,317 in 2016.

### Historic Tax Rate Comparison



TEA implemented and has annually assigned financial accountability ratings to Texas state school districts since the 2001-2002 fiscal audit. McKinney ISD has received the highest rating that a district can achieve for all applicable fiscal years.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for funds received. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the following:

Business Services Group  
 McKinney Independent School District  
 #1 Duvall Street  
 McKinney, TX 75069  
 469-302-4000

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## **BASIC FINANCIAL STATEMENTS**

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 134,422,212
1220 Property Taxes Receivable (Delinquent)	4,058,037
1230 Allowance for Uncollectible Taxes	(121,673)
1240 Due from Other Governments	15,686,952
1250 Accrued Interest	17,715
1290 Other Receivables, net	937,695
1300 Inventories	601,126
1410 Prepayments	1,234,811
Capital Assets:	
1510 Land	40,071,014
1520 Buildings, Net	430,632,799
1530 Furniture and Equipment, Net	4,443,789
1580 Construction in Progress	19,916,755
1000 Total Assets	651,901,232
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge for Refunding	1,142,165
1702 Deferred Outflow Related to TRS	3,568,767
1700 Total Deferred Outflows of Resources	4,710,932
<b>LIABILITIES</b>	
2110 Accounts Payable	2,582,435
2140 Interest Payable	8,375,632
2150 Payroll Deductions & Withholdings	322,018
2160 Accrued Wages Payable	20,136,876
2200 Accrued Expenses	1,091,877
Noncurrent Liabilities	
2501 Due Within One Year	27,230,000
2502 Due in More Than One Year	464,730,538
2540 Net Pension Liability (District's Share)	23,860,103
2000 Total Liabilities	548,329,479
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2602 Unavailable Revenue - Other	195,171
2603 Deferred Inflow Related to TRS	7,298,876
2600 Total Deferred Inflows of Resources	7,494,047
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	33,022,837
3820 Restricted for Federal and State Programs	4,158,741
3850 Restricted for Debt Service	21,170,994
3900 Unrestricted	42,436,066
3000 Total Net Position	\$ 100,788,638

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

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Expenses	3	4	6	Net (Expense) Revenue and Changes in Net Position
Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities		
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 151,571,899	\$ 283,104	\$ 15,917,366	\$ (135,371,429)
12 Instructional Resources and Media Services	4,278,854	-	162,256	(4,116,598)
13 Curriculum and Staff Development	2,869,842	-	347,227	(2,522,615)
21 Instructional Leadership	2,875,753	-	315,098	(2,560,655)
23 School Leadership	13,465,466	-	656,490	(12,808,976)
31 Guidance, Counseling and Evaluation Services	6,637,334	-	599,574	(6,037,760)
32 Social Work Services	448,475	-	9,279	(439,196)
33 Health Services	2,151,475	-	112,289	(2,039,186)
34 Student (Pupil) Transportation	7,349,729	-	7,382	(7,342,347)
35 Food Services	9,653,046	4,295,876	4,991,767	(365,403)
36 Extracurricular Activities	8,231,832	576,719	197,308	(7,457,805)
41 General Administration	4,102,561	-	156,351	(3,946,210)
51 Facilities Maintenance and Operations	18,178,252	589,620	465,508	(17,123,124)
52 Security and Monitoring Services	1,049,865	-	14,761	(1,035,104)
53 Data Processing Services	4,269,475	-	110,175	(4,159,300)
61 Community Services	2,545,145	3,008,260	38,679	501,794
72 Debt Service - Interest on Long Term Debt	22,027,627	-	-	(22,027,627)
73 Debt Service - Bond Issuance Cost and Fees	555,963	-	-	(555,963)
91 Contracted Instructional Services Between Schools	347,762	-	-	(347,762)
95 Payments to Juvenile Justice Alternative Ed. Prg.	75,464	-	-	(75,464)
99 Other Intergovernmental Charges	1,082,554	-	-	(1,082,554)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 263,768,373</b>	<b>\$ 8,753,579</b>	<b>\$ 24,101,510</b>	<b>(230,913,284)</b>

Data Control Codes	General Revenues:		
MT	Property Taxes, Levied for General Purposes		121,442,694
DT	Property Taxes, Levied for Debt Service		51,928,755
SF	State Aid - Formula Grants		66,111,929
GC	Grants and Contributions not Restricted		813,724
IE	Investment Earnings		143,114
MI	Miscellaneous Local and Intermediate Revenue		7,085,834
FR	Other Revenue		700,000
TR	Total General Revenues & Transfers		248,226,050
CN	Change in Net Position		17,312,766
NB	Net Position - Beginning		110,865,107
PA	Prior Period Adjustment		(27,389,235)
NE	Net Position--Ending		<b>\$ 100,788,638</b>

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

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 77,428,773	\$ 19,963,215	\$ 28,773,449
1220 Property Taxes - Delinquent	2,841,492	1,216,545	-
1230 Allowance for Uncollectible Taxes (Credit)	(85,177)	(36,496)	-
1240 Receivables from Other Governments	13,887,190	-	-
1250 Accrued Interest	9,599	4,712	3,404
1290 Other Receivables	890,654	23,018	-
1300 Inventories	601,126	-	-
1410 Prepayments	551,176	-	658,330
1000 Total Assets	<u>\$ 96,124,833</u>	<u>\$ 21,170,994</u>	<u>\$ 29,435,183</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 582,579	\$ -	\$ 1,943,926
2150 Payroll Deductions and Withholdings Payable	322,018	-	-
2160 Accrued Wages Payable	19,249,351	-	-
2200 Accrued Expenditures	235,280	-	771,254
2000 Total Liabilities	<u>20,389,228</u>	<u>-</u>	<u>2,715,180</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	2,756,315	1,180,049	-
2602 Unavailable Revenue - Other	169,769	-	-
2600 Total Deferred Inflows of Resources	<u>2,926,084</u>	<u>1,180,049</u>	<u>-</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
3410 Inventories	601,126	-	-
3430 Prepaid Items	551,176	-	658,330
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	26,061,673
3480 Retirement of Long-Term Debt	-	19,990,945	-
Assigned Fund Balance:			
3560 Claims and Judgments	100,000	-	-
3580 Self-Insurance	122,000	-	-
3590 Other Assigned Fund Balance	842,128	-	-
3600 Unassigned Fund Balance	70,593,091	-	-
3000 Total Fund Balances	<u>72,809,521</u>	<u>19,990,945</u>	<u>26,720,003</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 96,124,833</u>	<u>\$ 21,170,994</u>	<u>\$ 29,435,183</u>

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

Other Funds	Total Governmental Funds
\$ 8,256,775	\$ 134,422,212
-	4,058,037
-	(121,673)
1,799,762	15,686,952
-	17,715
24,023	937,695
-	601,126
25,305	1,234,811
<u>\$ 10,105,865</u>	<u>\$ 156,836,875</u>
\$ 55,930	\$ 2,582,435
-	322,018
887,525	20,136,876
85,343	1,091,877
<u>1,028,798</u>	<u>24,133,206</u>
-	3,936,364
25,402	195,171
<u>25,402</u>	<u>4,131,535</u>
-	601,126
16,491	1,225,997
4,158,741	4,158,741
-	26,061,673
-	19,990,945
-	100,000
-	122,000
-	842,128
4,876,433	75,469,524
<u>9,051,665</u>	<u>128,572,134</u>
<u>\$ 10,105,865</u>	<u>\$ 156,836,875</u>

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MCKINNEY INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2015

<b>Total Fund Balances - Governmental Funds</b>	\$	128,572,134
<b>1</b> Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$650,369,829 and the accumulated depreciation was \$161,692,955. In addition, long-term liabilities, including bonds payable of \$465,965,000 are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		22,711,874
<b>2</b> Current year capital outlays of \$22,979,108 and long-term debt principal payments of \$31,045,000 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net position.		54,024,108
<b>3</b> Accrued interest payable on long-term debt is not reflected on the fund financial statements, but is shown on the government-wide financial statements. The effect of showing accrued interest payable is to decrease net position.		(8,375,632)
<b>4</b> Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(52,453,675)
<b>5</b> The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(16,099,959)
<b>6</b> Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$23,860,103, a deferred resource inflow related to TRS in the amount of \$7,298,876, and a deferred resource outflow related to TRS in the amount of \$3,568,767. This amounted to a decrease in net position of \$27,590,212.		(27,590,212)
<b>19 Net Position of Governmental Activities</b>	\$	100,788,638

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

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 125,300,889	\$ 52,235,704	\$ 31,014
5800 State Program Revenues	74,384,476	-	-
5900 Federal Program Revenues	813,724	-	-
5020 Total Revenues	<u>200,499,089</u>	<u>52,235,704</u>	<u>31,014</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
0011 Instruction	117,760,477	-	8,261,425
0012 Instructional Resources and Media Services	3,513,077	-	-
0013 Curriculum and Instructional Staff Development	2,606,185	-	-
0021 Instructional Leadership	2,688,742	-	-
0023 School Leadership	12,425,445	-	-
0031 Guidance, Counseling and Evaluation Services	6,368,125	-	-
0032 Social Work Services	448,285	-	-
0033 Health Services	2,147,542	-	-
0034 Student (Pupil) Transportation	7,313,454	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	6,257,561	-	669,455
0041 General Administration	3,914,066	-	-
0051 Facilities Maintenance and Operations	17,375,383	-	-
0052 Security and Monitoring Services	913,325	-	-
0053 Data Processing Services	3,442,493	-	-
0061 Community Services	125,730	-	-
<b>Debt Service:</b>			
0071 Principal on Long Term Debt	-	31,045,000	-
0072 Interest on Long Term Debt	-	20,706,455	-
0073 Bond Issuance Cost and Fees	-	463,041	92,922
<b>Capital Outlay:</b>			
0081 Facilities Acquisition and Construction	148,885	-	23,842,186
<b>Intergovernmental:</b>			
0091 Contracted Instructional Services Between Schools	347,762	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	75,464	-	-
0099 Other Intergovernmental Charges	1,082,554	-	-
6030 Total Expenditures	<u>188,954,555</u>	<u>52,214,496</u>	<u>32,865,988</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>11,544,534</u>	<u>21,208</u>	<u>(32,834,974)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7911 Capital Related Debt Issued (Regular Bonds)	-	115,035,000	31,495,000
7912 Sale of Real and Personal Property	66,619	-	382,905
7915 Transfers In	400,000	-	-
7916 Premium or Discount on Issuance of Bonds	-	12,218,121	2,262,640
8911 Transfers Out (Use)	-	-	-
8949 Other (Uses)	-	(127,347,879)	-
7989 Other Revenue	700,000	-	-
7080 Total Other Financing Sources (Uses)	<u>1,166,619</u>	<u>(94,758)</u>	<u>34,140,545</u>
1200 Net Change in Fund Balances	12,711,153	(73,550)	1,305,571
0100 Fund Balance - July 1 (Beginning)	<u>60,098,368</u>	<u>20,064,495</u>	<u>25,414,432</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 72,809,521</u>	<u>\$ 19,990,945</u>	<u>\$ 26,720,003</u>

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

	Other Funds	Total Governmental Funds
\$	11,895,040	\$ 189,462,647
	3,109,024	77,493,500
	12,719,939	13,533,663
	27,724,003	280,489,810
	12,319,063	138,340,965
	245,872	3,758,949
	260,810	2,866,995
	183,083	2,871,825
	835,526	13,260,971
	260,659	6,628,784
	-	448,285
	688	2,148,230
	4,073	7,317,527
	8,718,801	8,718,801
	441,267	7,368,283
	30,546	3,944,612
	336,295	17,711,678
	96,107	1,009,432
	-	3,442,493
	2,417,983	2,543,713
	-	31,045,000
	-	20,706,455
	-	555,963
	-	23,991,071
	-	347,762
	-	75,464
	-	1,082,554
	26,150,773	300,185,812
	1,573,230	(19,696,002)
	-	146,530,000
	-	449,524
	-	400,000
	-	14,480,761
	(400,000)	(400,000)
	-	(127,347,879)
	-	700,000
	(400,000)	34,812,406
	1,173,230	15,116,404
	7,878,435	113,455,730
\$	9,051,665	\$ 128,572,134

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MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2015

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	15,116,404
Current year capital outlays of \$22,979,108 and long-term debt principal payments of \$31,045,000 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the current year capital outlays and debt principal payments is to increase net position.		54,024,108
Accrued interest payable on long-term debt is not reflected on the fund financial statements, but is shown on the government-wide financial statements. The effect of showing accrued interest payable is to decrease net position.		(921,826)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(16,099,959)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(34,604,984)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource inflows. These contributions made after the measurement date of 08/31/14 caused the change in the ending net position to increase in the amount of \$1,648,830. Contributions made before the measurement but during 2015 FY were also de-expended and recorded as a reduction in the net pension liability for the district. This also caused an increase in the change in net position in the amount of \$355,637. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded as an expense. The net pension expense decreased the change in net position in the amount of \$2,205,444. The net result of all of these adjustments is to decrease the change in net position by \$200,977.		(200,977)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>17,312,766</b>

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

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2015

EXHIBIT D-1

	Private Purpose Trust Funds	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,680	\$ 467,099
Restricted Assets	13,972	-
Total Assets	15,652	\$ 467,099
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 467,099
Total Liabilities	-	\$ 467,099
<b>NET POSITION</b>		
Restricted for Scholarships	15,652	
Total Net Position	\$ 15,652	

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

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN NET POSITION  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2015

	Private Purpose Trust Funds
<b>ADDITIONS:</b>	
Local and Intermediate Sources	\$ 142
Total Additions	<u>142</u>
Change in Net Position	142
Total Net Position - July 1 (Beginning)	<u>15,510</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 15,652</u></u>

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

## MCKINNEY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2015

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

McKinney Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *GASB Statement No. 56* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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

#### A. Reporting Entity

The Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the “susceptible to accrual” concept, that is, when they are both measurable and available. The District considers them “available” if they will be collected within sixty days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

For the Year Ended June 30, 2015

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**  
(continued)

associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

**D. Fund Accounting**

The District reports the following major governmental funds:

1. **General Fund** - The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
3. **Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Additionally, the District reports the following fund types(s):

Governmental Funds:

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

Fiduciary Funds:

2. **Private Purpose Trust Fund** - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Funds are for scholarships.
3. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is for student groups.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

For the Year Ended June 30, 2015

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, Liabilities, and Net Position or Equity**

**1. Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**2. Due From (To) Other Funds**

Interfund receivables and payables arise from interfund transactions and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations.

**3. Inventories and Prepaid Items**

In the General Fund, reported inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4. Capital Assets**

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

MCKINNEY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

For the Year Ended June 30, 2015

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**E. Assets, Liabilities, and Net Position or Equity** (continued)

**4. Capital Assets** (continued)

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Vehicles	10
Office equipment	7
Computer equipment	5

**5. Vacation and Sick Leave**

Vacations are allowed to be accumulated but do not vest. Therefore, no liability has been accrued in the accompanying basic financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying basic financial statements.

**6. Long-term Obligations**

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

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

**7. Fund Equity**

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

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, Liabilities, and Net Position or Equity (continued)**

**7. Fund Equity (continued)**

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of June 30, 2015.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the Board of Trustees delegates this authority.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

For the Year Ended June 30, 2015

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**E. Assets, Liabilities, and Net Position or Equity** (continued)

**7. Fund Equity** (continued)

As of June 30, 2015, fund balances are composed of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventories	601,126	-	-	-	601,126
Prepaid items	551,176	-	658,330	16,491	1,225,997
Restricted:					
Debt service	-	19,990,945	-	-	19,990,945
Federal grants	-	-	-	4,158,741	4,158,741
State grants	-	-	-	-	-
Construction	-	-	26,061,673	-	26,061,673
Committed:	-	-	-	-	-
Assigned:					
Litigation and claims	100,000	-	-	-	100,000
Insurance deductibles	122,000	-	-	-	122,000
Encumbrance Carryover	842,128	-	-	-	842,128
Unassigned:	70,593,091	-	-	4,876,433	75,469,524
Total fund balances	<u>\$ 72,809,521</u>	<u>19,990,945</u>	<u>26,720,003</u>	<u>9,051,665</u>	<u>128,572,134</u>

**8. Data Control Codes**

The Data Control Codes refer to the account code structure prescribed by T.E.A. in the *Financial Accountability System Resources Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

School Districts are required to report all expenses by function, except certain indirect expenses. General administration and data processing service functions (data control codes 41 and 53, respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

For the Year Ended June 30, 2015

**NOTE 2 RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS**

**A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position**

Exhibit C-2 provides a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.” The details of this \$(52,453,675) adjustment are as follows:

Deferred revenue:	
To remove the current year uncollected tax levy from unavailable revenue	\$ 1,578,023
To remove prior year collectible delinquent tax levy receivable from unavailable revenue	2,358,341
	3,936,364
Long-term debt:	
Issuance of bonds	(23,240,000)
Premium on bonds	(33,800,538)
Deferred Loss on Refunding Bonds	1,142,165
	(55,898,373)
Capital assets:	
Disposal of capital assets	(491,666)
Net adjustment to decrease fund balance - total governmental funds to arrive at net position - governmental activities	\$ (52,453,675)

**B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities**

Exhibit C-4 provides a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “various other reclassifications are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.” The details of this \$(34,604,984) adjustment are as follows:

Taxes:	
To move the current year and prior year uncollected tax levy to revenue	\$ (51,090)
	(51,090)
Long-term debt:	
Current year amortization	(399,346)
Issuance of Bonds Payable	(23,240,000)
Current year premium on bonds	(14,480,761)
Current Year Deferred Loss on Refunding Bonds	4,057,879
	(34,062,228)
Capital assets:	
Disposal of capital assets	(491,666)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes to net position of governmental activities	\$ (34,604,984)

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

For the Year Ended June 30, 2015

**NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Data**

The Board of Trustees adopts an “appropriated budget” for the General Fund, Debt Service Fund and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit E-1 and the other two reports are in Exhibit G-4 and G-5.

The following procedures were followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to June 19, the District prepares a budget for the next succeeding fiscal period beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days’ public notice of the meeting must be given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget was properly amended throughout the year by the Board of Trustees.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

June 30, 2015 Fund Balance

Appropriated budget funds - Food Service Special Revenue Fund	\$4,158,741
Nonappropriated budget funds	<u>4,892,924</u>
All Special Revenue Funds	<u><u>\$9,051,665</u></u>

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

**B. Encumbrance Accounting**

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment or Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at year end.

**NOTE 4 DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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

At June 30, 2015, the carrying amount of the District's cash, savings, and time deposits was \$30,155,488. The bank balance was \$31,113,361. The District's combined deposits at June 30, 2015 and during the year ended June 30, 2015 were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Name of bank American National Bank of Texas.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$ 39,070,795.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$35,064,344 and occurred during the month of November.
- d. Total amount of FDIC coverage at the time of highest combined balance was \$250,000.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)**

**A. Deposits and Investments (continued)**

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit; (3) certain municipal securities; (4) money market savings account; (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Fund; (8) Investment pools; (9) guaranteed investment contracts; and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk - Deposits: In the case of deposits this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is: the Depository may be a state bank authorized and regulated under Texas law; a national bank, savings and loan association, or savings bank authorized and regulated by federal law;
- a. Custodial Credit Risk - Deposits: (continued)  
or a savings and loan association or savings bank organized under Texas law; but shall not be any bank the deposits of which are not insured by the Federal Deposit Insurance Corporation (FDIC). The District is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged securities.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District investments are with American National Bank of Texas, Texas Local Government Investment Pool ("TexPool"), and the TexStar Investment Pool ("TexStar"). The pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investments. Local investment pools operate in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. The Texas Comptroller of Public Accounts exercises oversight responsibility over TexPool. Administration

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)**

**A. Deposits and Investments (continued)**

- b. Custodial Credit Risk - Investments: (continued)  
of TexStar is performed by a Board of Directors, which is an administrative agency created under the Interlocal Act. The District is not exposed to custodial credit risk for its investments.
- c. Credit Risk - This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for TexPool at year end was AAAM by Standard & Poor's. The credit quality rating for TexStar at year end was Aaa by Moody's Investor Service.
- d. Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the District's investment in external investment pools is less than 60 days.
- e. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. The District is not exposed to foreign currency risk.
- f. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The District is not exposed to concentration of credit risk.

The District's temporary investments at June 30, 2015, were as follows:

<u>Investment type:</u>	<u>Fair Value</u>
TexStar investment pool	\$61,381,383
State Treasurer's investment pool	43,367,833
Certificate of Deposit	<u>30,048,297</u>
Total	<u><u>\$134,797,513</u></u>

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)**

**B. Property Taxes**

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the period following the October 1 levy date. The assessed value of the property tax roll on August 1, 2014, upon which the levy for the 2014-15 fiscal period was based, was \$10,630,222,895. The roll was subsequently decreased to a period end assessed value of \$10,613,958,553. Taxes are delinquent if not paid by January 31. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs after June 30.

The tax rates assessed for the period ended June 30, 2015, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$0.50 per \$100 valuation, respectively, for the total of \$1.67 per \$100 valuation.

Total tax collections for the year ended June 30, 2015, were 98.69% of the period end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2015, property taxes receivable, net of estimated uncollectible taxes, totaled \$2,756,315 and \$1,180,049 for the General and Debt Service Funds, respectively.

**C. Due From Other Governments**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of June 30, 2015, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

	<u>Local Governments</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ 108,661	13,778,529	-	13,887,190
Special revenue	<u>-</u>	<u>17,434</u>	<u>1,782,327</u>	<u>1,799,761</u>
Total	<u>\$108,661</u>	<u>13,795,963</u>	<u>1,782,327</u>	<u>15,686,951</u>

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)**

**D. Capital Assets**

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

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Government activities:				
Land	\$ 37,176,570	3,277,349	(382,905)	40,071,014
Buildings and improvements	545,292,695	53,364,206	(464,842)	598,192,059
Furniture and equipment	13,718,261	603,099	-	14,321,360
Construction in progress	54,182,302	18,436,539	(52,702,086)	19,916,755
	<u>650,369,828</u>	<u>75,681,193</u>	<u>(53,549,833)</u>	<u>672,501,188</u>
Totals at historical cost				
Less accumulated depreciation for:				
Buildings and improvements	(153,199,689)	(14,715,653)	356,080	(167,559,262)
Furniture and equipment	(8,493,266)	(1,384,306)	-	(9,877,572)
	<u>(161,692,955)</u>	<u>(16,099,959)</u>	<u>356,080</u>	<u>(177,436,834)</u>
Total accumulated depreciation				
Governmental activities capital assets, net	<u>\$ 488,676,873</u>	<u>59,581,234</u>	<u>(53,193,753)</u>	<u>495,064,354</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 11,605,254
Instructional resources and media	324,320
School leadership	190,794
Student transportation	32,122
Food services	1,005,155
Extracurricular activities	1,545,505
General administration	73,707
Plant maintenance and operations	435,122
Security and monitoring services	40,144
Data processing services	847,836
	<u>\$ 16,099,959</u>
Total depreciation expense	

**E. Construction Commitments**

At June 30, 2015, the District had the following projects under construction. A summary of the status of these projects and the related binding contracts with contractors is as follows:

<u>Project Name</u>	<u>Budgeted Costs</u>	<u>Costs Incurred Through 6/30/2015</u>
Dowell MS Renovation	16,875,213	14,517,858
Emergency Generator	170,359	8,170
Malvem Elem Renovations	160,314	24,047
McKinney North HS Renovations	1,065,447	858,396
R. Johnson Elem Renovations	196,581	29,487
S. Johnson MS Track Replacement	802,347	669,455
Timbercreek		2,463,346
Valley Creek Elem Renovations	2,724,920	1,345,996
	<u>\$ 21,995,181</u>	<u>19,916,755</u>

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)**

**F. Bonds Payable**

Bonds payable activity for the year ended June 30, 2015, was as follows:

Governmental Activities Bonded Indebtedness:	Interest Rate Payable	Amounts Original Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2004 Sch. Bldg. & Ref.	4.97	42,885,000	3,980,000	-	(3,980,000)	-	-
2004 Refunding	4.57	10,395,000	3,630,000	-	(3,630,000)	-	-
2005 Refunding	5.17	77,905,000	54,140,000	-	(54,140,000)	-	-
2005 School Bldg.	4.41	30,630,000	21,530,000	-	(21,530,000)	-	-
2006 School Bldg.	4.50	67,450,000	54,475,000	-	(52,205,000)	2,270,000	2,270,000
2007 School Bldg.	4.65	52,695,000	43,795,000	-	(1,570,000)	42,225,000	1,645,000
2008 School Bldg.	4.65	50,580,000	43,415,000	-	(1,405,000)	42,010,000	1,475,000
2009 Sch. Bldg. & Ref.	4.60	58,805,000	48,955,000	-	(1,175,000)	47,780,000	4,700,000
2010 Refunding	3.46	31,110,000	19,975,000	-	(1,785,000)	18,190,000	-
2011 School Bldg.	3.73	48,605,000	47,025,000	-	(550,000)	46,475,000	560,000
2011 Sch. Bldg. & Ref	4.39	38,740,000	33,005,000	-	(4,055,000)	28,950,000	2,255,000
2012 Sch. Bldg. & Ref	3.02	53,975,000	53,975,000	-	(250,000)	53,725,000	440,000
2013 School Bldg.	4.00	39,305,000	38,065,000	-	-	38,065,000	100,000
2014 Sch. Bldg. & Ref	4.45	99,360,000	-	99,360,000	(8,060,000)	91,300,000	13,785,000
2015 Refunding	3.74	47,170,000	-	47,170,000	-	47,170,000	-
Total bonded indebtedness			465,965,000	146,530,000	(154,335,000)	458,160,000	27,230,000
Bond Premium			21,836,145	14,480,760	(2,516,367)	33,800,538	
Total bonds payable			\$487,801,145	161,010,760	(156,851,367)	491,960,538	27,230,000

General obligation bonds consist of School Building Bonds and Refunding Bonds bearing interest at 2.00 - 6.00% per annum. Interest expense for the year on all bonded indebtedness was \$20,706,454.

Debt service requirements for the general obligation bonds are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2016	\$ 27,230,000	20,202,958	47,432,958
2017	27,965,000	19,190,226	47,155,226
2018	28,255,000	17,967,488	46,222,488
2019	28,415,000	16,726,576	45,141,576
2020	27,395,000	15,459,838	42,854,838
2021-2025	125,940,000	58,483,136	184,423,136
2026-2030	108,370,000	32,064,795	140,434,795
2031-2035	63,925,000	11,239,156	75,164,156
2036-2040	20,665,000	1,660,005	22,325,005
Total	\$ 458,160,000	192,994,178	651,154,178

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)**

**G. Defeasance of Debt**

On November 18, 2014, the District issued general obligation building and refunding bonds of \$99,260,000 (par value) to use for new capital additions and improvements (\$31,495,000) and to advance refund a portion of the Unlimited Tax School Building Bonds (\$67,865,000), Series 2004 and 2005 (refunded bonds) with par value of \$73,260,000. The refunding bonds were issued at par and, after paying issuance costs of \$247,908 and underwriter's discount of \$290,895, and receiving a premium of \$7,707,353, the net proceeds were \$75,033,549. The net proceeds were used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded portion is paid. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the District's Long-Term Debt Payable.

As a result of the advance refunding, the District decreased its total debt service requirements by \$9,793,341, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$8,563,160. The District issued the refunding bonds in order to restructure the District's debt service payments.

On April 7, 2015, the District issued general obligation refunding bonds of \$47,170,000 (par value) to advance refund a portion of the Unlimited Tax School Refunding Bonds, Series 2006 (refunded bonds) with par value of \$50,030,000. The refunding bonds were issued at par and, after paying issuance costs of \$202,833, underwriter's discount of \$278,921, receiving a premium of \$5,080,584 and \$545,499 of district funds, the net proceeds were \$52,314,330. The net proceeds were used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded portion is paid. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the District's Long-Term Debt Payable.

As a result of the advance refunding, the District decreased its total debt service requirements by \$8,094,719, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$6,443,654. The District issued the refunding bonds in order to restructure the District's debt service payments.

During the year, the District defeased issued bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On June 30, 2015, \$50,030,000 of the bonds outstanding are considered defeased.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 6 OTHER INFORMATION**

**A. Risk Management**

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

**B. Litigation and Contingencies**

The District is currently involved in various litigation. Management believes the District will prevail in each matter.

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2015, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**C. Revenues from Local and Intermediate Sources**

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property taxes	\$ 121,485,896	-	51,936,641	-	173,422,537
Food sales	-	4,295,876	-	-	4,295,876
Investment income	94,324	-	17,776	31,014	143,114
Penalties, interest and other tax related income	756,790	-	281,286	-	1,038,076
Co-curricular student activities	576,719	-	-	-	576,719
Tuition and fees	283,104	3,008,260	-	-	3,291,364
Other	2,104,057	4,590,904	-	-	6,694,961
Total	\$ 125,300,890	11,895,040	52,235,703	31,014	189,462,647

**D. Deferred Inflow of Resources**

Governmental funds report *deferred inflow of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflow of resources* reported in the governmental funds were as follows:

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 6 OTHER INFORMATION** (continued)

**D. Deferred Inflow of Resources** (continued)

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net tax revenue	\$2,762,867	-	1,180,049	3,942,916
State textbooks	-	25,403	-	25,403
Detachment revenue	108,661	-	-	108,661
Tuition	54,555	-	-	54,555
Total	<u>\$ 2,926,083</u>	<u>25,403</u>	<u>1,180,049</u>	<u>4,131,535</u>

**E. Health Care Coverage**

For the year ended June 30, 2015, employees of the District were covered by the TRS active care insurance plan (the plan). The District paid premiums of \$306, per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurer. The plan was authorized by Article 3.51-2., Texas Insurance Code, and was documented by contractual agreement.

Latest financial statements for Aetna are available for the year ended December 31, 2014, are filed with the Texas State Board of Insurance, Austin, Texas and are public records.

**F. Defined Benefit Pension Plan**

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

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

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

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**F. Defined Benefit Pension Plan** (continued)

**Pension Plan Fiduciary Net Position** (continued)

The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2014:

Net Pension Liability	Total
Total Pension Liability	\$ 159,496,075,886
Less: Plan Fiduciary Net Position	(132,779,243,085)
Net Pension Liability	\$ 26,716,832,801
Net Position as percentage of Total Pension Liability	83.25%

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

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

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**F. Defined Benefit Pension Plan** (continued)

**Contributions** (continued)

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

	<u>2014</u>	<u>2015</u>
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

2014 Employer Contributions	\$ 2,264,653
2014 Member Contributions	\$ 8,129,719
2014 NECE On-behalf Contributions	\$ 6,439,560

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement local funds.

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

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**F. Defined Benefit Pension Plan** (continued)

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

Valuation Date	31-Aug-14
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	5 year Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

*\* Includes Inflation of 3%*

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

**Discount Rate** - The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to all future benefit payments of current plan members. Suggested Note D Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**F. Defined Benefit Pension Plan** (continued)

**Discount Rate** (continued)

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
U.S.	18.0%	7.0%	1.4%
Non-U.S. Developed	13.0%	7.3%	1.1%
Emerging Markets	9.0%	8.1%	0.9%
Directional Hedge Funds	4.0%	5.4%	0.2%
Private Equity	13.0%	9.2%	1.4%
<b>Stable Value</b>			
U.S. Treasuries	11.0%	2.9%	0.3%
Absolute Return	0.0%	4.0%	0.0%
Stable Value Hedge Funds	4.0%	5.2%	0.2%
Cash	1.0%	2.0%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3.0%	3.1%	0.0%
Real Assets	16.0%	7.3%	1.5%
Energy and Natural Resources	3.0%	8.8%	0.3%
Commodities	0.0%	3.4%	0.0%
<b>Risk Parity</b>			
Risk Parity	5.0%	8.9%	0.4%
Alpha			1.0%
<b>Total</b>	<u>100.0%</u>		<u>8.7%</u>

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

**Discount Rate Sensitivity Analysis** – The following schedule shows the impact of the Net Position Liability if the discounted rate used was 1% less than and 1% greater than the discount rate that was used \*85) in measuring the 2014 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's Proportionate share of the net pension liability:	\$ 42,636,558	\$ 23,860,103	\$ 9,818,812

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**F. Defined Benefit Pension Plan (continued)**

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

At August 31, 2014, McKinney Independent School District reported a liability of \$23,860,103 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction of State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 23,860,103
State's proportionate share that is associated with the District	67,991,156
Total	<u>\$ 91,851,259</u>

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

At August 31, 2014 the employer's proportion of the collective net pension liability was 0.0893256%. Since this is the first year of implementation, the District does not have to proportion measured as of August 31, 2013. The Notes to the Financial Statement for August 31, 2014 for TRS stated that the change in proportion was immaterial and therefore disregarded this year.

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

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

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective 09/01/2013. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2014, the District recognized pension expense of \$6,285,656 and revenue of \$6,285,656 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 369,004	\$ -
Changes in actuarial assumptions	1,550,933	-
Differences between projected and actual investment earnings	-	7,292,622
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	-	6,254
Total	\$ 1,919,937	\$ 7,298,876

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**F. Defined Benefit Pension Plan (continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

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

Year ended August 31,	Pension Expense Amount
2016	\$ (1,500,318)
2017	(1,500,318)
2018	(1,500,318)
2019	322,838
2020	299,495
Thereafter	-

**Teacher/Employee Recruitment and Retention Program Trust**

**Plan Description** - The District contributes to the Teacher/Employee Recruitment and Retention Program Trust. The Trust is a defined contribution retirement plan. The Trust’s annual financial report and other required disclosure information are available by writing the TERRP Plan Administrator, JEM Resource Partners, 4201 Bee Caves Road, Suite C-101, Austin, Texas 78746.

**Funding Policy** - Under the plan provisions, the District contributes 100% of plan members contributions to their 403(b) or 457 plan, up to one-half of one percent of the plan member’s gross annual compensation. District contributions for the year ended June 30, 2015 were \$141,916. Plan members are 100% vested in their account after attaining five credited years of participation in the plan. Upon meeting the requirements of “qualification for unreduced retirement” in accordance with the Teacher Retirement System of Texas, obtaining normal retirement age, or upon death or permanent disability, a plan member shall be 100% vested regardless of years of service.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 6 OTHER INFORMATION** (continued)

**G. Retiree Health Plan**

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

Funding Policy - Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2013, 2014, and 2015. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended June 30, 2013, 2014, and 2015, the State's contributions to TRS-Care were \$1,216,311, \$1,261,430 and \$1,309,625 respectively, the active member contributions were \$790,718, \$820,003 and \$850,283 respectively, and the school district's contributions were \$669,056, \$693,849 and \$720,313 respectively, which equaled the required contributions each year. In addition to the pension plan and TRS-Care on behalf, the District is allocated a portion of the Medicare Part D retiree drug subsidy the TRS-Care receives. The amount allocated on behalf for the year ended June 30, 2015 is estimated by TRS at \$384,053.

**H. Workers' Compensation Insurance**

During the year ended June 30, 2015, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's workers' compensation program is authorized by Chapter 504, Texas Labor Code. All districts participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The District participates in the Fund's reimbursable aggregate deductible program. As such, the District is responsible for a certain amount of claims liability as outlined on the District's Contribution and Coverage Summary document. After the District's deductible has been met, the Fund is responsible for additional claims.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
For the Year Ended June 30, 2015

**NOTE 6 OTHER INFORMATION** (continued)

**H. Workers' Compensation Insurance** (continued)

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully fund those reserves. As of August 31, 2014, the Fund carries a discounted reserve of \$56,905,750 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2014, member districts will have no additional liability beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each plan year on August 31 and is approved by the Fund's Board of Trustee in February of the following year. The Fund's audited financial statements as of August 31, 2014, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

**NOTE 6 EVALUATION OF SUBSEQUENT EVENTS**

The District has evaluated subsequent events through September 12, 2015, the date which the financial statements were available to be issued. On August 13, 2015, the District issued Unlimited Tax School Building and Refunding Bonds with a par value of \$66,355,000 and an original issue premium of \$9,211,634.

**NOTE 7 PRIOR PERIOD ADJUSTMENT**

During fiscal year 2015, the district adopted GASB Statement No. 68 for accounting and Reporting for Pensions. With GASB 68, the District must assume their proportionate share of the Net Pension Liability of the Teachers Retirement System of Texas. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment is \$(27,389,235). The restated beginning net position is \$83,475,872.

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**REQUIRED SUPPLEMENTAL INFORMATION**

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 122,294,198	\$ 122,294,198	\$ 125,300,889	\$ 3,006,691
5800	State Program Revenues	73,078,358	73,078,358	74,384,476	1,306,118
5900	Federal Program Revenues	325,000	325,000	813,724	488,724
5020	Total Revenues	195,697,556	195,697,556	200,499,089	4,801,533
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	121,713,638	121,106,034	117,760,477	3,345,557
0012	Instructional Resources and Media Services	3,551,493	3,644,102	3,513,077	131,025
0013	Curriculum and Instructional Staff Development	2,683,161	2,799,667	2,606,185	193,482
0021	Instructional Leadership	2,799,796	2,813,638	2,688,742	124,896
0023	School Leadership	12,488,413	12,542,534	12,425,445	117,089
0031	Guidance, Counseling and Evaluation Services	6,534,628	6,481,872	6,368,125	113,747
0032	Social Work Services	423,202	456,052	448,285	7,767
0033	Health Services	2,155,658	2,220,205	2,147,542	72,663
0034	Student (Pupil) Transportation	8,389,639	8,356,009	7,313,454	1,042,555
0036	Extracurricular Activities	6,288,979	6,474,012	6,257,561	216,451
0041	General Administration	4,227,616	4,276,146	3,914,066	362,080
0051	Facilities Maintenance and Operations	20,077,137	20,113,275	17,375,383	2,737,892
0052	Security and Monitoring Services	1,075,491	1,129,437	913,325	216,112
0053	Data Processing Services	3,400,655	3,690,547	3,442,493	248,054
0061	Community Services	152,215	154,265	125,730	28,535
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	148,885	148,885	-
Intergovernmental:					
0091	Contracted Instructional Services Between Schools	435,602	435,602	347,762	87,840
0095	Payments to Juvenile Justice Alternative Ed. Prg.	150,000	150,000	75,464	74,536
0099	Other Intergovernmental Charges	1,050,000	1,082,555	1,082,554	1
6030	Total Expenditures	197,597,323	198,074,837	188,954,555	9,120,282
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,899,767)	(2,377,281)	11,544,534	13,921,815
<b>OTHER FINANCING SOURCES (USES):</b>					
7912	Sale of Real and Personal Property	-	-	66,619	66,619
7915	Transfers In	400,000	400,000	400,000	-
7989	Other Revenue	-	700,000	700,000	-
7080	Total Other Financing Sources (Uses)	400,000	1,100,000	1,166,619	66,619
1200	Net Change in Fund Balances	(1,499,767)	(1,277,281)	12,711,153	13,988,434
0100	Fund Balance - July 1 (Beginning)	60,098,368	60,098,368	60,098,368	-
3000	Fund Balance - June 30 (Ending)	\$ 58,598,601	\$ 58,821,087	\$ 72,809,521	\$ 13,988,434

## COMBINING STATEMENTS

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2015

Data Control Codes	205 Head Start	206 ESEA Title X, Pt.C Homeless	211 ESEA I, A Improving Basic Program	224 IDEA Part B Formula	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ (122,727)	\$ (43,243)	\$ (133,990)	\$ (297,746)
1240	Receivables from Other Governments	181,535	44,212	442,102	770,048
1290	Other Receivables	-	-	-	-
1410	Prepayments	-	-	762	-
1000	<b>Total Assets</b>	<u>\$ 58,808</u>	<u>\$ 969</u>	<u>\$ 308,874</u>	<u>\$ 472,302</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 15	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	58,793	129	305,724	437,987
2200	Accrued Expenditures	-	840	3,150	34,315
2000	<b>Total Liabilities</b>	<u>58,808</u>	<u>969</u>	<u>308,874</u>	<u>472,302</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
2602	Unavailable Revenue - Other	-	-	-	-
2600	<b>Total Deferred Inflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Nonspendable Fund Balance:					
3430	Prepaid Items	-	-	-	-
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3600	Unassigned Fund Balance	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<u>\$ 58,808</u>	<u>\$ 969</u>	<u>\$ 308,874</u>	<u>\$ 472,302</u>

225 IDEA Part B Preschool	226 IDEA Part B Discretionary	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Summer School LEP	385 Visually Impaired SSVI
\$ -	\$ (48,858)	\$ 4,028,663	\$ (11,939)	\$ (46,232)	\$ (39,704)	\$ -	\$ -
-	48,858	131,906	17,468	88,357	57,843	-	-
-	-	-	-	-	-	-	-
-	-	-	-	807	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,160,569</u>	<u>\$ 5,529</u>	<u>\$ 42,932</u>	<u>\$ 18,139</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ 5,198	\$ -	\$ -	\$ -	\$ -
-	-	-	-	42,932	18,139	-	-
-	-	1,828	331	-	-	-	-
-	-	<u>1,828</u>	<u>5,529</u>	<u>42,932</u>	<u>18,139</u>	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	4,158,741	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	<u>4,158,741</u>	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,160,569</u>	<u>\$ 5,529</u>	<u>\$ 42,932</u>	<u>\$ 18,139</u>	<u>\$ -</u>	<u>\$ -</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2015

Data Control Codes	392 Non-Ed. Community Based Support	397 Advanced Placement Incentives	410 State Textbook Fund	429 Ready to Read License Plates	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ (3,479)	\$ (20,395)	\$ 25,402	\$ -
1240	Receivables from Other Governments	4,283	13,150	-	-
1290	Other Receivables	-	-	-	-
1410	Prepayments	-	7,245	-	-
1000	<b>Total Assets</b>	<u>\$ 804</u>	<u>\$ -</u>	<u>\$ 25,402</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	804	-	-	-
2200	Accrued Expenditures	-	-	-	-
2000	<b>Total Liabilities</b>	<u>804</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
2602	Unavailable Revenue - Other	-	-	25,402	-
2600	<b>Total Deferred Inflows of Resources</b>	<u>-</u>	<u>-</u>	<u>25,402</u>	<u>-</u>
<b>FUND BALANCES</b>					
Nonspendable Fund Balance:					
3430	Prepaid Items	-	-	-	-
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3600	Unassigned Fund Balance	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<u>\$ 804</u>	<u>\$ -</u>	<u>\$ 25,402</u>	<u>\$ -</u>

461 Campus Activity Funds	480 After School Program	481 Locally Funded SRF	Total Nonmajor Governmental Funds
\$ 3,248,975	\$ 1,417,820	\$ 304,228	\$ 8,256,775
-	-	-	1,799,762
24,023	-	-	24,023
9,938	6,553	-	25,305
<u>\$ 3,282,936</u>	<u>\$ 1,424,373</u>	<u>\$ 304,228</u>	<u>\$ 10,105,865</u>
\$ 50,717	\$ -	\$ -	\$ 55,930
-	23,017	-	887,525
41,664	3,215	-	85,343
<u>92,381</u>	<u>26,232</u>	<u>-</u>	<u>1,028,798</u>
-	-	-	25,402
-	-	-	25,402
9,938	6,553	-	16,491
-	-	-	4,158,741
3,180,617	1,391,588	304,228	4,876,433
<u>3,190,555</u>	<u>1,398,141</u>	<u>304,228</u>	<u>9,051,665</u>
<u>\$ 3,282,936</u>	<u>\$ 1,424,373</u>	<u>\$ 304,228</u>	<u>\$ 10,105,865</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2015

Data Control Codes	205 Head Start	206 ESEA Title X, Pt.C Homeless	211 ESEA I, A Improving Basic Program	224 IDEA Part B Formula
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	396,918	125,702	2,068,429	3,897,227
5020 Total Revenues	<u>396,918</u>	<u>125,702</u>	<u>2,068,429</u>	<u>3,897,227</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	395,122	59,007	1,982,966	3,606,601
0012 Instructional Resources and Media Services	-	-	450	-
0013 Curriculum and Instructional Staff Development	1,141	183	8,361	103,851
0021 Instructional Leadership	-	49,136	(2,765)	5,918
0023 School Leadership	-	-	1,350	-
0031 Guidance, Counseling and Evaluation Services	-	12,934	66,941	175,473
0033 Health Services	-	-	(8)	-
0034 Student (Pupil) Transportation	-	-	1,531	1,650
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0052 Security and Monitoring Services	-	-	-	-
0061 Community Services	655	4,442	9,603	3,734
6030 Total Expenditures	<u>396,918</u>	<u>125,702</u>	<u>2,068,429</u>	<u>3,897,227</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
<b>OTHER FINANCING SOURCES (USES):</b>				
8911 Transfers Out (Use)	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - July 1 (Beginning)	-	-	-	-
3000 Fund Balance - June 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

225 IDEA Part B Preschool	226 IDEA Part B Discretionary	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Summer School LEP	385 Visually Impaired SSVI
\$ -	\$ -	\$ 4,295,876	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	40,535	-	-	-	-	2,240
35,071	196,714	5,202,870	193,646	354,058	230,096	19,208	-
35,071	196,714	9,539,281	193,646	354,058	230,096	19,208	2,240
35,071	196,714	-	176,440	254,928	82,634	18,866	2,240
-	-	-	-	-	-	-	-
-	-	-	8,580	99,130	2,447	-	-
-	-	-	909	-	128,842	-	-
-	-	-	2,406	-	-	-	-
-	-	-	5,311	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	892	-	-
-	-	8,718,801	-	-	-	-	-
-	-	-	-	-	-	342	-
-	-	-	-	-	-	-	-
-	-	251,638	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	15,281	-	-
35,071	196,714	8,970,439	193,646	354,058	230,096	19,208	2,240
-	-	568,842	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	568,842	-	-	-	-	-
-	-	3,589,899	-	-	-	-	-
\$ -	\$ -	\$ 4,158,741	\$ -	\$ -	\$ -	\$ -	\$ -

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2015

Data Control Codes	392 Non-Ed. Community Based Support	397 Advanced Placement Incentives	410 State Textbook Fund	429 Ready to Read License Plates	
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	6,527	13,150	3,046,469	103
5900	Federal Program Revenues	-	-	-	-
5020	Total Revenues	<u>6,527</u>	<u>13,150</u>	<u>3,046,469</u>	<u>103</u>
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	6,527	-	3,046,469	-
0012	Instructional Resources and Media Services	-	-	-	103
0013	Curriculum and Instructional Staff Development	-	13,150	-	-
0021	Instructional Leadership	-	-	-	-
0023	School Leadership	-	-	-	-
0031	Guidance, Counseling and Evaluation Services	-	-	-	-
0033	Health Services	-	-	-	-
0034	Student (Pupil) Transportation	-	-	-	-
0035	Food Services	-	-	-	-
0036	Extracurricular Activities	-	-	-	-
0041	General Administration	-	-	-	-
0051	Facilities Maintenance and Operations	-	-	-	-
0052	Security and Monitoring Services	-	-	-	-
0061	Community Services	-	-	-	-
6030	Total Expenditures	<u>6,527</u>	<u>13,150</u>	<u>3,046,469</u>	<u>103</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
<b>OTHER FINANCING SOURCES (USES):</b>					
8911	Transfers Out (Use)	-	-	-	-
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - July 1 (Beginning)	-	-	-	-
3000	Fund Balance - June 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

461 Campus Activity Funds	480 After School Program	481 Locally Funded SRF	Total Nonmajor Governmental Funds
\$ 4,529,959	\$ 3,008,260	\$ 60,945	\$ 11,895,040
-	-	-	3,109,024
-	-	-	12,719,939
<u>4,529,959</u>	<u>3,008,260</u>	<u>60,945</u>	<u>27,724,003</u>
2,455,478	-	-	12,319,063
245,319	-	-	245,872
23,967	-	-	260,810
1,043	-	-	183,083
831,770	-	-	835,526
-	-	-	260,659
696	-	-	688
-	-	-	4,073
-	-	-	8,718,801
440,925	-	-	441,267
30,546	-	-	30,546
84,657	-	-	336,295
96,107	-	-	96,107
11,770	2,372,498	-	2,417,983
<u>4,222,278</u>	<u>2,372,498</u>	<u>-</u>	<u>26,150,773</u>
307,681	635,762	60,945	1,573,230
-	(400,000)	-	(400,000)
<u>307,681</u>	<u>235,762</u>	<u>60,945</u>	<u>1,173,230</u>
<u>2,882,874</u>	<u>1,162,379</u>	<u>243,283</u>	<u>7,878,435</u>
<u>\$ 3,190,555</u>	<u>\$ 1,398,141</u>	<u>\$ 304,228</u>	<u>\$ 9,051,665</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF NET POSITION  
 PRIVATE PURPOSE TRUST FUNDS  
 JUNE 30, 2015

	828 Virginia Dodson Finch Trust Fund	829 Avery Dowell Library Fund	Total Private Purpose Trust Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 969	\$ 711	\$ 1,680
Restricted Assets	13,972	-	13,972
Total Assets	<u>14,941</u>	<u>711</u>	<u>15,652</u>
<b>NET POSITION</b>			
Restricted for Scholarships	<u>14,941</u>	<u>711</u>	<u>15,652</u>
Total Net Position	<u>\$ 14,941</u>	<u>\$ 711</u>	<u>\$ 15,652</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN NET POSITION  
 PRIVATE PURPOSE TRUST FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2015

	828 Virginia Dodson Finch Trust Fund	829 Avery Dowell Library Fund	Total Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Local and Intermediate Sources	\$ 33	\$ 109	\$ 142
Total Additions	<u>33</u>	<u>109</u>	<u>142</u>
Change in Net Position	33	109	142
Total Net Position - July 1 (Beginning)	<u>14,908</u>	<u>602</u>	<u>15,510</u>
Total Net Position - June 30 (Ending)	<u>\$ 14,941</u>	<u>\$ 711</u>	<u>\$ 15,652</u>

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**REQUIRED T.E.A. STATEMENTS**

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED JUNE 30, 2015

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2006 and prior years	Various	Various	\$ 6,623,153,750
2007	1.370000	0.471000	7,457,875,177
2008	1.040000	0.477000	8,417,974,951
2009	1.040000	0.477000	8,935,038,695
2010	1.040000	0.500000	8,942,913,766
2011	1.040000	0.488000	8,876,867,670
2012	1.040000	0.500000	8,787,242,338
2013	1.040000	0.500000	9,018,644,416
2014	1.170000	0.500000	9,536,791,078
2015 (School year under audit)	1.170000	0.500000	10,373,443,772
1000 TOTALS			

(10) Beginning Balance 7/1/2014	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2015
\$ 550,083	\$ -	\$ 67,487	\$ 20,695	\$ (88,641)	\$ 373,260
187,538	-	9,979	3,431	(4,052)	170,076
27,744	-	8,062	3,698	(2,990)	12,994
242,889	-	79,284	36,364	48,148	175,389
260,729	-	163,756	78,729	246,035	264,279
283,908	-	176,727	82,926	257,298	281,553
335,617	-	(2,491)	(1,197)	(17,642)	321,663
398,239	-	183,850	88,390	201,246	327,245
1,823,948	-	1,014,105	433,378	128,283	504,748
-	173,236,511	119,785,136	51,190,230	(634,315)	1,626,830
<u>\$ 4,110,695</u>	<u>\$ 173,236,511</u>	<u>\$ 121,485,895</u>	<u>\$ 51,936,644</u>	<u>\$ 133,370</u>	<u>\$ 4,058,037</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED JUNE 30, 2015

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 4,515,912	\$ 4,515,912	\$ 4,295,876	\$ (220,036)
5800 State Program Revenues	40,955	40,955	40,535	(420)
5900 Federal Program Revenues	4,901,236	5,002,731	5,202,870	200,139
5020 Total Revenues	9,458,103	9,559,598	9,539,281	(20,317)
EXPENDITURES:				
0035 Food Services	9,041,361	9,142,856	8,718,801	424,055
0051 Facilities Maintenance and Operations	252,322	252,322	251,638	684
6030 Total Expenditures	9,293,683	9,395,178	8,970,439	424,739
1200 Net Change in Fund Balances	164,420	164,420	568,842	404,422
0100 Fund Balance - July 1 (Beginning)	3,589,899	3,589,899	3,589,899	-
3000 Fund Balance - June 30 (Ending)	\$ 3,754,319	\$ 3,754,319	\$ 4,158,741	\$ 404,422

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 DEBT SERVICE FUND  
 FOR THE YEAR ENDED JUNE 30, 2015

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 51,287,702	\$ 52,284,722	\$ 52,235,704	\$ (49,018)
5020	Total Revenues	51,287,702	52,284,722	52,235,704	(49,018)
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Principal on Long Term Debt	24,860,000	31,045,000	31,045,000	-
0072	Interest on Long Term Debt	26,402,702	20,706,455	20,706,455	-
0073	Bond Issuance Cost and Fees	50,000	463,508	463,041	467
6030	Total Expenditures	51,312,702	52,214,963	52,214,496	467
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(25,000)	69,759	21,208	(48,551)
<b>OTHER FINANCING SOURCES (USES):</b>					
7911	Capital Related Debt Issued (Regular Bonds)	-	115,035,000	115,035,000	-
7916	Premium or Discount on Issuance of Bonds	-	12,218,121	12,218,121	-
8949	Other (Uses)	-	(127,347,880)	(127,347,879)	1
7080	Total Other Financing Sources (Uses)	-	(94,759)	(94,758)	1
1200	Net Change in Fund Balances	(25,000)	(25,000)	(73,550)	(48,550)
0100	Fund Balance - July 1 (Beginning)	20,064,495	20,064,495	20,064,495	-
3000	Fund Balance - June 30 (Ending)	\$ 20,039,495	\$ 20,039,495	\$ 19,990,945	\$ (48,550)

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 TEACHER RETIREMENT SYSTEM  
 FOR THE YEAR ENDED JUNE 30, 2015

	2015
District's Proportion of the Net Pension Liability (Asset)	0.0893256%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 23,860,103
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	67,991,156
Total	\$ 91,851,259
District's Covered Employee Payroll	\$ 133,137,785
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	17.92%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	83.25%

Note: Only one year of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT CONTRIBUTIONS  
 TEACHER RETIREMENT SYSTEM  
 FOR FISCAL YEAR 2015

	2015
Contractually Required Contribution	\$ 2,004,467
Contribution in Relation to the Contractually Required Contribution	(2,004,467)
Contribution Deficiency (Excess)	\$ -
District's Covered Employee Payroll	\$ 130,962,482
Contributions as a percentage of Covered Employee Payroll	1.53%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2013 - August 31, 2014.

Note: Only one year of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

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**FEDERAL AWARDS SECTION**

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# EVANS, PINGLETON and HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS  
8950 GARY BURNS DRIVE, SUITE D  
FRISCO, TEXAS 75034  
972-335-9754/FAX 972-335-9758

## 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

### INDEPENDENT AUDITOR'S REPORT

Board of School Trustees  
**McKinney Independent School District**  
1 Duvall Street  
McKinney, Texas 75069

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKinney Independent School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the McKinney Independent School District's basic financial statements, and have issued our report thereon dated September 12, 2015.

#### **Internal Control over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

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

**Purpose of this Report**

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

*Evans, Pingleton and Howard, PLLC*

September 12, 2015

**EVANS, PINGLETON and HOWARD, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS  
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FRISCO, TEXAS 75034  
972-335-9754/FAX 972-335-9758

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

Board of School Trustees  
**McKinney Independent School District**  
1 Duvall Street  
McKinney, Texas 75069

Members of the Board:

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the McKinney Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the McKinney Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, the McKinney Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

***Other Matters***

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

## Report on Internal Control over Compliance

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

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

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

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

*Evans, Pingleton and Howard, PLLC*

September 12, 2015

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2015

<u>Program</u>	<u>Description</u>
Type of Report on Financial Statements	Unmodified
Control Deficiencies	None
Material Weaknesses Involving Control Deficiencies	None
Noncompliance Material to the Financial Statements	None
Type of Report on Compliance with Major Programs	Unmodified
Findings and Questioned Costs for Federal Awards as Defined in Section.510(a), OMB Circular A-133	None
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$ 382,971
Low Risk Auditee Statements	The District was classified as a low risk Auditee in the context of OMB Circular A-133.
Major Federal Programs	National School Breakfast Program    10.553 National School Lunch Program        10.555
Pass-through Entity	State Department of Human Services State Department of Agriculture

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Schedule of Status of Prior Findings

For the Year Ended June 30, 2015

<u>Program</u>	<u>Status of Prior Year's Finding/ Noncompliance</u>
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- NONE -

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Corrective Action Plan

For the Year Ended June 30, 2015

Program

Corrective Action Plan

- NONE -

Contact person: Mr. Edd Bigbee, Ed.D.  
Chief Financial Officer

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Direct Programs</u>			
Title VII, Indian Education	84.060A		\$ 2,609
Total Direct Programs			\$ 2,609
<u>Passed Through Region X ESC</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	15610101057950	\$ 1,917,017
ESEA, Title X, Part C -Homeless Children	84.196A	15-061	127,217
Title III, Part A - English Language Acquisition	84.365A	15671001057950	230,096
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	15694501057950	354,058
Total Passed Through Region X ESC			\$ 2,628,388
<u>Passed Through State Department of Education</u>			
IDEA - Part B, Formula	84.027A	156600010439076000	\$ 3,938,247
IDEA - Part B, Discretionary	84.027A	156600120439076000	196,714
Total CFDA Number 84.027A			4,134,961
IDEA - Part B, Preschool	84.173A	156610010439076000	35,071
Total Special Education Cluster (IDEA)			4,170,032
Career and Technical - Basic Grant	84.048A	15420006043907	196,158
Title I, Part D-2 Delinquent	84.010A	15610103043907	152,115
Summer School LEP	84.369A	69551402	16,599
Total Passed Through State Department of Education			\$ 4,534,904
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b>\$ 7,165,901</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Passed Through Region X ESC</u>			
Head Start	93.600	06CH7092	\$ 396,918
Total Passed Through Region X ESC			\$ 396,918
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>\$ 396,918</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Dept. of Human Services</u>			
*Donated Commodities	10.555		\$ 443,548
Total Passed Through the State Dept. of Human Services			\$ 443,548
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		\$ 1,262,352
*National School Lunch Program	10.555		3,496,970
Total Child Nutrition Cluster			4,759,322
Total Passed Through the State Department of Agriculture			\$ 4,759,322
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b>\$ 5,202,870</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 12,765,689</b>

\*Denotes Major Program

Note 1: School Health and Related Services reimbursements of \$767,974 are recorded as federal program revenue in the general fund, but are not considered awards for the purposes of this schedule.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to Schedule of Expenditures of Federal Awards  
For Year Ended June 30, 2015

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's "Financial Accountability System Resource Guide." Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred.

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

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.
4. The District participates in numerous Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, in any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2015, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.