

FULTON COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2014

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INTRODUCTORY SECTION

FULTON COUNTY SCHOOL DISTRICT

June 30, 2014

BOARD OF EDUCATION

Rob Garrigan, Chairperson

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Barry Patrick, Member

Kimberly Hagler, Member

Phillip Vowell, Member

ADMINISTRATIVE STAFF

Aaron Collins, Superintendent

Jennifer Davis, Finance Officer

FINANCIAL SECTION

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Independent Auditor's Report

Kentucky State Committee for School District Audits
Fulton County Board of Education
Hickman, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinions on General, Special Revenue, and Food Service Funds

Certain expenses are recorded in the general, special revenue, and food service funds for which there is a lack of supporting documentation validating that the expenses occurred as reported. Auditing standards generally accepted in the United States of America require that the auditor form an opinion on whether the overall presentation, structure, and content of the financial statements, including the notes, achieve fair presentation (AU-C 700.17). The lack of supporting documentation limits the auditor's ability to obtain sufficient appropriate audit evidence to form such an opinion on the aforementioned funds. The amount by which this departure would affect the revenues and expenditures of the general, special revenue, and food service funds has not been determined.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "*Basis for Qualified Opinion on General, Special Revenue, and Food Service Funds*" paragraph, 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 Fulton County School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-8 and 38-39 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 Fulton County School District's basic financial statements. The introductory section, the combining fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional

procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matter described in the “*Basis for Qualified Opinion on General, Special Revenue, and Food Service Funds*” paragraph, the combining fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2014, on our consideration of the Fulton County 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 Fulton County School District’s internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Murray, Kentucky
December 29, 2014

FULTON COUNTY SCHOOLS

Proficiency, Positive Relationships, & Pilot Pride

2780 Moscow Avenue

Hickman, Kentucky 42050

Telephone: (270) 236-3923 Fax: (270) 236-2184 Site: www.fulton.kyschools.us

FULTON COUNTY SCHOOL DISTRICT – HICKMAN, KY MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2014

The discussion and analysis of the Fulton County School District (District) provides a narrative overview and analysis of the District’s financial statements and activities for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$405,855. This total incorporates all funds. The General Fund cash balance at the beginning of the year was \$35,757. The General Fund cash balance at year-end was \$592,922.
- The General Fund had \$4,442,649 in revenue, which primarily consisted of the state program (SEEK), property, franchise, utilities and motor vehicle taxes. The General Fund expenditures were \$5,021,582.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These financial statements are organized so the reader can understand the Fulton County School District as a whole or as one operating entity (government-wide financial statements). The statements then proceed to provide an increasingly detailed look at the District’s operations by providing information about the District’s most significant funds (fund financial statements).

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances. These statements include the Statement of Net Position and the Statement of Activities. The District is divided into two distinct types of activities:

- Governmental activities – All of the District’s programs and services are reported here, including instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.

- Proprietary (Business-Type) Activity – This service is provided on a charge for goods or services basis to recover all the expenses on the goods or services provided. The Food Service enterprise fund is reported as a business activity.

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

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

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The only proprietary funds are our food service operations and the fiduciary funds include our school activity funds and private purpose trust funds. All other activities of the district are included in the governmental funds.

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

THE SCHOOL DISTRICT AS A WHOLE – GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3,387,799 as of June 30, 2014.

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

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

Table 1 provides a comparison of the District's net position for 2014 and 2013:

Table 1

<u>Net Position as of June 30,</u>	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets			
Current Assets	\$ 1,089,737	\$ 1,501,188	\$ (411,451)
Noncurrent Assets	<u>5,595,552</u>	<u>5,682,202</u>	<u>(86,650)</u>
Total Assets	<u>6,685,289</u>	<u>7,183,390</u>	<u>(498,101)</u>
Deferred Outflows of Resources			
Deferred amount on refunding	<u>734</u>	<u>903</u>	<u>(169)</u>
Liabilities			
Current Liabilities	650,758	468,117	182,641
Noncurrent Liabilities	<u>2,647,466</u>	<u>2,856,299</u>	<u>(208,833)</u>
Total Liabilities	<u>3,298,224</u>	<u>3,324,416</u>	<u>(26,192)</u>
Net Position			
Net investment in capital assets	2,902,890	2,671,046	231,844
Restricted	81,410	183,319	(101,909)
Unrestricted	<u>403,499</u>	<u>1,005,512</u>	<u>(602,013)</u>
Total Net Position	<u>\$ 3,387,799</u>	<u>\$ 3,859,877</u>	<u>\$ (472,078)</u>

Table 2 shows changes in net position for the fiscal years 2014 and 2013:

Table 2

<u>Statement of Activities for the</u> <u>year ended June 30,</u>	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for services	\$ 37,285	\$ 34,396 c	\$ 2,889
Operating grants and contributions	1,931,354	2,051,699	(120,345)
General Revenues:			
Local taxes	1,431,270	1,559,632	(128,362)
State revenues	3,362,278	3,412,157	(49,879)
Investment earnings	7,873	16,733	(8,860)
Loss on disposal of fixed assets	(143)	(111,529)	111,386
Other revenues	40,528	44,433	(3,905)
Total Revenues	<u>6,810,445</u>	<u>7,007,521</u>	<u>(197,076)</u>
Expenses			
Instruction	3,842,748	3,853,236	(10,488)
Support services:			
Student	240,794	221,922	18,872
Instructional staff	300,106	512,330	(212,224)
District administration	589,216	575,400	13,816
School administration	346,109	324,100	22,009
Business	426,109	265,650	160,459
Plant operations and management	656,604	638,521	18,083
Student transportation	264,854	308,958	(44,104)
Non-instructional	77,994	79,662	(1,668)
Interest on long-term debt	108,440	119,004	(10,564)
Facilities acquisitions and construction	15,393	0	15,393
Amortization - unallocated	0	5,826	(5,826)
Food service	372,778	404,479	(31,701)
Total Expenses	<u>7,241,349</u>	<u>7,309,088</u>	<u>(67,739)</u>
Change in Net Position	<u>\$ (431,078)</u>	<u>\$ (301,567)</u>	<u>\$ (129,337)</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Table 3 provides a comparison of the District's General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance for 2014 and 2013:

Table 3

**General Fund: Statement of
Revenues, Expenditures and
Changes in Fund Balance for
the year ended June 30,**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues			
Taxes	\$ 1,317,351	\$ 1,448,940	\$ (131,589)
Earnings on investment	7,480	16,402	(8,922)
Other local revenue	19,621	22,911	(3,290)
Intergovernmental – State	3,071,642	3,097,891	(26,249)
Intergovernmental – Federal	26,555	21,522	5,033
Total Revenues	<u>4,442,649</u>	<u>4,607,666</u>	<u>(165,017)</u>
Expenditures			
Current			
Instruction	2,479,138	2,487,420	(8,282)
Support services			
Student	238,560	219,646	18,914
Instructional staff	156,241	178,172	(21,931)
District administration	485,974	562,805	(76,831)
School administration	333,578	327,757	5,821
Business	425,858	265,131	160,727
Plant operation and mgt.	563,140	577,918	(14,778)
Student transportation	339,093	293,861	45,232
Total Expenditures	<u>5,021,582</u>	<u>4,912,710</u>	<u>108,872</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(578,933)</u>	<u>(305,044)</u>	<u>(273,889)</u>
Other Financing Sources (Uses)			
Transfers in	121,854	96,345	25,509
Transfers out	(14,448)	(7,731)	(6,717)
Total Other Financing Sources (Uses)	<u>107,406</u>	<u>88,614</u>	<u>18,792</u>
Net Change in Fund Balance	(471,527)	(216,430)	(255,097)
Fund Balance, July 1	<u>1,127,359</u>	<u>1,343,789</u>	<u>(216,430)</u>
Fund Balance, end of year	<u>\$ 655,832</u>	<u>\$ 1,127,359</u>	<u>\$ (471,527)</u>

PLANNING FOR THE FUTURE

Enrollment for Fulton County has remained constant for the last five years.

Questions regarding this report should be directed to Mr. Collins, Superintendent or Jennifer Davis, Finance Officer, at (270) 236-3923 or by mail at 2780 Moscow Avenue, Hickman, KY 42050.

BASIC FINANCIAL STATEMENTS

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 650,732	\$ 50,618	\$ 701,350
Receivables			
Accounts	52,171	-	52,171
Intergovernmental - State	85,226	-	85,226
Intergovernmental - Federal	170,875	-	170,875
Prepaid expenditures	68,713	-	68,713
Inventories	-	11,402	11,402
Capital assets not being depreciated			
Land	11,000	-	11,000
Capital assets, net of accumulated depreciation			
Land improvements	22,977	-	22,977
Buildings and improvements	5,370,514	-	5,370,514
Technology equipment	20,907	1,991	22,898
Vehicles	153,284	-	153,284
General equipment	14,879	-	14,879
Total assets	<u>6,621,278</u>	<u>64,011</u>	<u>6,685,289</u>
Deferred Outflows of Resources			
Deferred amount on refunding	<u>734</u>	-	<u>734</u>
Total deferred outflows of resources	<u>734</u>	-	<u>734</u>
Liabilities			
Accounts payable	166,334	2,200	168,534
Accrued salaries	59,131	-	59,131
Unearned revenue	50,607	-	50,607
Accrued interest	34,277	-	34,277
Long-term liabilities			
Portion due or payable within one year			
Insurance assessment	38,003	-	38,003
Bonds and leases	288,545	-	288,545
Accrued sick leave	10,579	1,082	11,661
Portion due or payable after one year			
Insurance assessment	86,926	-	86,926
Bonds and leases	2,404,851	-	2,404,851
Accrued sick leave	152,124	3,565	155,689
Total liabilities	<u>3,291,377</u>	<u>6,847</u>	<u>3,298,224</u>
Net Position			
Net investment in capital assets	2,900,899	1,991	2,902,890
Restricted for			
Accumulated sick leave	23,600	-	23,600
SFCC escrow	57,810	-	57,810
Unrestricted	348,326	55,173	403,499
Total net position	<u>\$ 3,330,635</u>	<u>\$ 57,164</u>	<u>\$ 3,387,799</u>

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities						
Instruction	\$ 3,842,748	\$ -	\$ 1,610,522	\$ (2,232,226)	\$ -	\$ (2,232,226)
Support services						
Student	240,794	-	-	(240,794)	-	(240,794)
Instructional staff	300,106	-	-	(300,106)	-	(300,106)
District administration	589,216	-	-	(589,216)	-	(589,216)
School administration	346,313	-	-	(346,313)	-	(346,313)
Business	426,109	-	-	(426,109)	-	(426,109)
Plant operations and management	656,604	-	-	(656,604)	-	(656,604)
Student transportation	264,854	-	-	(264,854)	-	(264,854)
Non-instructional services	77,994	-	-	(77,994)	-	(77,994)
Facilities acquisition and construction	15,393	-	-	(15,393)	-	(15,393)
Interest on long-term debt	108,440	-	-	(108,440)	-	(108,440)
Total governmental activities	<u>6,868,571</u>	<u>-</u>	<u>1,610,522</u>	<u>(5,258,049)</u>	<u>-</u>	<u>(5,258,049)</u>
Business-Type Activities						
Food service	<u>372,778</u>	<u>37,285</u>	<u>320,832</u>	<u>-</u>	<u>(14,661)</u>	<u>(14,661)</u>
Total business-type activities	<u>372,778</u>	<u>37,285</u>	<u>320,832</u>	<u>-</u>	<u>(14,661)</u>	<u>(14,661)</u>
Total primary government	<u>\$ 7,241,349</u>	<u>\$ 37,285</u>	<u>\$ 1,931,354</u>	<u>(5,258,049)</u>	<u>(14,661)</u>	<u>(5,272,710)</u>
General revenues:						
Taxes						
Property				954,573	-	954,573
Motor vehicle				150,933	-	150,933
Utilities				305,214	-	305,214
Other				20,550	-	20,550
Investment earnings				7,488	385	7,873
Other local revenue				13,973	-	13,973
State aid - formula grants				3,362,278	-	3,362,278
Medicaid reimbursement				26,555	-	26,555
Loss on disposal of fixed assets				(143)	-	(143)
Total general revenues				<u>4,841,421</u>	<u>385</u>	<u>4,841,806</u>
Change in net position				(416,628)	(14,276)	(430,904)
Net position, beginning of year				3,788,437	71,440	3,859,877
Prior period adjustment				(41,174)	-	(41,174)
Net position, beginning of year restated				<u>3,747,263</u>	<u>71,440</u>	<u>3,818,703</u>
Net position, end of year				<u>\$ 3,330,635</u>	<u>\$ 57,164</u>	<u>\$ 3,387,799</u>

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

FULTON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 592,922	\$ -	\$ 57,810	\$ 650,732
Receivables				
Accounts	52,171	-	-	52,171
Intergovernmental - State	-	85,226	-	85,226
Intergovernmental - Federal	-	170,875	-	170,875
Due from other funds	180,919	-	-	180,919
Prepaid expenditures	68,713	-	-	68,713
Total assets	<u>\$ 894,725</u>	<u>\$ 256,101</u>	<u>\$ 57,810</u>	<u>\$ 1,208,636</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 179,762	\$ 24,575	\$ -	\$ 204,337
Accrued salaries	59,131	-	-	59,131
Due to other funds	-	180,919	-	180,919
Unearned revenue	-	50,607	-	50,607
Total liabilities	<u>238,893</u>	<u>256,101</u>	<u>-</u>	<u>494,994</u>
Fund Balances				
Restricted	23,600	-	57,810	81,410
Unassigned	632,232	-	-	632,232
Total fund balances	<u>655,832</u>	<u>-</u>	<u>57,810</u>	<u>713,642</u>
Total liabilities and fund balances	<u>\$ 894,725</u>	<u>\$ 256,101</u>	<u>\$ 57,810</u>	<u>\$ 1,208,636</u>

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

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

Total fund balances - governmental funds	\$	713,642
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets and inventories used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$11,713,648, and the accumulated depreciation is \$6,120,087.</p>		5,593,561
<p>Certain long-term assets related to bond issuance costs are not reported in the governmental funds because they are not available to pay current period expenditures. These assets are, however, included in the statement of net position.</p>		734
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>		
Bonds payable	(2,693,396)	
Accrued interest on the bonds	(34,277)	
Accrued sick leave payable	(162,703)	
Insurance assessment	(86,926)	
		(2,977,302)
Total net position - governmental activities	\$	<u>3,330,635</u>

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

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
From local sources				
Taxes				
Property	\$ 840,654	\$ -	\$ 113,919	\$ 954,573
Motor vehicle	150,933	-	-	150,933
Utilities	305,214	-	-	305,214
Other	20,550	-	-	20,550
Earnings on investments	7,480	8	-	7,488
Other local revenues	19,621	(6,554)	-	13,067
Intergovernmental - State	3,071,642	236,410	290,636	3,598,688
Intergovernmental - Indirect Federal	26,555	1,375,018	-	1,401,573
Total revenues	<u>4,442,649</u>	<u>1,604,882</u>	<u>404,555</u>	<u>6,452,086</u>
Expenditures				
Current				
Instruction	2,479,138	1,253,740	-	3,732,878
Support Services				
Student	238,560	(7,175)	-	231,385
Instructional staff	156,241	138,830	-	295,071
District administration	485,974	-	-	485,974
School administration	333,578	-	-	333,578
Business	425,858	-	-	425,858
Plant operation and management	563,140	28,344	-	591,484
Student transportation	339,093	-	-	339,093
Non-instructional services	-	76,821	-	76,821
Facilities acquisition and construction	-	-	124,760	124,760
Debt service				
Principal	-	-	277,489	277,489
Interest	-	-	110,957	110,957
Total expenditures	<u>5,021,582</u>	<u>1,490,560</u>	<u>513,206</u>	<u>7,025,348</u>
Excess (deficit) of revenues over expenditures	<u>(578,933)</u>	<u>114,322</u>	<u>(108,651)</u>	<u>(573,262)</u>
Other Financing Sources (Uses)				
Transfers in	121,854	7,706	213,368	342,928
Transfers out	(14,448)	(121,854)	(206,626)	(342,928)
Total other financing sources (uses)	<u>107,406</u>	<u>(114,148)</u>	<u>6,742</u>	<u>-</u>
Net change in fund balances	(471,527)	174	(101,909)	(573,262)
Fund balances, beginning of year	<u>1,127,359</u>	<u>(174)</u>	<u>159,719</u>	<u>1,286,904</u>
Fund balances, end of year	<u>\$ 655,832</u>	<u>\$ -</u>	<u>\$ 57,810</u>	<u>\$ 713,642</u>

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

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

Total net change in fund balances - governmental funds **\$ (573,262)**

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

Capital outlays are reported in governmental funds as expenditures and capital dispositions are not recorded. However, in the statement of activities, the cost of assets purchased is allocated over their estimated useful lives as depreciation expense and the excess of the sales price, if any, over the net book value of dispositions are recorded as a gain (loss) on disposal of assets . This is the amount by which loss on disposal of assets (\$143) and depreciation expense (\$250,959) exceeds capital outlays (\$207,219) in the period. (43,883)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 277,489

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities as a component of interest expense. This amount is the net effect of these differences in the treatment of long-term debt and related items. (169)

In the statement of activities, certain operating expenses - accumulated sick leave - are recognized when they are incurred during the year. In the governmental funds, however, expenditures for these items are limited to only those that use current financial resources. 7,437

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 2,686

In the governmental funds, the KSBIT insurance assessment amount repaid during the year (\$38,003) is recorded as an expenditure. However, in the government-wide statements of net position, the total KSBIT insurance assessment (\$124,929) was recorded as a long-term liability in the year assessed, and the amount repaid during the current year (\$38,003) reduces long-term liabilities. (86,926)

Change in net position of governmental activities **\$ (416,628)**

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	<u>Food Service Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 50,618
Inventories	11,402
Total current assets	<u>62,020</u>
Noncurrent Assets	
Technology equipment	5,458
General equipment	135,708
Accumulated depreciation	<u>(139,175)</u>
Total noncurrent assets	<u>1,991</u>
Total assets	<u>64,011</u>
Liabilities	
Current Liabilities	
Accounts payable	2,200
Accrued sick leave	1,082
Total current liabilities	<u>3,282</u>
Long-term Liabilities	
Accrued sick leave	<u>3,565</u>
Total long-term liabilities	<u>3,565</u>
Total liabilities	<u>6,847</u>
Net Position	
Investment in capital assets	1,991
Unrestricted	<u>55,173</u>
Total net position	<u>\$ 57,164</u>

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

**FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS**

For the Year Ended June 30, 2014

	<u>Food Service Fund</u>
Operating Revenues	
Lunchroom sales	\$ 37,285
Total operating revenues	<u>37,285</u>
Operating Expenses	
Salaries, wages and benefits	194,942
Contract services	16,339
Materials and supplies	159,904
Depreciation	1,593
Total operating expenses	<u>372,778</u>
Operating loss	<u>(335,493)</u>
Non-Operating Revenues (Expenses)	
Interest income	385
Donated commodities	25,753
Grants - child nutrition program	261,213
State funding - on-behalf payments	30,475
State matching	3,391
Total non-operating revenues (expenses)	<u>321,217</u>
Change in net position	(14,276)
Total net position, beginning of year	<u>71,440</u>
Total net position, end of year	<u>\$ 57,164</u>

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 37,285
Cash paid for:	
Salaries, wages and benefits	(164,916)
Contract services	(16,339)
Materials and supplies	<u>(135,243)</u>
Net cash used by operating activities	<u>(279,213)</u>
Cash Flows from Noncapital Financing Activities	
Federal grants received	261,213
State grants received	<u>3,391</u>
Net cash provided by noncapital financing activities	<u>264,604</u>
Cash Flows from Investing Activities	
Interest income	<u>385</u>
Net decrease in cash and cash equivalents	(14,224)
Cash and cash equivalents, beginning of year	<u>64,842</u>
Cash and cash equivalents, end of year	\$ 50,618
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating loss	\$ (335,493)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	1,593
Commodities used	25,753
Salaries, wages and benefits (on-behalf payments)	30,475
Changes in assets and liabilities	
Inventories	(4,374)
Accounts payable	2,200
Accrued sick leave	<u>633</u>
Net cash used by operating activities	<u>\$ (279,213)</u>
Noncash Noncapital Financing Activities	
Donated food commodities received from the U.S. Department of Agriculture	<u>\$ 25,753</u>
State funding - on-behalf payments	<u>\$ 30,475</u>

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

**FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014**

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 63,195	\$ 106,958
Total assets	63,195	106,958
Liabilities		
Due to student groups	-	106,958
Total liabilities	-	\$ 106,958
Net Position		
Assets held in trust	63,195	
Total net position	\$ 63,195	

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Funds</u>
Additions	
Interest	\$ 40
Donations	10,075
Deductions	
Instruction	<u>(2,419)</u>
Change in net position	7,696
Net position, beginning of year	<u>55,499</u>
Net position, end of year	<u><u>\$ 63,195</u></u>

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

NOTES TO FINANCIAL STATEMENTS

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

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

The District has the following funds:

I. Governmental Fund Types

- a. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- b. The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than agency funds or major capital projects) that are legally restricted to disbursements for specified purposes. They include federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

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

II. Proprietary Fund Type (Enterprise Fund)

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

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

III. Fiduciary Fund Type (includes agency funds)

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

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

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

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

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

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

D. Property Taxes

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

The property tax rates for the year ended June 30, 2014 to finance the General Fund operations were \$.486 per \$100 valuation for real property, \$.486 per \$100 valuation for business tangible personal property, and \$.557 per \$100 valuation for motor vehicles.

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

E. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed as a current operating expenditure.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	12 years
General equipment	10-20 years

F. Interfund Activity

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

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

G. Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

An approved budget can be amended by the Board and all budget appropriations lapse at year-end.

H. Encumbrance Accounting

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

I. Cash and Cash Equivalents

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

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

J. Inventories

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

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

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

K. Accrued and Long-Term Liabilities

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

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

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

L. Restricted Assets

Certain assets of the General Fund are classified as restricted assets because their use is restricted by KRS 157.420(3).

M. Fund Balances

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

Nonspendable fund balance

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

Restricted fund balance

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

Committed fund balance

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

Assigned fund balance

This classification includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designees (of which there are none) have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned fund balance

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

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose,

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

N. Net Position

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

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

O. Estimates

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

P. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. The deferred charge on refunding reported in the government-wide statement of net position results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

Q. Impact of Recently Issued Accounting Pronouncements

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for financial statements for periods beginning after December 15, 2012. This statement improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows or resources and deferred inflows of resources to ensure consistency in financial reporting. The District has implemented this statement in the year ended June 30, 2014. As a result, prior year “deferred charges” of \$41,174 have been expensed in the prior period adjustment explained in Note 21. In addition, \$734, representing the difference between the reacquisition price and the net carrying amount of the old debt on the 2009 refunding, has been reported as “deferred outflows of resources” and will be recognized as a component of interest expense over the remaining life of the new debt.

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

NOTE 2 - DETAILED NOTES ON ACCOUNTS

A. Deposits

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

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

At fiscal year-end, the carrying amount of the District’s deposits was \$871,503 and the bank balance was \$1,278,200. Of the District’s bank balance, \$1,028,200 was collateralized as

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

discussed above because it was uninsured, while \$250,000 was covered by Federal Deposit Insurance.

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

Reconciliation to Government-wide Statement of Net Position:

Unrestricted cash, including time deposits	\$ 701,350
Fiduciary fund cash (not included in government-wide statement)	<u>170,153</u>
	<u>\$ 871,503</u>

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

Governmental activities	\$ 650,732
Business-type activities	50,618
Fiduciary funds	<u>170,153</u>
	<u>\$ 871,503</u>

B. Capital Assets

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Non-depreciable				
Land	\$ 11,000	\$ -	\$ -	\$ 11,000
Construction in progress	<u>13,339</u>	<u>109,367</u>	<u>122,706</u>	<u>-</u>
Totals	<u>24,339</u>	<u>109,367</u>	<u>122,706</u>	<u>11,000</u>
Depreciable				
Land improvements	172,048	-	-	172,048
Buildings and improvements	10,119,069	122,706	-	10,241,775
Technology equipment	222,070	-	1,732	220,338
Vehicles	869,090	97,852	-	966,942
General equipment	<u>101,545</u>	<u>-</u>	<u>-</u>	<u>101,545</u>
Totals	<u>11,483,822</u>	<u>220,558</u>	<u>1,732</u>	<u>11,702,648</u>

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

	Balance <u>July 1, 2013</u>	Additions	Deductions	Balance <u>June 30, 2014</u>
Less: Accumulated depreciation				
Land improvements	\$ 146,070	\$ 3,001	\$ -	\$ 149,071
Buildings and improvements	4,682,415	188,846	-	4,871,261
Technology equipment	167,198	33,822	1,589	199,431
Vehicles	790,147	23,511	-	813,658
General equipment	84,887	1,779	-	86,666
Totals	<u>5,870,717</u>	<u>250,959</u>	<u>1,589</u>	<u>6,120,087</u>
Net Book Value	<u>5,613,105</u>	<u>(30,401)</u>	<u>143</u>	<u>5,582,561</u>
Governmental activities capital assets - net	<u>\$ 5,637,444</u>	<u>\$ 78,966</u>	<u>\$ 122,849</u>	<u>\$ 5,593,561</u>

Business-Type Activities

Depreciable				
Technology equipment	\$ 5,458	\$ -	\$ -	\$ 5,458
General equipment	135,708	-	-	135,708
Totals	<u>141,166</u>	<u>-</u>	<u>-</u>	<u>141,166</u>
Less: Accumulated depreciation				
Technology equipment	1,874	1,593	-	3,467
General equipment	135,708	-	-	135,708
Totals	<u>137,582</u>	<u>1,593</u>	<u>-</u>	<u>139,175</u>
Business-type activities capital assets - net	<u>\$ 3,584</u>	<u>\$ (1,593)</u>	<u>\$ -</u>	<u>\$ 1,991</u>

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

Instruction	\$ 154,998
Support services:	
District administration	14,857
Plant operations and management	57,593
Student transportation	<u>23,511</u>
	<u>\$ 250,959</u>

C. Long-Term Liabilities

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

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

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>
1996	\$ 575,000	5.30%	2017
2002	1,520,000	3.75%	2018
2008	2,405,000	3.75%	2028
2009 (KISTA)	133,915	1.00% - 3.00%	2016
2009 (KISTA)	172,246	1.00% - 3.00%	2019

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

The KISTA project bonds provided funds for projects of the Board. The Board leases and rents the projects from KISTA on an annual basis. The semi-annual bond interest and principal payments constitute the lease payments. The Board is also obligated to maintain the projects in good repair over the life of the lease terms.

In 1998 the District entered into "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs.

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

<u>Issue</u>	<u>Balance at July 1, 2013</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
1996	\$ 195,000	\$ -	\$ 45,000	\$ 150,000
2002	615,000	-	115,000	500,000
2008	1,975,000	-	85,000	1,890,000
2009 (KISTA)	69,199	-	16,821	52,378
2009 (KISTA)	<u>116,686</u>	<u>-</u>	<u>15,668</u>	<u>101,018</u>
	<u>\$ 2,970,885</u>	<u>\$ -</u>	<u>\$ 277,489</u>	<u>\$ 2,693,396</u>

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

<u>Fiscal Year</u>	<u>Fulton County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 170,074	\$ 37,373	\$ 118,471	\$ 62,989	\$ 388,907
2016	179,178	30,217	124,422	58,916	392,733
2017	180,440	22,598	128,242	54,541	385,821
2018	151,922	16,438	115,042	50,233	333,635
2019	23,227	10,740	119,295	46,017	199,279
2020-2024	132,589	39,766	585,495	165,848	923,698
2025-2028	<u>130,585</u>	<u>12,508</u>	<u>534,414</u>	<u>51,056</u>	<u>728,564</u>
	<u>\$ 968,015</u>	<u>\$ 169,640</u>	<u>\$ 1,725,381</u>	<u>\$ 489,600</u>	<u>\$ 3,352,637</u>

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

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

	<u>Balance at July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2014</u>	<u>Due in One Year</u>
Bonds	\$ 2,970,885	\$ -	\$ 277,489	\$ 2,693,396	\$ 288,545
Insurance assessment	-	124,929	-	124,929	38,003
Accrued sick leave					
Governmental activities	170,140	4,097	11,534	162,703	10,579
Proprietary activities	<u>4,014</u>	<u>633</u>	<u>-</u>	<u>4,647</u>	<u>1,082</u>
	<u>\$ 3,145,039</u>	<u>\$ 129,659</u>	<u>\$ 289,023</u>	<u>\$ 2,985,675</u>	<u>\$ 338,209</u>

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

D. Compensated Absences and Accumulated Sick Leave

Certified and classified employees of the District are entitled to payment of 15 - 30%, depending on the employee's position, of the value of accumulated sick and personal days upon retirement. Kentucky Revised Statutes allow the District to restrict up to 50% of the accumulated benefits for all employees eligible to retire as of September 15, 2013. The total amount of accumulated benefits for all employees eligible to retire at this date is \$72,864. The District has a General Fund Balance restriction of \$23,600 at the balance sheet date. The District recognizes the expense of these benefits when payment is made by the governmental fund to a retiring employee.

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

E. Fund Balances

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

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay</u>	<u>Building</u>	<u>Debt Service</u>
Restricted for:					
Sick leave	\$ 23,600	\$ -	\$ -	\$ -	\$ -
SFCC escrow	-	-	57,559	-	-
Debt service	-	-	-	-	251
	<u>23,600</u>	<u>-</u>	<u>57,559</u>	<u>-</u>	<u>251</u>
Unassigned	<u>632,232</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>\$ 655,832</u>	<u>\$ -</u>	<u>\$ 57,559</u>	<u>\$ -</u>	<u>\$ 251</u>

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

F. Deficit Operating/Fund Balances

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

General Fund	\$ 471,527
Capital Outlay	101,909
Food Service Fund	14,276

G. Interfund Transactions

Interfund Receivables/Payables (Short-Term)

The General Fund extends short-term cashflow loans to funds outside the General Fund that receive funding on a reimbursement basis. Repayment is expected when available cash is in excess of that needed for operations. The balance of \$180,919 due to the General Fund from Special Revenue is a short-term cashflow loan.

Transfers

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General Fund	Special Revenue	KETS Match	\$ 7,706
General Fund	Capital Outlay	Future Construction	6,742
Special Revenue	General Fund	Preschool	121,854
Building Fund	Debt Service	Debt Service	174,576
Capital Outlay	Debt Service	Debt Service	32,050

H. On-Behalf Payments

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

Contributions to Kentucky Teachers' Retirement System	\$ 320,659
Health insurance, life insurance, flexible Spending accounts (includes administrative fee)	667,673
Technology	23,629
Debt Service	181,820
	\$ 1,193,781

The District does not include on-behalf payments in their budgets. The total of these payments, has been included in revenues and the applicable expenditure functions in these financial statements, as follows:

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

Governmental activities	
General Fund	\$ 981,486
Debt Service Fund	181,820
Business-type activities	<u>30,475</u>
	<u>\$ 1,193,781</u>

I. Prior Period Adjustment

Due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, described above in Note 1Q, beginning net position has been decreased by \$41,174 from \$3,788,611 to \$3,747,437. The difference represents a restatement for bond issue costs that were amortized under the prior standards but expensed in the period incurred under the new standards.

NOTE 3 - OTHER INFORMATION

A. Retirement Plans

Pension plan

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

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>. CERS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

Contribution rates for both plans are determined by the legislature. KTRS members are required to contribute 11.355% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.105% of salaries. The federal program for any salaries paid by that program is required to pay the matching contribution. The District is required to contribute 1.50% of all KTRS member salaries to KTRS. CERS members hired before September 1, 2008, are required to contribute 5% of their salaries to CERS. CERS members hired on or after September 1, 2008, are required to contribute 6% of their salaries to CERS. The District is required to contribute 18.89% of all CERS salaries.

The District's total payroll for the year was \$3,655,624. The payroll for employees covered under KTRS was \$2,534,847 and for CERS was \$941,782.

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

The contribution requirement for CERS for the year ended June 30, 2014 was \$225,548 which consisted of \$176,315 from the District and \$49,233 from the employees. The Commonwealth contributed \$320,659 to KTRS for the benefit of participating employees. The District contributions to KTRS were \$77,029, which represents \$28,360 for those employees covered by federal programs, \$11,504 for critical shortage employees and \$37,165 for all KTRS employees.

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

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
6/30/14	\$ 302,577	100%
6/30/13	238,339	100%
6/30/12	207,684	100%

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

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

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

Medical insurance plan

In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly. KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the medical insurance plan. That report can be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>.

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

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

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

B. Commitments and Contingencies

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

C. Insurance and Related Activities

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

D. Litigation

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

E. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases general and auto liability, physical damage insurance, errors and omissions, and general liability coverage from Curneal & Hignite Insurance, Inc.. The District purchases worker's compensation insurance through Kentucky Employers' Mutual Insurance. The District pays an annual premium to each fund for coverage.

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

F. COBRA

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

**FULTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

G. Misappropriation of Assets

During the prior year audit, it was discovered that an employee of the District misappropriated funds in excess of \$100,000 over the course of multiple years, including the year ended June 30, 2014. The misappropriation was largely attributable to the general fund and was recorded as various expenses for which there was no underlying support or benefit to the district.

H. Restatement

The District has restated beginning net position as of June 30, 2014 due to the correction of a prior year deficit in the special revenue fund of \$174, which the District deems immaterial.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
From local sources				
Taxes				
Property	\$ 625,000	\$ 625,000	\$ 840,654	\$ 215,654
Motor vehicle	95,000	105,000	150,933	45,933
Utilities	255,000	255,000	305,214	50,214
Other	35,500	35,500	20,550	(14,950)
Earnings on investments	12,225	12,225	7,480	(4,745)
Other local revenues	7,575	7,575	19,621	12,046
Intergovernmental - State	2,096,441	2,080,468	2,090,156	9,688
Intergovernmental - Indirect Federal	8,300	8,300	26,555	18,255
Total revenues	<u>3,135,041</u>	<u>3,129,068</u>	<u>3,461,163</u>	<u>332,095</u>
Expenditures				
Current				
Instruction	1,958,141	1,938,146	1,839,763	98,383
Support Services				
Student	175,543	175,543	193,785	(18,242)
Instructional staff	150,971	149,071	111,074	37,997
District administration	732,182	441,515	441,901	(386)
School administration	247,313	247,313	252,879	(5,566)
Business	153,221	153,221	365,996	(212,775)
Plant operations and management	518,926	546,926	527,252	19,674
Student transportation	298,744	377,434	307,446	69,988
Contingency	-	193,157	-	193,157
Total expenditures	<u>4,235,041</u>	<u>4,222,326</u>	<u>4,040,096</u>	<u>182,230</u>
Excess (deficit) of revenues over expenditures	<u>(1,100,000)</u>	<u>(1,093,258)</u>	<u>(578,933)</u>	<u>514,325</u>
Other Financing Sources (Uses)				
Transfers in	-	-	121,854	121,854
Transfers out	-	(6,742)	(14,448)	(7,706)
Total other financing sources (uses)	<u>-</u>	<u>(6,742)</u>	<u>107,406</u>	<u>114,148</u>
Net change in fund balances	(1,100,000)	(1,100,000)	(471,527)	628,473
Fund balances, beginning of year	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,127,359</u>	<u>27,359</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 655,832</u>	<u>\$ 655,832</u>
Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures				
Inflows/revenues:				
Actual amounts (budgetary basis)			\$ 3,461,163	
Differences - budget to GAAP:				
On-behalf payments recorded under GAAP basis not included in budget amounts				<u>981,486</u>
Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 4,442,649</u>
Outflows/expenditures:				
Actual amounts (budgetary basis)			\$ 4,040,096	
Differences - budget to GAAP:				
On-behalf payments recorded under GAAP basis not included in budget amounts				<u>981,486</u>
Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds				<u>\$ 5,021,582</u>

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - SPECIAL REVENUE FUND
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources				
Earnings on investments	\$ -	\$ -	\$ 8	\$ 8
Other local revenues	-	4,535	(6,554)	(11,089)
Intergovernmental - State	-	275,596	236,410	(39,186)
Intergovernmental - Indirect Federal	-	975,330	1,375,018	399,688
Total revenues	<u>-</u>	<u>1,255,461</u>	<u>1,604,882</u>	<u>349,421</u>
Expenditures				
Current				
Instruction	-	1,105,844	1,253,740	(147,896)
Support Services				
Student	-	-	(7,175)	7,175
Instructional staff	-	2,112	138,830	(136,718)
Plant operation and management	-	-	28,344	(28,344)
Student transportation	-	2,500	-	2,500
Non-instructional services	-	151,821	76,821	75,000
Total expenditures	<u>-</u>	<u>1,262,277</u>	<u>1,490,560</u>	<u>(228,283)</u>
Excess (deficit) of revenues over expenditures	<u>-</u>	<u>(6,816)</u>	<u>114,322</u>	<u>121,138</u>
Other Financing Sources (Uses)				
Transfers in	-	6,816	7,706	890
Transfers out	-	-	(121,854)	(121,854)
Total other financing sources (uses)	<u>-</u>	<u>6,816</u>	<u>(114,148)</u>	<u>(120,964)</u>
Net change in fund balances	-	-	174	174
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>(174)</u>	<u>(174)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

OTHER SUPPLEMENTARY INFORMATION

**FULTON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**
June 30, 2014

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 57,559	\$ -	\$ 251	\$ 57,810
Total assets	\$ 57,559	\$ -	\$ 251	\$ 57,810
 Liabilities and Fund Balances				
Fund Balances				
Restricted	\$ 57,559	\$ -	\$ 251	\$ 57,810
Total fund balances	57,559	-	251	57,810
Total liabilities and fund balances	\$ 57,559	\$ -	\$ 251	\$ 57,810

See independent auditor's report.

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

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources				
Taxes				
Property	\$ -	\$ 113,919	\$ -	\$ 113,919
Intergovernmental - State	48,159	60,657	181,820	290,636
Total revenues	<u>48,159</u>	<u>174,576</u>	<u>181,820</u>	<u>404,555</u>
Expenditures				
Facilities acquisition and construction	124,760	-	-	124,760
Debt service				
Principal	-	-	277,489	277,489
Interest	-	-	110,957	110,957
Total expenditures	<u>124,760</u>	<u>-</u>	<u>388,446</u>	<u>513,206</u>
Excess (deficit) of revenues over expenditures	<u>(76,601)</u>	<u>174,576</u>	<u>(206,626)</u>	<u>(108,651)</u>
Other Financing Sources (Uses)				
Transfers in	6,742	-	206,626	213,368
Transfers out	(32,050)	(174,576)	-	(206,626)
Total other financing sources (uses)	<u>(25,308)</u>	<u>(174,576)</u>	<u>206,626</u>	<u>6,742</u>
Net change in fund balances	(101,909)	-	-	(101,909)
Fund balances, beginning of year	159,468	-	251	159,719
Fund balances, end of year	<u>\$ 57,559</u>	<u>\$ -</u>	<u>\$ 251</u>	<u>\$ 57,810</u>

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS
For the Year Ended June 30, 2014

Fund	July 1, 2013	Revenues	Expenditures	June 30, 2014
Activity Funds				
Fulton County High School				
Annual	\$ 8,900	\$ 4,459	\$ 7,647	\$ 5,712
Athletic	4,963	25,324	23,371	6,916
Charles Speed scholarship	1,641	655	300	1,996
Class of 2013	1,697	-	1,625	72
Class of 2014	2,188	16,331	16,975	1,544
Class of 2015	3,427	6,687	2,017	8,097
Faculty snacks	202	455	438	219
FFA alumni	7,232	12,423	12,927	6,728
FHA	172	-	-	172
Foreign language club	781	150	151	780
Future farmers of America	5,113	13,990	16,818	2,285
General fund	426	1,252	597	1,081
High school baseball	-	2,300	1,718	582
High school beta club	4,563	4,079	3,658	4,984
High school cheerleaders	2,696	4,545	4,571	2,670
High school football	1,910	8,286	9,525	671
Home economics	220	27	-	247
JAM	1,419	190	219	1,390
Joey Bumpous scholarship	468	955	250	1,173
Kuna	781	-	133	648
Lady pilot basketball	1	3,048	2,778	271
Lady pilot softball	508	920	920	508
Library grant	996	8	195	809
Maurice Tucker scholarship	1,120	-	249	871
Pep club	1	461	384	78
Pilot basketball	208	4,059	3,254	1,013
Science club	498	165	75	588
Track team	984	1,313	2,259	38
Trainable mentally handicapped (TMH)	236	-	-	236
Vending	906	2,767	2,537	1,136
Volleyball	485	1,837	1,579	743
FEA	95	672	464	303
Four rivers scholarship	4,830	22,619	11,252	16,197
Hayden Murphy Scholarship	-	200	200	-
Laura Weatherly Scholarship	-	500	-	500
McWhirt Scholarship	-	500	-	500
Project Graduation 2014	-	2,815	2,166	649
Prom	-	2,423	2,194	229
Saturday league basketball	83	4,239	3,412	910
Tom Pyron Scholarship	766	50	250	566
	<u>60,516</u>	<u>150,704</u>	<u>137,108</u>	<u>74,112</u>
Less: inter-fund transfers	-	139	139	-
Total Fulton County High School	60,516	150,565	136,969	74,112
Fulton County Elementary and Middle School	29,522	33,722	30,398	32,846
Total agency funds	\$ 90,038	\$ 184,287	\$ 167,367	\$ 106,958

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
U.S. Department of Education				
Passed Through State Department of Education:				
Title I Cluster:				
Title I Grants to Local Educational Agencies	84.010	220-4500-3102	\$ 367,318	\$ 1,650
Title I Grants to Local Educational Agencies	84.010	220-4500-3103	348,946	89,349
Title I Grants to Local Educational Agencies	84.010	220-4500-3104	<u>331,389</u>	<u>340,619</u>
Total Title I Cluster			<u>1,047,653</u>	<u>431,618</u>
Special Education Cluster:				
Special Education_Grants to States	84.027	220-4500-3373	158,946	32,904
Special Education_Grants to States	84.027	220-4500-3374	15,100	151,000
Special Education_Preschool Grants	84.173	220-4500-3432	24,866	11,209
Special Education_Preschool Grants	84.173	220-4500-3433	24,840	24,840
Special Education_Preschool Grants	84.173	220-4500-3434	<u>24,763</u>	<u>24,764</u>
Total Special Education Cluster			<u>248,515</u>	<u>244,717</u>
Education for Homeless Children and Youth	84.196	220-4500-3163	40,317	15,412
Education for Homeless Children and Youth	84.196	220-4500-3164	<u>36,773</u>	<u>29,890</u>
			<u>77,090</u>	<u>45,302</u>
21st Century Community Learning Centers Program	84.287	220-4500-5502H	155,000	102,599
21st Century Community Learning Centers Program	84.287	220-4500-5502J	2,000	2,354
21st Century Community Learning Centers Program	84.287	220-4500-5502M	155,000	91,687
21st Century Community Learning Centers Program	84.287	220-4500-5503H	112,500	55,203
21st Century Community Learning Centers Program	84.287	220-4500-5503M	150,000	57,469
21st Century Community Learning Centers Program	84.287	220-4500-5503U	50,000	3,140
21st Century Community Learning Centers Program	84.287	220-4500-5503Z	<u>7,000</u>	<u>4,022</u>
			<u>631,500</u>	<u>316,474</u>
Improving Teacher Quality State Grants	84.367	220-4500-4013	62,072	32,036
Improving Teacher Quality State Grants	84.367	220-4500-4014	<u>60,319</u>	<u>60,319</u>
			<u>122,391</u>	<u>92,355</u>
Passed Through West Kentucky Educational Cooperative:				
Career and Technical Education_Basic Grants to States	84.048	220-4700-3483	1,291	645
Career and Technical Education_Basic Grants to States	84.048	220-4700-3484	<u>1,305</u>	<u>660</u>
			<u>2,596</u>	<u>1,305</u>
Total U.S. Department of Education			<u>2,129,745</u>	<u>1,131,771</u>
U.S. Department of Agriculture				
Passed Through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	510-4500	70,808	70,808
National School Lunch Program	10.555	510-4500	188,785	188,785
National School Lunch Program - Donated Commodities	10.555	510-4950	25,753	25,753
Summer Food Service Program for Children	10.559	510-4500	<u>1,620</u>	<u>1,620</u>
Total Child Nutrition Cluster			<u>286,966</u>	<u>286,966</u>
Total U.S. Department of Agriculture			<u>286,966</u>	<u>286,966</u>

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

FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
U.S. Department of Health and Human Services				
Passed Through Murray Independent Board of Education:				
Head Start	93.600	220-4700-6554	120,453	121,854
Total U.S. Department of Health and Human Services			120,453	121,854
Total federal awards			\$ 2,537,164	\$ 1,540,591

Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures

Total expenditures of federal awards	\$ 1,540,591
Total expenditures of state and local awards	358,789
Expenditure of federal awards in the food service fund	(286,966)
Expenditure of federal awards in the general fund	<u>(121,854)</u>
Total expenditures as reported in the special revenue fund on statement of revenues, expenditures and changes in fund balance - governmental funds	\$ 1,490,560

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

FULTON COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 - FOOD DISTRIBUTION

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

INTERNAL CONTROL AND COMPLIANCE SECTION

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

Kentucky State Committee for School District Audits
Members of the Fulton County Board of Education
Hickman, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fulton County School District's basic financial statements and have issued our report thereon dated December 29, 2014. Our report qualified our opinion on such financials statements because certain expenses are recorded in the general, special revenue, and food service funds for which there is a lack of supporting documentation validating that the expenses occurred as reported.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2007-001, 2013-001, 2013-002 and 2013-008 to be material weaknesses.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of Fulton County School District in a separate letter dated December 29, 2014, as required by the auditor's contract with the Kentucky Department of Education.

Fulton County School District's Response to Findings

Fulton County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Fulton County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Murray, Kentucky
December 29, 2014

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AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
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**Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required by OMB Circular A-133**

Independent Auditor's Report

Kentucky State Committee for School District Audits
Members of the Fulton County Board of Education
Hickman, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Fulton County 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 Fulton County School District's major federal programs for the year ended June 30, 2014. Fulton County 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 Fulton County 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 Fulton County 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 Fulton County School District's compliance.

Basis for Qualified Opinions on Title I Cluster

As described in the accompanying schedule of findings and questioned costs, Fulton County School District did not comply with requirements regarding CFDA 84.010 Title I Cluster as described in finding number 2013-003 for Reporting. Compliance with this requirement is necessary, in our opinion, for Fulton County School District to comply with the requirements applicable to those programs.

Qualified Opinion on Title I Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinions* paragraph, Fulton County 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 the Title I Cluster for the year ended June 30, 2014.

Unmodified Opinion on the Other Major Federal Program

In our opinion, Fulton County 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 its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an other instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 2013-006. Our opinion on each major federal program is not modified with respect to this matter.

Fulton County School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Fulton County School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Fulton County 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 Fulton County 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 Fulton County School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-003 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-006 to be a significant deficiency.

Fulton County School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Fulton County School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Alexander Thompson Arnold PLLC

Murray, Kentucky
December 29, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2014

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: qualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

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

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

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

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.287	21 st Century Community Learning Centers Program
10.553, 10.555 and 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? yes x no

FINDINGS - FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

FINDING 2007-001

Condition: The District's accounting department does not have a system of internal control over financial reporting that would allow it to prevent, detect, and correct a significant misstatement in its financial statements, including footnote disclosures. This condition has existed for 6 years.

**FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2014

Criteria: Internal controls should be in place in order for the District to be able to prevent, detect, and correct potential misstatements in its financial statements, as prescribed by Statement of Auditing Standards No. 115, AU Section 325.05. A system of internal control over financial reporting does not consist solely of controls over the proper recording of accounting transactions. Rather, it includes controls over financial statement preparation, including the footnote disclosures.

Cause: As is common in small organizations, the District has financial restraints that prevent the hiring of accounting personnel with the training required to prevent, detect, and correct a significant misstatement in its financial statements, including footnote disclosures.

Effect: The likelihood of the District's financial statements containing significant misstatements is not reduced to a low level because the District's internal controls over financial reporting are not effective.

Recommendation: In order to correct the circumstances described, the District may consider the employment of a highly trained accounting person, such as a CPA or, consider engaging a second CPA firm. In this instance, one CPA firm would be engaged to prepare the District's financial statements in accordance with accounting principles generally accepted in the United States and, the other firm engaged to conduct the audit of the District's financial statements.

Management's Response: Management has evaluated the costs versus the benefits and has employed a highly trained accounting professional.

FINDING 2013-001

Condition: Bank accounts are not reconciled in a timely manner.

Criteria: AU Section 314, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement address the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment, including the entity's internal control. Asset accountability is related to reconciliations of the detailed records to the general ledger and is a basic component of internal control and is referenced in the above standard.

Cause: District personnel failed to record receipts and expenditures in MUNIS.

Effect: There is an increased likelihood of misappropriation of cash.

Recommendation: Establish procedures to ensure that cash transactions are recorded, reconciled, and reviewed by management in a timely manner.

Management's Response: Management agrees with this recommendation and has implemented the necessary procedures to correct this condition.

**FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2014

FINDING 2013-002

Condition: There is a lack of appropriate segregation of duties or independent checks related to the initiation, authorization, processing, and recording functions in that the Finance Officer has responsibility for and/or access to all such functions of the District.

Criteria: When obtaining an understanding of the entity's processes related to financial reporting and their associated control activities, the auditor considers proper segregation of duties. AU-C Section 315.A91–*Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, specifically notes segregation of duties as an example of a control activity.

Cause: The small size of the District, the frequent turnover and lack of experience of personnel in the accounting department under the authority of the Finance Officer and the lack of involvement of the past Superintendents in the authorization process.

Effect: Without proper segregation of duties, the design of controls may be deficient because individuals may be in a position to perpetrate and conceal errors or fraud when performing their job functions.

Recommendation: Implement an appropriate segregation of duties by assigning different individuals responsibility for the custody of assets, recording of assets and authorization of transactions. Also, enhance management oversight by having the Superintendent more involved in the authorization process.

Management's Response: Management agrees with this recommendation and has implemented the necessary procedures to correct this condition.

FINDING 2013-008

Condition: An employee misappropriated funds in excess of \$100,000 over the course of multiple years, including the year ended June 30, 2014.

Criteria: *Government Auditing Standards* require the auditor to report fraud.

Cause: The former Finance Officer had access to all MUNIS functions with improper segregation of duties and management oversight.

Effect: The District expended funds in excess of \$100,000 with no benefit to the District.

Recommendation: Limit user access in MUNIS and implement an appropriate segregation of duties by assigning different individuals responsibility for the custody of assets, recording of assets and authorization of transactions. Also enhance management oversight by having the Superintendent more involved in the authorization process.

Management's Response: Management agrees with this recommendation and has implemented the necessary procedures to correct this condition.

**FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2014

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Questioned
Costs**

U.S. DEPARTMENT OF EDUCATION

Title I Cluster - CFDA No. 84.010

MATERIAL WEAKNESS AND NONCOMPLIANCE

FINDING 2013-003

\$ 4,899

Condition: The District could not produce evidence that the required Title I Cluster reports were properly reviewed and approved by a person possessing the knowledge, skills, experience and ability to determine the reports included only allowable costs and were accurate.

Criteria: This audit finding pertains to the compliance requirements for federal awards contained in the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Reporting.

Effect: The District violated the terms of the grant contract and may be subject to refunding the reimbursed funds.

Cause: A lack of adequate and appropriate accounting policies and procedures related to Federal Programs administration.

Recommendation: Any reporting requirements under Federal Programs should be charged to a responsible party who possesses an understanding of the requirements and who will monitor that the required reporting is completed timely and accurately.

Management's Response: Management agrees with the recommendation and has implemented the necessary procedures to correct this condition.

SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE

FINDING 2013-006

\$ -

Condition: Certain expenses are recorded in the Title I Cluster for which there is a lack of supporting documentation validating that the expenses occurred as reported.

Criteria: This audit finding pertains to the compliance requirements for federal awards contained in the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Allowable Costs/Costs Principles..

Effect: The lack of supporting documentation limits the auditor's ability to obtain sufficient appropriate audit evidence to determine whether the costs

**FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2014

were allowed or unallowed. This increases the likelihood of unallowed costs in the Title I Cluster. The questioned costs related to this finding are included in the questioned costs at finding 2013-003.

Cause: A lack of adequate and appropriate accounting policies and procedures related to Federal Programs administration.

Recommendation: Maintain supporting documentation sufficient to validate that the expenses for the Title I Cluster occurred as reported.

Management's Response: Management agrees with the recommendation and has implemented the necessary procedures to correct this condition.

Total - U.S. Department of Education

\$ 4,899

MANAGEMENT LETTER POINTS

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Kentucky Society of Certified Public Accountants



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Aaron Collins, Superintendent
Fulton County Board of Education
Hickman, Kentucky

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

During our audit we did not become aware of any matters, other than inconsequential matters, that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter reflects that result. This letter does not affect our report dated December 29, 2014, on the financial statements of Fulton County School District.

This report is intended solely for the information and use of the Board, management, the Kentucky Department of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Alexander Thompson Arnold PLLC

Murray, Kentucky
December 29, 2014

**FULTON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS**

June 30, 2014

MANAGEMENT LETTER POINTS

I. Condition: The bond of depository was approved on June 20, 2013 for fiscal year 2013-14.

Criteria: The District is required by KRS 160.570(1) and 702 KAR 3:090 Section 1-3 to execute a bond of depository at least 30 days prior to the depository performing its duties and by July 1.

Cause: Insufficient personnel to complete all of the duties of the finance office in a timely and proper manner.

Effect: Noncompliance with applicable statutes.

Recommendation: Execute and approve the bond of depository no later than May 31 for the coming fiscal year.

Response: Management agrees with this recommendation.

II. Condition: The District did publish annual financial statements.

Criteria: The District is required by KRS 424.220 to publish annual financial statements which shall include the total amounts of funds collected and received during the fiscal year from each individual source and the amount dispersed during the fiscal year to each individual payee and the purpose for which the funds were expended.

Cause: Insufficient personnel to complete all of the duties of the finance office in a timely and proper manner.

Effect: Noncompliance with applicable statutes.

Recommendation: Publish annual financial statements in accordance with KRS 424.220.

Response: Management agrees with this recommendation.

III. Condition: The District did not publish the tax rates levied.

Criteria: The District is required by KRS 424.250 to publish the tax rates levied by the District after approval by the Kentucky Board of Education.

Cause: Insufficient personnel to complete all of the duties of the finance office in a timely and proper manner.

Effect: Noncompliance with applicable statutes.

Recommendation: Publish tax rates levied in accordance with KRS 424.250.

Response: Management agrees with this recommendation.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FULTON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014

FINDINGS - FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

FINDING 2007-001

Condition: The District's accounting department does not have a system of internal control over financial reporting that would allow it to prevent, detect, and correct a significant misstatement in its financial statements, including footnote disclosures.

Recommendation: In order to correct the circumstances described, the District may consider the employment of a highly trained accounting person, such as a CPA or, consider engaging a second CPA firm. In this instance, one CPA firm would be engaged to prepare the District's financial statements in accordance with accounting principles generally accepted in the United States and, the other firm engaged to conduct the audit of the District's financial statements.

Current Status: This circumstance continues to exist. See finding 2007-001.

FINDING 2013-001

Condition: Bank accounts are not reconciled in a timely manner.

Recommendation: Establish procedures to ensure that cash transactions are recorded, reconciled, and reviewed by management in a timely manner.

Current Status: This circumstance continues to exist. See finding 2013-001.

FINDING 2013-002

Condition: There is a lack of appropriate segregation of duties or independent checks related to the initiation, authorization, processing, and recording functions in that the Finance Officer has responsibility for and/or access to all such functions of the District.

Recommendation: Implement an appropriate segregation of duties by assigning different individuals responsibility for the custody of assets, recording of assets and authorization of transactions. Also, enhance management oversight by having the Superintendent more involved in the authorization process.

Current Status: This circumstance continues to exist. See finding 2013-002.

FINDING 2013-008

Condition: An employee misappropriated funds in excess of \$100,000 over the course of multiple years, including the year ended June 30, 2014.

**FULTON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

June 30, 2014

Recommendation: Limit user access in MUNIS and implement an appropriate segregation of duties by assigning different individuals responsibility for the custody of assets, recording of assets and authorization of transactions. Also enhance management oversight by having the Superintendent more involved in the authorization process.

Current Status: This circumstance continues to exist. See finding 2013-003.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

	Questioned Costs
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U.S. DEPARTMENT OF EDUCATION

Title I Cluster - CFDA No. 84.010 and 84.389A

MATERIAL WEAKNESS AND NONCOMPLIANCE

FINDING 2013-003	\$ 508,331
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Condition: The District could not produce evidence that the required Title I Cluster reports were properly reviewed and approved by a person possessing the knowledge, skills, experience and ability to determine the reports included only allowable costs and were accurate.

Recommendation: Any reporting requirements under Federal Programs should be charged to a responsible party who possesses an understanding of the requirements and who will monitor that the required reporting is completed timely and accurately.

Current Status: This circumstance continues to exist. See finding 2013-003.

SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE

FINDING 2013-006	\$ -
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Condition: Certain expenses are recorded in the Title I Cluster for which there is a lack of supporting documentation validating that the expenses occurred as reported.

Recommendation: Maintain supporting documentation sufficient to validate that the expenses for the Title I Cluster occurred as reported.

Current Status: This circumstance continues to exist. See finding 2013-006.

**FULTON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

June 30, 2014

Federal Education Jobs Fund Grant - CFDA No. 84.410

MATERIAL WEAKNESS AND NONCOMPLIANCE

FINDING 2013-004

\$ 59,852

Condition: The District could not produce reporting required under the American Recovery and Reinvestment Act related to the Education Jobs Fund.

Recommendation: Any reporting requirements under Federal Programs should be charged to a responsible party who possesses an understanding of the requirements and who will monitor that the required reporting is completed timely and accurately.

Current Status: This circumstance has been resolved.

FINDING 2013-005

\$ -

Condition: The District charged expenses for Board level personnel to the Education Jobs Fund grant which is in violation of the grant's compliance requirements.

Recommendation: All grant expenditures should be reviewed and approved by someone who possesses the requisite knowledge of grant compliance requirements prior to charging expenses to federal programs.

Current Status: This circumstance has been resolved.

Total - U.S. Department of Education

\$ 568,183

U.S. DEPARTMENT OF AGRICULTURE

Child Nutrition Cluster - CFDA No. 10.553, 10.555 and 10.559

SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE

FINDING 2013-007

\$ 2,000

Condition: Certain expenses are recorded in the Child Nutrition Cluster for which there is a lack of supporting documentation validating that the expenses occurred as reported.

Recommendation: Maintain supporting documentation sufficient to validate that the expenses for the Child Nutrition Cluster occurred as reported.

Current Status: This circumstance has been resolved.

FULTON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014

Total - U.S. Department of Agriculture

\$ 2,000

MANAGEMENT LETTER POINTS

I. Condition: Activity fund budgets were not approved by the Board of Education.

Recommendation: Each school principal should present the activity fund budgets to the Board of Education for approval.

Current Status: This condition has been resolved.

II. Condition: The bond of depository was approved on June 28, 2012 for fiscal year 2012-13.

Recommendation: Execute and approve the bond of depository no later than May 31 for the coming fiscal year.

Response: This condition continues to exist. See management letter comments.