

**FULTON INDEPENDENT SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**FULTON INDEPENDENT SCHOOL DISTRICT  
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## **INTRODUCTORY SECTION**

**FULTON INDEPENDENT SCHOOL DISTRICT**

June 30, 2014

**BOARD OF EDUCATION**

Debbie Vaughn, Chairman  
Bill Robertson, Vice Chairman  
Carol Bransford, Member  
Sam Hancock, Member  
Dr. Josh Whitley, Member

**ADMINISTRATIVE STAFF**

Tamara Smith, Superintendent  
Laurie Thorpe, Finance Officer

## **FINANCIAL SECTION**

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

Phone 270.753.2424  
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## Independent Auditor's Report

Kentucky State Committee for School District Audits  
Fulton Independent Board of Education  
Fulton, 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 Independent School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

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

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 39-40 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 Independent School District's basic financial statements. The introductory section and combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the Fulton Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fulton Independent School District's internal control over financial reporting and compliance.

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 14, 2014

# Fulton Independent School District

*Educational Excellence*

Office of the Superintendent

304 W. Stateline, Fulton, Kentucky 42041

Phone 270-472-1553 Fax 270-472-6921

## FULTON INDEPENDENT SCHOOL DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS FISCAL YEAR ENDING JUNE 30, 2014

The discussion and analysis of the Fulton Independent School District provides a narrative overview and analysis of the financial activities for 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 Fulton Independent School District fully implemented the 21<sup>st</sup> Century After School Program
- Carr Elementary continued its success with the Fresh Fruit and Vegetables Program.
- The District replaced antiquated water lines at Carr Elementary without using General Fund monies.
- A computer lab at Fulton High School was upgraded using KETS and Perkins Grant funds

### 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 that the reader can understand the Fulton Independent School District as a whole or as one operating entity (government-wide financial statements). The statements then provide an increasingly detailed look at the District's operations.

### OVERVIEW OF FINANCIAL STATEMENTS

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

**Government-wide financial statements:** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. These statements include the Statement of Net Position and the Statement of Activities. In 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 of the goods or services provided. The Food Service enterprise fund is reported as a business activity.



“Home of the Fighting Bulldogs”

The Statement of Net Position presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources and liabilities, 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 flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

**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. This 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. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. 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 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2,580,279.00 as of June 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress) less any 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 financial position is the product of several financial transactions including the net results of activities, the acquisition of 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 2013 and 2014.

**Table 1**  
**Net position**

| <b>Assets</b>                    | <b>2013</b>         | <b>2014</b>         |
|----------------------------------|---------------------|---------------------|
| Current Assets                   | \$ 1,179,894        | \$ 737,458          |
| Noncurrent Assets                | 3,816,873           | 3,622,736           |
| <b>Total Assets</b>              | <b>4,996,767</b>    | <b>4,360,394</b>    |
|                                  |                     |                     |
| <b>Liabilities</b>               |                     |                     |
| Current Liabilities              | 263,913             | 198,773             |
| Noncurrent Liabilities           | 1,575,966           | 1,581,342           |
| <b>Total Liabilities</b>         | <b>1,839,879</b>    | <b>1,780,115</b>    |
|                                  |                     |                     |
| <b>Net position</b>              |                     |                     |
| Net Investment in Capital Assets | 2,254,532           | 2,150,772           |
| Restricted                       | 77,590              | 56,656              |
| Unrestricted                     | 824,766             | 372,851             |
| <b>Total Net position</b>        | <b>\$ 3,156,888</b> | <b>\$ 2,580,279</b> |

Table 2 shows changes in net position for fiscal year 2013 as compared to 2014.

**Table 2**  
**Changes in Net position**

|                                    | <b>2013</b>       | <b>2014</b>         |
|------------------------------------|-------------------|---------------------|
| <b>Revenues</b>                    |                   |                     |
| Program Revenues:                  |                   |                     |
| Charges for Services               | \$ 14,105         | \$ 16,176           |
| Operating Grants and Contributions | 1,297,800         | 1,265,549           |
| General Revenues:                  |                   |                     |
| Local Taxes                        | 1,088,373         | 1,125,469           |
| Investment Earnings                | 13,884            | 12,869              |
| Other Local Revenue                | 10,045            | 6,048               |
| State Aid- Formula Grants          | 2,458,386         | 2,346,361           |
| Indirect Federal Reimbursements    | 10,342            | 16,093              |
| Sale of Assets                     | 3,458             | (119)               |
| <b>Total Revenues</b>              | <b>4,896,393</b>  | <b>4,788,446</b>    |
|                                    |                   |                     |
| <b>Program Expenses</b>            |                   |                     |
| Instruction                        | \$2,828,252       | 2,972,125           |
| Support Services                   |                   |                     |
| Student                            | 189,811           | 243,415             |
| Instructional Staff                | 189,088           | 152,554             |
| District Administration            | 319,233           | 441,532             |
| School Administration              | 260,751           | 272,569             |
| Business                           | 186,544           | 144,315             |
| Plant Operations and Management    | 451,103           | 494,396             |
| Student Transportation             | 43,300            | 73,137              |
| Non-instructional Services/Other   | 78,630            | 76,096              |
| Interest on long-term debt         | 60,265            | 57,804              |
| Amortization – unallocated         | 4,239             |                     |
| Food Service                       | 291,590           | 301,256             |
| <b>Total Expenses</b>              | <b>4,902,806</b>  | <b>5,229,199</b>    |
| <b>Change in Net position</b>      | <b>\$ (6,413)</b> | <b>\$ (440,753)</b> |

**Governmental Activities**

Total revenues for governmental activities for 2014 were \$4,455,939. Taxes increased slightly to 25% of revenues for governmental activities for the District. State aid and state and federal grants accounted for 75% of governmental revenue. The total cost of all programs and services for governmental activities was \$4,927,943. Instruction comprises 60% of expenses. Governmental expenditures for the District for 2014 exceeded governmental revenues by \$472,004.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services for governmental activities. The net cost shows the financial burden that was placed on the taxpayers by each of these functions.

**Table 3  
Cost of Services**

|                                  | <b>Total Cost of<br/>Services 2014</b> | <b>Net Cost of<br/>Services 2014</b> |
|----------------------------------|--|--------------------------------------|
| Instruction                      | \$2,972,125                            | \$2,020,677                          |
| Support Services                 |  |                                      |
| Student                          | 243,415                                | 243,415                              |
| Instructional Staff              | 152,554                                | 152,554                              |
| District Administration          | 441,532                                | 441,532                              |
| School Administration            | 272,569                                | 272,569                              |
| Business                         | 144,315                                | 144,315                              |
| Plant Operations and Management  | 494,396                                | 494,396                              |
| Student Transportation           | 73,137                                 | 73,137                               |
| Non-instructional Services/Other | 76,096                                 | 76,096                               |
| Interest on L/T debt             | 57,804                                 | 57,804                               |
| Amortization – unallocated       |  |                                      |
| <b>Total Expenses</b>            | <b>4,927,943</b>                       | <b>3,976,495</b>                     |

**Proprietary (Business-Type) Activities**

The only proprietary (business-type) activity of the school district is the food service operation. The following table represents a summary of revenues and expenses (excluding fund transfers) for the fiscal year ended June 30, 2013.

|                               | <u>Amount</u>           |
|-------------------------------|-------------------------|
| <b>Revenues:</b>              |                         |
| Local revenue sources         | \$ 16,176               |
| State revenue sources         | 2,624                   |
| State on-behalf payments      | 33,236                  |
| Federal revenue               | 261,529                 |
| Interest Income               | 2,230                   |
| Loss on disposal of assets    |                         |
| Donated commodities           | <u>16,712</u>           |
| <b>Total revenue</b>          | <b><u>332,507</u></b>   |
| <b>Expenses:</b>              |                         |
| Food Service                  | <u>301,256</u>          |
| <b>Total expenses</b>         | <b><u>301,256</u></b>   |
| <b>Change in Net position</b> | <b><u>\$ 31,251</u></b> |

## **BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July 1 – June 30; other programs (i.e. some federal programs) operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The District adopted a 2013-14 budget with again \$300,000 in contingency (7.8%). Significant Board action that impacts the finances included rank/experience changes for qualifying certified and classified employees and mandated local match for classified retirement contributions.

Questions regarding this report should be directed to Tamara Smith, Superintendent, or to Laurie Thorpe, Finance Officer, at (270) 472-1553 or by mail at 304 West State Line, Fulton, Kentucky 42041.

## **BASIC FINANCIAL STATEMENTS**

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
June 30, 2014

|   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>               |
|---|------------------------------------|-------------------------------------|----------------------------|
| <b>Assets</b>                                   |                                    |                                     |                            |
| Cash and cash equivalents                       | \$ 322,679                         | \$ 157,582                          | \$ 480,261                 |
| Receivables                                     |                                    |                                     |                            |
| Accounts  | 103,229                            | -                                   | 103,229                    |
| Intergovernmental - State                       | 2,402                              | 24                                  | 2,426                      |
| Intergovernmental - Federal                     | 142,275                            | -                                   | 142,275                    |
| Inventories                                     | -                                  | 9,267                               | 9,267                      |
| Capital assets not being depreciated            |                                    |                                     |                            |
| Land  | 93,600                             | -                                   | 93,600                     |
| Capital assets, net of accumulated depreciation |                                    |                                     |                            |
| Land improvements                               | 10,817                             | -                                   | 10,817                     |
| Buildings and improvements                      | 3,108,060                          | 110,816                             | 3,218,876                  |
| Technology equipment                            | 199,044                            | 3,128                               | 202,172                    |
| Vehicles  | 52,183                             | -                                   | 52,183                     |
| General equipment                               | 7,103                              | 10,400                              | 17,503                     |
| Total assets                                    | <u>4,041,392</u>                   | <u>291,217</u>                      | <u>4,332,609</u>           |
| <b>Deferred Outflows of Resources</b>           |                                    |                                     |                            |
| Deferred amount on refunding                    | <u>27,785</u>                      | -                                   | <u>27,785</u>              |
| Total deferred outflows of resources            | <u>27,785</u>                      | -                                   | <u>27,785</u>              |
| <b>Liabilities</b>                              |                                    |                                     |                            |
| Unearned revenue                                | 41,518                             | -                                   | 41,518                     |
| Accrued interest                                | 13,574                             | -                                   | 13,574                     |
| Accounts Payable                                | 334                                | -                                   | 334                        |
| Long-term liabilities                           |                                    |                                     |                            |
| Portion due or payable within one year          |                                    |                                     |                            |
| Insurance assessment                            | 21,754                             | -                                   | 21,754                     |
| Bonds   | 118,582                            | -                                   | 118,582                    |
| Accrued sick leave                              | 3,011                              | -                                   | 3,011                      |
| Portion due or payable after one year           |                                    |                                     |                            |
| Insurance assessment                            | 48,435                             | -                                   | 48,435                     |
| Bonds   | 1,353,582                          | -                                   | 1,353,582                  |
| Accrued sick leave                              | 167,131                            | 12,194                              | 179,325                    |
| Total liabilities                               | <u>1,767,921</u>                   | <u>12,194</u>                       | <u>1,780,115</u>           |
| <b>Net Position</b>                             |                                    |                                     |                            |
| Net investment in capital assets                | 2,026,428                          | 124,344                             | 2,150,772                  |
| Restricted for                                  |                                    |                                     |                            |
| Accumulated sick leave                          | 25,000                             | -                                   | 25,000                     |
| SFCC escrow                                     | 31,656                             | -                                   | 31,656                     |
| Unrestricted                                    | <u>218,172</u>                     | <u>154,679</u>                      | <u>372,851</u>             |
| <b>Total net position</b>                       | <b><u>\$ 2,301,256</u></b>         | <b><u>\$ 279,023</u></b>            | <b><u>\$ 2,580,279</u></b> |

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

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

| <u>Functions / Programs</u>                    | <u>Program Revenues</u> |                                 |   | <u>Net (Expense) Revenue and<br/>Change in Net Position</u> |                                     |                     |
|--|-------------------------|---------------------------------|---|---|-------------------------------------|---------------------|
|  | <u>Expenses</u>         | <u>Charges for<br/>Services</u> | <u>Operating Grants<br/>and Contributions</u> | <u>Governmental<br/>Activities</u>                          | <u>Business-Type<br/>Activities</u> | <u>Total</u>        |
| Governmental activities                        |                         |                                 |   |   |                                     |                     |
| Instruction                                    | \$ 2,972,125            | \$ -                            | \$ 951,448                                    | \$ (2,020,677)  | \$ -                                | \$ (2,020,677)      |
| Support services                               |                         |                                 |   |   |                                     |                     |
| Student  | 243,415                 | -                               | -   | (243,415)   | -                                   | (243,415)           |
| Instructional staff                            | 152,554                 | -                               | -   | (152,554)   | -                                   | (152,554)           |
| District administration                        | 441,532                 | -                               | -   | (441,532)   | -                                   | (441,532)           |
| School administration                          | 272,569                 | -                               | -   | (272,569)   | -                                   | (272,569)           |
| Business support                               | 144,315                 | -                               | -   | (144,315)   | -                                   | (144,315)           |
| Plant operations and management                | 494,396                 | -                               | -   | (494,396)   | -                                   | (494,396)           |
| Student transportation                         | 73,137                  | -                               | -   | (73,137)  | -                                   | (73,137)            |
| Non-instructional services                     | 76,096                  | -                               | -   | (76,096)  | -                                   | (76,096)            |
| Interest on long-term debt                     | 57,804                  | -                               | -   | (57,804)  | -                                   | (57,804)            |
| Total governmental activities                  | <u>4,927,943</u>        | <u>-</u>                        | <u>951,448</u>                                | <u>(3,976,495)</u>  | <u>-</u>                            | <u>(3,976,495)</u>  |
| Business-type activities                       |                         |                                 |   |   |                                     |                     |
| Food service                                   | 301,256                 | 16,176                          | 314,101                                       | -   | 29,021                              | 29,021              |
| Total business-type activities                 | <u>301,256</u>          | <u>16,176</u>                   | <u>314,101</u>                                | <u>-</u>  | <u>29,021</u>                       | <u>29,021</u>       |
| Total primary government                       | <u>\$ 5,229,199</u>     | <u>\$ 16,176</u>                | <u>\$ 1,265,549</u>                           | <u>(3,976,495)</u>  | <u>29,021</u>                       | <u>(3,947,474)</u>  |
| <b>General revenues:</b>                       |                         |                                 |   |   |                                     |                     |
| Taxes  |                         |                                 |   |   |                                     |                     |
| Property                                       |                         |                                 |   | 719,906   | -                                   | 719,906             |
| Motor vehicle                                  |                         |                                 |   | 74,195  | -                                   | 74,195              |
| Utilities                                      |                         |                                 |   | 267,331   | -                                   | 267,331             |
| Other  |                         |                                 |   | 64,037  | -                                   | 64,037              |
| Investment earnings                            |                         |                                 |   | 10,639  | 2,230                               | 12,869              |
| Other local revenue                            |                         |                                 |   | 6,048   | -                                   | 6,048               |
| State aid - formula grants                     |                         |                                 |   | 2,346,361   | -                                   | 2,346,361           |
| Medicaid reimbursement                         |                         |                                 |   | 16,093  | -                                   | 16,093              |
| Loss on disposal of capital assets             |                         |                                 |   | (119)   | -                                   | (119)               |
| Total general revenues and transfers           |                         |                                 |   | <u>3,504,491</u>  | <u>2,230</u>                        | <u>3,506,721</u>    |
| <b>Change in net position</b>                  |                         |                                 |   | <b>(472,004)</b>  | <b>31,251</b>                       | <b>(440,753)</b>    |
| Net position, beginning of year                |                         |                                 |   | 2,909,116   | 247,772                             | 3,156,888           |
| Prior period adjustment                        |                         |                                 |   | (135,856)   | -                                   | (135,856)           |
| Total net position, beginning of year restated |                         |                                 |   | <u>2,773,260</u>  | <u>247,772</u>                      | <u>3,021,032</u>    |
| Net position, end of year                      |                         |                                 |   | <u>\$ 2,301,256</u>   | <u>\$ 279,023</u>                   | <u>\$ 2,580,279</u> |

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

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

|  | <b>General<br/>Fund</b> | <b>Special<br/>Revenue<br/>Fund</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|-------------------------|-------------------------------------|---|---|
| <b>Assets</b>                              |                         |                                     |   |   |
| Cash and cash equivalents                  | \$ 291,023              | \$ -                                | \$ 31,656                               | \$ 322,679                              |
| Receivables                                |                         |                                     |   |   |
| Accounts                                   | 103,229                 | -                                   | -                                       | 103,229                                 |
| Intergovernmental - State                  | -                       | 2,402                               | -                                       | 2,402                                   |
| Intergovernmental - Federal                | -                       | 142,275                             | -                                       | 142,275                                 |
| Due from other funds                       | 103,159                 | -                                   | -                                       | 103,159                                 |
| <b>Total assets</b>                        | <b>\$ 497,411</b>       | <b>\$ 144,677</b>                   | <b>\$ 31,656</b>                        | <b>\$ 673,744</b>                       |
| <b>Liabilities and Fund Balances</b>       |                         |                                     |   |   |
| <b>Liabilities</b>                         |                         |                                     |   |   |
| Accounts Payable                           | \$ 22,088               | \$ -                                | \$ -                                    | \$ 22,088                               |
| Unearned revenue                           | -                       | 41,518                              | -                                       | 41,518                                  |
| Due to other funds                         | -                       | 103,159                             | -                                       | 103,159                                 |
| <b>Total liabilities</b>                   | <b>22,088</b>           | <b>144,677</b>                      | <b>-</b>                                | <b>166,765</b>                          |
| <b>Fund Balances</b>                       |                         |                                     |   |   |
| Restricted                                 | 25,000                  | -                                   | 31,656                                  | 56,656                                  |
| Committed                                  | 50,000                  | -                                   | -                                       | 50,000                                  |
| Assigned                                   | 51,581                  | 5,882                               | -                                       | 57,463                                  |
| Unassigned                                 | 348,742                 | (5,882)                             | -                                       | 342,860                                 |
| <b>Total fund balances</b>                 | <b>475,323</b>          | <b>-</b>                            | <b>31,656</b>                           | <b>506,979</b>                          |
| <b>Total liabilities and fund balances</b> | <b>\$ 497,411</b>       | <b>\$ 144,677</b>                   | <b>\$ 31,656</b>                        | <b>\$ 673,744</b>                       |

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

**FULTON INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

June 30, 2014

|   |             |                            |
|---|-------------|----------------------------|
| <b>Total fund balances - governmental funds</b>   |             | <b>\$ 506,979</b>          |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p>   |             |                            |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$6,838,260 and the accumulated depreciation is \$3,367,453</p> |             |                            |
|   |             | 3,470,807                  |
| <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   | (1,444,379) |                            |
| Accrued interest on bonds   | (13,574)    |                            |
| Accrued sick leave payable  | (170,142)   |                            |
| Insurance assessment  | (48,435)    |                            |
|   |             | (1,676,530)                |
| <b>Total net position - governmental activities</b>   |             | <b><u>\$ 2,301,256</u></b> |

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

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

|  | <u>General<br/>Fund</u> | <u>Special<br/>Revenue<br/>Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|-------------------------|-------------------------------------|---|---|
| <b>Revenues</b>                                |                         |                                     |   |   |
| From local sources                             |                         |                                     |   |   |
| Taxes  |                         |                                     |   |   |
| Property                                       | \$ 666,925              | \$ -                                | \$ 52,981                               | \$ 719,906                              |
| Motor vehicle                                  | 72,295                  | -                                   | 1,900                                   | 74,195                                  |
| Utilities                                      | 267,331                 | -                                   | -                                       | 267,331                                 |
| Other  | 64,037                  | -                                   | -                                       | 64,037                                  |
| Earnings on investments                        | 10,388                  | -                                   | 251                                     | 10,639                                  |
| Donations                                      | -                       | 11,990                              | -                                       | 11,990                                  |
| Other local revenues                           | 6,048                   | -                                   | -                                       | 6,048                                   |
| Intergovernmental - State                      | 2,252,655               | 268,926                             | 93,706                                  | 2,615,287                               |
| Intergovernmental - Indirect Federal           | 16,093                  | 670,532                             | -                                       | 686,625                                 |
| Total revenues                                 | <u>3,355,772</u>        | <u>951,448</u>                      | <u>148,838</u>                          | <u>4,456,058</u>                        |
| <b>Expenditures</b>                            |                         |                                     |   |   |
| Current  |                         |                                     |   |   |
| Instruction                                    | 1,910,123               | 884,360                             | -                                       | 2,794,483                               |
| Support Services                               |                         |                                     |   |   |
| Student  | 236,116                 | -                                   | -                                       | 236,116                                 |
| Instructional staff                            | 146,474                 | 3,223                               | -                                       | 149,697                                 |
| District administration                        | 376,681                 | -                                   | -                                       | 376,681                                 |
| School administration                          | 265,852                 | -                                   | -                                       | 265,852                                 |
| Business                                       | 142,251                 | -                                   | -                                       | 142,251                                 |
| Plant operation and management                 | 488,333                 | -                                   | -                                       | 488,333                                 |
| Student transportation                         | 64,364                  | -                                   | -                                       | 64,364                                  |
| Non-instructional services                     | -                       | 74,771                              | -                                       | 74,771                                  |
| Debt service                                   |                         |                                     |   |   |
| Principal                                      | 8,384                   | -                                   | 100,000                                 | 108,384                                 |
| Interest                                       | 1,814                   | -                                   | 52,213                                  | 54,027                                  |
| Total expenditures                             | <u>3,640,392</u>        | <u>962,354</u>                      | <u>152,213</u>                          | <u>4,754,959</u>                        |
| Excess (deficit) of revenues over expenditures | <u>(284,620)</u>        | <u>(10,906)</u>                     | <u>(3,375)</u>                          | <u>(298,901)</u>                        |
| <b>Other Financing Sources (Uses)</b>          |                         |                                     |   |   |
| Transfers in                                   | 31,000                  | 10,906                              | 188,970                                 | 230,876                                 |
| Transfers out                                  | (14,281)                | -                                   | (216,595)                               | (230,876)                               |
| Total other financing sources (uses)           | <u>16,719</u>           | <u>10,906</u>                       | <u>(27,625)</u>                         | <u>-</u>                                |
| <b>Net change in fund balances</b>             | <b>(267,901)</b>        | <b>-</b>                            | <b>(31,000)</b>                         | <b>(298,901)</b>                        |
| Net position, beginning of year                | 848,881                 | -                                   | 62,656                                  | 911,537                                 |
| Prior period adjustment                        | (105,657)               | -                                   | -                                       | (105,657)                               |
| Total net position, beginning of year restated | <u>743,224</u>          | <u>-</u>                            | <u>62,656</u>                           | <u>805,880</u>                          |
| Fund balances, end of year                     | <u>\$ 475,323</u>       | <u>\$ -</u>                         | <u>\$ 31,656</u>                        | <u>\$ 506,979</u>                       |

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

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

**Total net change in fund balances - governmental funds** **\$ (298,901)**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period. (190,256)

In the statement of activities, only the gain or loss on the sale or disposal of assets is reported. This is the amount by which the costs of retired assets exceed their accumulated depreciation. (119)

Repayment of long-term liabilities such as bond principal and capital leases are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position. 108,384

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. (38,899)

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. (3,778)

In the governmental funds, the KSBIT insurance assessment amount repaid during the year (\$21,754) is recorded as an expenditure. However, in the government-wide statements of net position, the total KSBIT insurance assessment (\$70,189) was recorded as a long-term liability in the year assessed, and the amount repaid during the current year (\$21,754) reduces long-term liabilities. (48,435)

**Change in net position of governmental activities** **\$ (472,004)**

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
June 30, 2014

|                                       | <u><b>Food<br/>Service<br/>Fund</b></u> |
|---------------------------------------|---|
| <b>Assets</b>                         |   |
| Current assets                        |   |
| Cash and cash equivalents             | \$ 157,582                              |
| Receivables - intergovernmental state | 24                                      |
| Inventories                           | <u>9,267</u>                            |
| Total current assets                  | <u>166,873</u>                          |
| Noncurrent assets                     |   |
| Buildings and improvements            | 296,786                                 |
| Technology equipment                  | 9,741                                   |
| General equipment                     | 168,031                                 |
| Accumulated depreciation              | <u>(350,214)</u>                        |
| Total noncurrent assets               | <u>124,344</u>                          |
| Total assets                          | <u>291,217</u>                          |
| <b>Liabilities</b>                    |   |
| Noncurrent liabilities                |   |
| Accrued sick leave                    | <u>12,194</u>                           |
| Total noncurrent liabilities          | <u>12,194</u>                           |
| Total liabilities                     | <u>12,194</u>                           |
| <b>Net Position</b>                   |   |
| Invested in capital assets            | 124,344                                 |
| Unrestricted                          | <u>154,679</u>                          |
| <b>Total net position</b>             | <u><b>\$ 279,023</b></u>                |

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

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

|  | <u>Food<br/>Service<br/>Fund</u> |
|--|----------------------------------|
| <b>Operating Revenues</b>                |                                  |
| Lunchroom sales                          | \$ 16,176                        |
| Total operating revenues                 | <u>16,176</u>                    |
| <b>Operating Expenses</b>                |                                  |
| Salaries, wages and benefits             | 153,243                          |
| Contract services                        | 12,038                           |
| Materials and supplies                   | 128,863                          |
| Depreciation                             | <u>7,112</u>                     |
| Total operating expenses                 | <u>301,256</u>                   |
| Operating loss                           | <u>(285,080)</u>                 |
| <b>Non-Operating Revenues (Expenses)</b> |                                  |
| Interest income                          | 2,230                            |
| State matching                           | 2,624                            |
| Grants - child nutrition program         | 261,529                          |
| Donated commodities                      | 16,712                           |
| State funding - on-behalf payments       | <u>33,236</u>                    |
| Total non-operating revenues (expenses)  | <u>316,331</u>                   |
| <b>Change in net position</b>            | <b>31,251</b>                    |
| Total net position, beginning of year    | <u>247,772</u>                   |
| <b>Total net position, end of year</b>   | <b><u>\$ 279,023</u></b>         |

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

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

|  | <u>Food<br/>Service<br/>Fund</u> |
|--|----------------------------------|
| <b>Cash Flows from Operating Activities</b>                                      |                                  |
| Cash received from:  |                                  |
| Lunchroom sales  | \$ 16,176                        |
| Cash paid for:   |                                  |
| Salaries, wages and benefits   | (118,117)                        |
| Contract services  | (12,038)                         |
| Materials and supplies   | <u>(110,903)</u>                 |
| Net cash used by operating activities  | <u>(224,882)</u>                 |
| <b>Cash Flows from Capital and Related Financing Activities</b>                  |                                  |
| Purchases of capital assets  | <u>(5,965)</u>                   |
| <b>Cash Flows from Noncapital Financing Activities</b>                           |                                  |
| Nonoperating federal grants received   | 278,476                          |
| Nonoperating state grants received   | <u>2,624</u>                     |
| Net cash provided by noncapital financing activities                             | <u>281,100</u>                   |
| <b>Cash Flows from Investing Activities</b>                                      |                                  |
| Interest income  | <u>2,230</u>                     |
| <b>Net increase in cash and cash equivalents</b>                                 | <b>52,483</b>                    |
| Cash and cash equivalents, beginning of year                                     | <u>105,099</u>                   |
| <b>Cash and cash equivalents, end of year</b>                                    | <b><u>\$ 157,582</u></b>         |
| <b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b> |                                  |
| Operating loss   | \$ (285,080)                     |
| Adjustments to reconcile operating loss to net cash used by operating activities |                                  |
| Depreciation   | 7,112                            |
| Donated commodities  | 16,712                           |
| State funding - on-behalf payments   | 33,236                           |
| Changes in assets and liabilities  |                                  |
| Inventories  | 1,249                            |
| Accrued sick leave   | <u>1,889</u>                     |
| Net cash used by operating activities  | <u>\$ (224,882)</u>              |
| <b>Noncash Noncapital Financing Activities</b>                                   |                                  |
| Donated food commodities received from the U.S. Department of Agriculture        | <u>\$ 16,712</u>                 |
| State funding - on-behalf payments   | <u>\$ 33,236</u>                 |
| Accrued sick leave   | <u>\$ (1,889)</u>                |

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

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

|                            | <b>Private<br/>Purpose<br/>Trust<br/>Funds</b> | <b>Agency<br/>Funds</b> |
|----------------------------|--|-------------------------|
|                            | <u>          </u>                              | <u>          </u>       |
| <b>Assets</b>              |  |                         |
| Cash and cash equivalents  | \$ 230,803                                     | \$ 35,000               |
| Total assets               | <u>230,803</u>                                 | <u>35,000</u>           |
| <b>Liabilities</b>         |  |                         |
| Due to student groups      | <u>-</u>                                       | <u>35,000</u>           |
| <b>Total liabilities</b>   | <u>-</u>                                       | <u><b>\$ 35,000</b></u> |
| <b>Net Position</b>        |  |                         |
| Net position held in trust | <u>230,803</u>                                 |                         |
| <b>Total net position</b>  | <u><b>\$ 230,803</b></u>                       |                         |

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

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

For the Year Ended June 30, 2014

|                                  | <b>Private<br/>Purpose<br/>Trust<br/>Funds</b> |
|----------------------------------|--|
|                                  |  |
| <b>Additions</b>                 |  |
| Interest                         | \$ 2,760                                       |
| Other Local Revenue              | 195,587  |
| Total                            | 198,347  |
| <b>Disbursements</b>             |  |
| Supplies                         | 800  |
| <b>Change in net position</b>    | <b>197,547</b>                                 |
| Net position, beginning of year  | 33,256   |
| <b>Net position, end of year</b> | <b><u>\$ 230,803</u></b>                       |

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

## **NOTES TO FINANCIAL STATEMENTS**

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

June 30, 2014

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

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

**A. Reporting Entity**

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

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

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

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

Fulton Independent School District Finance Corporation - In 1991, the Fulton Independent, Kentucky, Board of Education resolved to authorize the establishment of the Fulton Independent School District Finance corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Fulton Independent Board of Education also comprise the Corporation's Board of Directors.

**B. Basis of Presentation**

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

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

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

June 30, 2014

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 programs. Project accounting is employed to maintain integrity for the various sources of

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

June 30, 2014

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 and trust funds)

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

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

**C. Basis of Accounting**

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

June 30, 2014

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

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

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

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

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

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

**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 \$.754 per \$100 valuation for real property, \$.754 per \$100 valuation for business tangible personal property, and \$.78 per \$100 valuation for motor vehicles.

**E. Capital Assets**

**FULTON INDEPENDENT SCHOOL DISTRICT  
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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 \$1,000 with the exception of technology equipment for which there is no threshold. 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:

| Description            | Estimated Lives |
|------------------------|-----------------|
| Land and improvements  | 20 years        |
| Building improvements  | 25-50 years     |
| Technology equipment   | 5 years         |
| Vehicles               | 5-10 years      |
| General equipment      | 5-10 years      |
| Food service equipment | 12 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.

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

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**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:

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 governmental, proprietary and fiduciary funds. This definition is also used for the proprietary fund's statement of cash flows.

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

**J. Inventories**

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

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

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

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

June 30, 2014

**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.

**L. 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 Independent School District. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally (for example: resolution).

**Assigned fund balance**

This classification includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its 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.

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

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

June 30, 2014

**M. 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.

**N. 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.

**O. 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 does not have any items that qualify for reporting in this category.

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

June 30, 2014

**P. Impact of Recently issued Accounting Pronouncements**

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

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

**NOTE 2 - DETAILED NOTES ON ACCOUNTS**

**A. Deposits**

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

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

At fiscal year-end, the carrying amount of the District's deposits was \$746,064 and the bank balance was \$1,087,438. Of the District's bank balance, \$804,719 was collateralized as discussed above because it was uninsured, while \$282,719 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.

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

June 30, 2014

Reconciliation to Government-wide Statement of Net Position:

|   |                   |
|---|-------------------|
| Unrestricted cash, including time deposits                      | \$ 480,261        |
| Fiduciary fund cash (not included in government-wide statement) | <u>265,803</u>    |
|   | <u>\$ 746,064</u> |

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

|                          |                   |
|--------------------------|-------------------|
| Governmental activities  | \$ 322,679        |
| Business-type activities | 157,582           |
| Fiduciary funds          | <u>265,803</u>    |
|                          | <u>\$ 746,064</u> |

**B. Capital Assets**

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

|   | Balance<br>July 1, 2013 | Additions           | Deductions    | Balance<br>June 30, 2014 |
|---|-------------------------|---------------------|---------------|--------------------------|
| <u>Governmental Activities</u>                  |                         |                     |               |                          |
| Non-depreciable                                 |                         |                     |               |                          |
| Land  | \$ 93,600               | \$ -                | \$ -          | \$ 93,600                |
| Totals  | <u>93,600</u>           | <u>-</u>            | <u>-</u>      | <u>93,600</u>            |
| Depreciable                                     |                         |                     |               |                          |
| Land improvements                               | 324,165                 | -                   | -             | 324,165                  |
| Buildings and improvements                      | 5,582,108               | -                   | -             | 5,582,108                |
| Technology equipment                            | 547,829                 | 37,446              | 9,948         | 575,327                  |
| Vehicles  | 200,208                 | -                   | -             | 200,208                  |
| General equipment                               | <u>85,821</u>           | <u>-</u>            | <u>22,969</u> | <u>62,852</u>            |
| Totals  | <u>6,740,131</u>        | <u>37,446</u>       | <u>32,917</u> | <u>6,744,660</u>         |
| Less: Accumulated depreciation                  |                         |                     |               |                          |
| Land improvements                               | \$ 309,447              | \$ 3,901            | \$ -          | \$ 313,348               |
| Buildings and improvements                      | 2,339,153               | 134,895             | -             | 2,474,048                |
| Technology equipment                            | 309,873                 | 76,239              | 9,829         | 376,283                  |
| Vehicles  | 137,676                 | 10,349              | -             | 148,025                  |
| General equipment                               | <u>76,399</u>           | <u>2,319</u>        | <u>22,969</u> | <u>55,749</u>            |
| Totals  | <u>3,172,548</u>        | <u>227,703</u>      | <u>32,798</u> | <u>3,367,453</u>         |
| Net Book Value                                  | <u>3,567,583</u>        | <u>(190,257)</u>    | <u>119</u>    | <u>3,377,207</u>         |
| Governmental activities<br>capital assets - net | <u>\$ 3,661,183</u>     | <u>\$ (190,257)</u> | <u>\$ 119</u> | <u>\$ 3,470,807</u>      |

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

June 30, 2014

|  | Balance             |                   |                   | Balance              |
|--|---------------------|-------------------|-------------------|----------------------|
| <u>Business-Type Activities</u>                  | <u>July 1, 2013</u> | <u>Additions</u>  | <u>Deductions</u> | <u>June 30, 2014</u> |
| Buildings and improvements                       | \$ 296,786          | \$ -              | \$ -              | \$ 296,786           |
| Technology equipment                             | 8,853               | 888               | -                 | 9,741                |
| General equipment                                | 166,723             | 5,077             | 3,769             | 168,031              |
| Totals   | <u>472,362</u>      | <u>5,965</u>      | <u>3,769</u>      | <u>474,558</u>       |
| Less: Accumulated depreciation                   |                     |                   |                   |                      |
| Buildings and improvements                       | 180,967             | 5,003             | -                 | 185,970              |
| Technology equipment                             | 5,451               | 1,162             | -                 | 6,613                |
| General equipment                                | 160,453             | 947               | 3,769             | 157,631              |
| Totals   | <u>346,871</u>      | <u>7,112</u>      | <u>3,769</u>      | <u>350,214</u>       |
| Business-type activities<br>capital assets - net | <u>\$ 125,491</u>   | <u>\$ (1,147)</u> | <u>\$ -</u>       | <u>\$ 124,344</u>    |

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

|                                 |                   |
|---------------------------------|-------------------|
| Instruction                     | \$ 198,129        |
| Support services:               |                   |
| Student                         | 5,028             |
| Instructional staff             | 666               |
| District administration         | 8,984             |
| School administration           | 476               |
| Business support                | 1,589             |
| Plant operations and management | 3,746             |
| Student transportation          | 8,773             |
| Non-instructional services      | 312               |
|                                 | <u>\$ 227,703</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:

| <u>Issue</u>   | <u>Original Amount</u> | <u>Interest Rates</u> | <u>Maturity Dates</u> |
|----------------|------------------------|-----------------------|-----------------------|
| 2009           | \$ 855,000             | 3.50%-4.25%           | 2029                  |
| 2009 Refunding | 900,000                | 3.50%-4.25%           | 2029                  |
| 2009 (KISTA)   | 87,480                 | 2.00%-3.60%           | 2020                  |

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 Independent Fiscal Court and the Fulton Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

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The KISTA school bus acquisition bonds provide for the title of the equipment (buses) to vest in the Board subject to a first lien and, if nonrenewal or default occurs, the title will revert to KISTA. The Board leases and rents the equipment from KISTA on an annual basis and has an exclusive option to renew this lease from year to year for the period of time of the pooled bond issue (approximately 10 years). The semi-annual bond interest and principal payments constitute the lease payments. The Board is also obligated to keep the equipment in good repair and provide insurance coverage.

In 1987, 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<br/>July 1, 2013</u> | <u>New<br/>Issues</u> | <u>Retirements</u> | <u>Balance at<br/>June 30, 2014</u> |
|----------------|------------------------------------|-----------------------|--------------------|-------------------------------------|
| 2009           | \$ 800,000                         | \$ -                  | \$ 25,000          | \$ 775,000                          |
| 2009 Refunding | 720,000                            | -                     | 75,000             | 645,000                             |
| 2009 KISTA     | <u>60,548</u>                      | -                     | <u>8,384</u>       | <u>52,164</u>                       |
|                | <u>\$ 1,580,548</u>                | <u>\$ -</u>           | <u>\$ 108,384</u>  | <u>\$ 1,472,164</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>Year</u> | <u>Fulton Independent<br/>School District</u> |                   | <u>Kentucky School Facilities<br/>Construction Commission</u> |                 | <u>Total</u>        |
|-------------|---|-------------------|---|-----------------|---------------------|
|             | <u>Principal</u>                              | <u>Interest</u>   | <u>Principal</u>  | <u>Interest</u> |                     |
| 2015        | 117,603                                       | 50,426            | 979   | 764             | 169,772             |
| 2016        | 117,766                                       | 47,235            | 1,014   | 728             | 166,743             |
| 2017        | 122,968                                       | 43,730            | 1,049   | 694             | 168,441             |
| 2018        | 123,208                                       | 39,922            | 1,086   | 656             | 164,872             |
| 2019        | 126,983                                       | 36,007            | 1,124   | 618             | 164,732             |
| 2020-2024   | 452,084                                       | 124,964           | 6,300   | 2,412           | 585,760             |
| 2025-2029   | <u>392,298</u>                                | <u>51,266</u>     | <u>7,702</u>  | <u>1,010</u>    | <u>452,276</u>      |
|             | <u>\$ 1,452,910</u>                           | <u>\$ 393,550</u> | <u>\$ 19,254</u>  | <u>\$ 6,882</u> | <u>\$ 1,872,596</u> |

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

|  | <u>Balance at<br/>July 1, 2013</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance at<br/>June 30, 2014</u> | <u>Due in<br/>One Year</u> |
|--|------------------------------------|------------------|------------------|-------------------------------------|----------------------------|
| Bonds  | \$ 1,580,548                       | \$ -             | \$ 108,384       | \$ 1,472,164                        | \$ 118,582                 |
| Less unamortized deferred<br>loss on refunding issue | <u>(32,353)</u>                    | <u>4,568</u>     | <u>-</u>         | <u>(27,785)</u>                     | <u>(4,568)</u>             |
|  | 1,548,195                          | 4,568            | 108,384          | 1,444,379                           | 114,014                    |
| Insurance assessment                                 | -                                  | 70,189           | -                | 70,189                              | 21,754                     |
| Accrued Sick Leave                                   |                                    |                  |                  |                                     |                            |
| Governmental activities                              | 131,243                            | 50,467           | 11,568           | 170,142                             | 3,011                      |

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

June 30, 2014

|                          |              |            |            |              |            |
|--------------------------|--------------|------------|------------|--------------|------------|
| Business-type activities | 10,305       | 3,778      | 1,889      | 12,194       | -          |
|                          | \$ 1,689,743 | \$ 129,002 | \$ 121,841 | \$ 1,696,904 | \$ 138,779 |

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.

During the year ended June 30, 2010, the District issued \$900,000 of refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$49,863. This amount is being netted against the new debt and amortized over the life of the new debt issued, which is shorter than the life of the refunded debt.

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

Certified and classified employees of the District are entitled to payment of 30% of the value of accumulated sick and personal days upon retirement. Kentucky Revised Statutes allow the District to restrict up to 50% of accumulated benefits for all employees eligible to retire as of September 15, 2013. The total amount of accumulated benefits for all employees eligible to retire at this date is \$53,602. The District has a General Fund Balance restriction of \$25,000 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:

|                      | General    | Special<br>Revenue | Capital<br>Outlay | Building  | Construction | Debt<br>Service |
|----------------------|------------|--------------------|-------------------|-----------|--------------|-----------------|
| Restricted for:      |            |                    |                   |           |              |                 |
| Sick leave           | \$ 25,000  | \$ -               | \$ -              | \$ -      | \$ -         | \$ -            |
| SFCC escrow          | -          | -                  | 18,134            | 13,522    | -            | -               |
|                      | 25,000     | -                  | 18,134            | 13,522    | -            | -               |
| Committed for:       |            |                    |                   |           |              |                 |
| Future construction  | 50,000     | -                  | -                 | -         | -            | -               |
|                      | 50,000     | -                  | -                 | -         | -            | -               |
| Assigned for:        |            |                    |                   |           |              |                 |
| Purchase Obligations | 1,581      | -                  | -                 | -         | -            | -               |
| Other                | 50,000     | -                  | -                 | -         | -            | -               |
|                      | 51,581     | -                  | -                 | -         | -            | -               |
| Unassigned           | 348,742    | 10,906             | -                 | -         | -            | -               |
| Total fund balance   | \$ 475,323 | \$ 10,906          | \$ 18,134         | \$ 13,522 | \$ -         | \$ -            |

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

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**F. 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 \$103,159 due to the General fund from Special Revenue is a short-term cash flow loan.

**Transfers**

The following transfers were made during the year:

| <u>From Fund</u> | <u>To Fund</u>  | <u>Purpose</u>       | <u>Amount</u> |
|------------------|-----------------|----------------------|---------------|
| General          | Special Revenue | KETS Match           | \$ 10,906     |
| General          | Capital Outlay  | Restore Fund Balance | 3,375         |
| Capital Outlay   | Building        | Restore Fund Balance | 35,125        |
| Building         | Debt Service    | Debt Service         | 150,470       |
| Building         | General         | Repair (Water Leak)  | 31,000        |

**G. Deficit Operating/Fund Balances**

The following funds have operations that resulted in a current year deficit of revenues/transfers-in over expenditures/transfers-out:

|               |            |
|---------------|------------|
| General Fund  | \$ 267,901 |
| Building Fund | 31,000     |
| Agency Funds  | 2,313      |

**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'<br>Retirement System                                      | \$ 243,222        |
| Health insurance, life insurance, flexible<br>spending accounts (includes administrative fee) | 506,942           |
| Technology  | 18,496            |
| Debt Service  | <u>1,743</u>      |
|   | <u>\$ 770,403</u> |

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:

|                          |                   |
|--------------------------|-------------------|
| Governmental activities  |                   |
| General Fund             | \$ 735,424        |
| Debt Service Fund        | 1,743             |
| Business-type activities | <u>33,236</u>     |
|                          | <u>\$ 770,403</u> |

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

June 30, 2014

**I. Prior Period Adjustments**

The prior period adjustment in the governmental funds financial statements was made to balance and close old projects in the special revenue fund. The general fund covered this deficit in the special revenue fund. The general fund beginning fund balance was reduced by \$105,657 from \$848,881 to 734,224.

The prior period adjustment in the government-wide financial statements under governmental activities is due to the implementation of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, described above in Note 1P, beginning net position has been decreased by \$30,199. 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. Government-wide net position was reduced a total of \$135,856 from \$2,909,116 to \$2,773,260.

**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 pays the matching contribution. The District is required to contribute 1.50% of all KTRS member salaries to KTRS. CERS members hired before September 1, 2008, are required to contribute 5% of their salaries to CERS. CERS members hired on or after September 1, 2008, are required to contribute an additional 1% their salaries to CERS. The District is required to contribute 18.89% of all CERS salaries.

The District's total payroll for the year was \$2,832,767. The payroll for employees covered under KTRS was \$1,824,449 and for CERS was \$659,420.

The contribution requirement for CERS for the year ended June 30, 2014 was \$160,132 which consisted of \$124,848 from the District and \$35,284 from the employees. The Commonwealth contributed \$243,223 to KTRS for the benefit of participating employees. The District contributions to

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

June 30, 2014

KTRS were \$72,486, which represents \$45,129 for those employees covered by federal programs and \$27,357 for all KTRS employees.

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

| Year<br>Ending | Annual Pension<br>Cost (APC) | Percentage of<br>APC Contributed |
|----------------|------------------------------|----------------------------------|
| 6/30/14        | 197,334                      | 100%                             |
| 6/30/13        | 167,562                      | 100%                             |
| 6/30/12        | 155,501                      | 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):

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

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

**Medical insurance plan**

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

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

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member

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

June 30, 2014

contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**B. Contingencies and Commitments**

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

**C. Insurance and Related Activities**

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

**D. Litigation**

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

**E. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, 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

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

June 30, 2014

resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**F. COBRA**

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

## **REQUIRED SUPPLEMENTARY INFORMATION SECTION**

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

|  | <u>Budgeted Amounts</u> |                  | <u>Actual</u>     | <u>Variance with</u> |
|--|-------------------------|------------------|-------------------|----------------------|
|  | <u>Original</u>         | <u>Final</u>     | <u>(Budgetary</u> | <u>Final Budget</u>  |
|  |                         |                  | <u>Basis)</u>     | <u>Positive</u>      |
|  |                         |                  |                   | <u>(Negative)</u>    |
| <b>Revenues</b>  |                         |                  |                   |                      |
| From local sources   |                         |                  |                   |                      |
| Taxes  |                         |                  |                   |                      |
| Property   | \$ 633,000              | \$ 633,000       | \$ 666,925        | \$ 33,925            |
| Motor vehicle  | 60,000                  | 60,000           | 72,295            | 12,295               |
| Utilities  | 250,000                 | 250,000          | 267,331           | 17,331               |
| Other  | 55,000                  | 55,000           | 64,037            | 9,037                |
| Earnings on investments  | 11,000                  | 11,000           | 10,388            | (612)                |
| Other local revenues   | 6,000                   | 6,000            | 6,048             | 48                   |
| Intergovernmental - State  | 1,692,651               | 1,692,651        | 1,517,231         | (175,420)            |
| Intergovernmental - Indirect Federal   | 5,000                   | 5,000            | 16,093            | 11,093               |
| Total revenues   | <u>2,712,651</u>        | <u>2,712,651</u> | <u>2,620,348</u>  | <u>(92,303)</u>      |
| <b>Expenditures</b>  |                         |                  |                   |                      |
| Current  |                         |                  |                   |                      |
| Instruction  | 1,530,800               | 1,525,100        | 1,431,853         | 93,247               |
| Support Services   |                         |                  |                   |                      |
| Student  | 176,836                 | 176,872          | 179,990           | (3,118)              |
| Instructional staff  | 136,809                 | 136,809          | 112,784           | 24,025               |
| District administration  | 669,167                 | 669,386          | 328,945           | 340,441              |
| School administration  | 228,000                 | 228,088          | 201,146           | 26,942               |
| Business   | 113,627                 | 113,627          | 124,581           | (10,954)             |
| Plant operation and management   | 401,795                 | 405,152          | 458,376           | (53,224)             |
| Student transportation   | 50,194                  | 52,194           | 57,095            | (4,901)              |
| Debt service   |                         |                  |                   |                      |
| Principal  | 11,000                  | 11,000           | 8,384             | 2,616                |
| Interest   | -                       | -                | 1,814             | (1,814)              |
| Total expenditures   | <u>3,318,228</u>        | <u>3,318,228</u> | <u>2,904,968</u>  | <u>413,260</u>       |
| Excess (deficit) of revenues over expenditures   | <u>(605,577)</u>        | <u>(605,577)</u> | <u>(284,620)</u>  | <u>320,957</u>       |
| <b>Other Financing Sources (Uses)</b>  |                         |                  |                   |                      |
| Transfers in   | -                       | -                | 31,000            | 31,000               |
| Transfers out  | -                       | -                | (14,281)          | (14,281)             |
| Total other financing sources (uses)   | <u>-</u>                | <u>-</u>         | <u>16,719</u>     | <u>16,719</u>        |
| <b>Net change in fund balances</b>   | <b>(605,577)</b>        | <b>(605,577)</b> | <b>(267,901)</b>  | <b>337,676</b>       |
| Net position, beginning of year  | 605,577                 | 605,577          | 848,881           | 243,304              |
| Prior period adjustment  | -                       | -                | (105,657)         | (105,657)            |
| Fund balances, beginning of year   | <u>605,577</u>          | <u>605,577</u>   | <u>743,224</u>    | <u>137,647</u>       |
| <b>Fund balances, end of year</b>  | <b>\$ -</b>             | <b>\$ -</b>      | <b>\$ 475,323</b> | <b>\$ 475,323</b>    |
| <b>Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures</b>                    |                         |                  |                   |                      |
| Inflows/revenues:  |                         |                  |                   |                      |
| Actual amounts (budgetary basis)   |                         |                  |                   | \$ 2,620,348         |
| Differences - budget to GAAP:  |                         |                  |                   |                      |
| On-behalf payments recorded under GAAP basis not included in budget amounts  |                         |                  |                   | 735,424              |
| <b>Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds</b>     |                         |                  |                   | <b>\$ 3,355,772</b>  |
| Outflows/expenditures:   |                         |                  |                   |                      |
| Actual amounts (budgetary basis)   |                         |                  |                   | \$ 2,904,968         |
| Differences - budget to GAAP:  |                         |                  |                   |                      |
| On-behalf payments recorded under GAAP basis not included in budget amounts  |                         |                  |                   | 735,424              |
| <b>Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds</b> |                         |                  |                   | <b>\$ 3,640,392</b>  |

See independent auditor's report

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

|   | <u>Budgeted Amounts</u> |                 | <u>Actual<br/>(Budgetary<br/>Basis)</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|---|-------------------------|-----------------|---|---|
|   | <u>Original</u>         | <u>Final</u>    |   |   |
| <b>Revenues</b>                             |                         |                 |   |   |
| From local sources                          |                         |                 |   |   |
| Donations                                   | \$ -                    | \$ 10,531       | \$ 11,990                               | \$ 1,459  |
| Intergovernmental - State                   | 254,466                 | 30,000          | 268,926                                 | 238,926   |
| Intergovernmental - Indirect Federal        | <u>449,121</u>          | <u>-</u>        | <u>670,532</u>                          | <u>670,532</u>  |
| Total revenues                              | <u>703,587</u>          | <u>40,531</u>   | <u>951,448</u>                          | <u>910,917</u>  |
| <b>Expenditures</b>                         |                         |                 |   |   |
| Current                                     |                         |                 |   |   |
| Instruction                                 | 625,622                 | 20,531          | 884,360                                 | (863,829)   |
| Support Services                            |                         |                 |   |   |
| Instructional staff                         | 1,498                   | -               | 3,223                                   | (3,223)   |
| Non-instructional services                  | <u>76,467</u>           | <u>20,000</u>   | <u>74,771</u>                           | <u>(54,771)</u>   |
| Total expenditures                          | <u>703,587</u>          | <u>40,531</u>   | <u>962,354</u>                          | <u>(921,823)</u>  |
| <br>(Deficit) of revenues over expenditures | <br><u>-</u>            | <br><u>-</u>    | <br><u>(10,906)</u>                     | <br><u>(10,906)</u>   |
| <b>Other Financing Sources</b>              |                         |                 |   |   |
| Transfers in                                | <u>-</u>                | <u>-</u>        | <u>10,906</u>                           | <u>10,906</u>   |
| Total other financing sources               | <u>-</u>                | <u>-</u>        | <u>10,906</u>                           | <u>10,906</u>   |
| <br><b>Net change in fund balances</b>      | <br><u>-</u>            | <br><u>-</u>    | <br><u>-</u>                            | <br><u>-</u>  |
| Fund balances, beginning of year            | <u>-</u>                | <u>-</u>        | <u>-</u>                                | <u>-</u>  |
| <br><b>Fund balances, end of year</b>       | <br><u>\$ -</u>         | <br><u>\$ -</u> | <br><u>\$ -</u>                         | <br><u>\$ -</u>   |

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## **OTHER SUPPLEMENTARY INFORMATION SECTION**

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

|  | <b>Capital<br/>Outlay<br/>Fund</b> | <b>Building<br/>Fund</b> | <b>Debt<br/>Service<br/>Fund</b> | <b>Total<br/>Nonmajor<br/>Governmental<br/>Funds</b> |
|--|------------------------------------|--------------------------|----------------------------------|--|
| <b>Assets</b>                              |                                    |                          |                                  |  |
| Cash and cash equivalents                  | \$ 18,134                          | \$ 13,522                | \$ -                             | \$ 31,656  |
| <b>Total assets</b>                        | <b>\$ 18,134</b>                   | <b>\$ 13,522</b>         | <b>\$ -</b>                      | <b>\$ 31,656</b>                                     |
| <b>Liabilities and Fund Balances</b>       |                                    |                          |                                  |  |
| <b>Liabilities</b>                         |                                    |                          |                                  |  |
| Total liabilities                          | \$ -                               | \$ -                     | \$ -                             | \$ -   |
| <b>Fund Balances</b>                       |                                    |                          |                                  |  |
| Restricted                                 | 18,134                             | 13,522                   | -                                | 31,656   |
| Total fund balances                        | 18,134                             | 13,522                   | -                                | 31,656   |
| <b>Total liabilities and fund balances</b> | <b>\$ 18,134</b>                   | <b>\$ 13,522</b>         | <b>\$ -</b>                      | <b>\$ 31,656</b>                                     |

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

|  | <b>Capital<br/>Outlay<br/>Fund</b> | <b>Building<br/>Fund</b> | <b>Debt<br/>Service<br/>Fund</b> | <b>Total<br/>Nonmajor<br/>Governmental<br/>Funds</b> |
|--|------------------------------------|--------------------------|----------------------------------|--|
| <b>Revenues</b>                                |                                    |                          |                                  |  |
| From local sources                             |                                    |                          |                                  |  |
| Taxes  |                                    |                          |                                  |  |
| Property                                       | \$ -                               | \$ 52,981                | \$ -                             | \$ 52,981  |
| Motor vehicle                                  | -                                  | 1,900                    | -                                | 1,900  |
| Earnings on investments                        | -                                  | 251                      | -                                | 251  |
| Intergovernmental - State                      | 31,750                             | 60,213                   | 1,743                            | 93,706   |
| Total revenues                                 | <u>31,750</u>                      | <u>115,345</u>           | <u>1,743</u>                     | <u>148,838</u>                                       |
| <b>Expenditures</b>                            |                                    |                          |                                  |  |
| Debt service                                   |                                    |                          |                                  |  |
| Principal                                      | -                                  | -                        | 100,000                          | 100,000  |
| Interest                                       | -                                  | -                        | 52,213                           | 52,213   |
| Total expenditures                             | <u>-</u>                           | <u>-</u>                 | <u>152,213</u>                   | <u>152,213</u>                                       |
| Excess (deficit) of revenues over expenditures | <u>31,750</u>                      | <u>115,345</u>           | <u>(150,470)</u>                 | <u>(3,375)</u>                                       |
| <b>Other Financing Sources (Uses)</b>          |                                    |                          |                                  |  |
| Transfers in                                   | 3,375                              | 35,125                   | 150,470                          | 188,970  |
| Transfers out                                  | <u>(35,125)</u>                    | <u>(181,470)</u>         | <u>-</u>                         | <u>(216,595)</u>                                     |
| Total other financing sources (uses)           | <u>(31,750)</u>                    | <u>(146,345)</u>         | <u>150,470</u>                   | <u>(27,625)</u>                                      |
| <b>Net change in fund balances</b>             | <b>-</b>                           | <b>(31,000)</b>          | <b>-</b>                         | <b>(31,000)</b>                                      |
| Fund balances, beginning of year               | <u>18,134</u>                      | <u>44,522</u>            | <u>-</u>                         | <u>62,656</u>  |
| Fund balances, end of year                     | <u>\$ 18,134</u>                   | <u>\$ 13,522</u>         | <u>\$ -</u>                      | <u>\$ 31,656</u>                                     |

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

| Fund                             | July 1, 2013            | Revenues                 | Expenditures             | June 30, 2014           |
|----------------------------------|-------------------------|--------------------------|--------------------------|-------------------------|
| <b>Activity Funds</b>            |                         |                          |                          |                         |
| Fulton Independent               |                         |                          |                          |                         |
| Middle School Football           | \$ -                    | \$ 1,837                 | \$ 1,837                 | \$ -                    |
| Middle School Boys' Basketball   | 1,021                   | 6,303                    | 4,481                    | 2,843                   |
| Middle School Cheerleaders       | -                       | 2,878                    | 2,529                    | 349                     |
| Middle School Girls' Basketball  | 3,698                   | 5,405                    | 5,148                    | 3,956                   |
| Middle School Beta Club          | 254                     | -                        | -                        | 254                     |
| Middle School Y-Club             | -                       | 75                       | 75                       | -                       |
| Middle School Academic Team      | 481                     | -                        | 105                      | 376                     |
| Bulldog All-stars                | -                       | 875                      | 314                      | 561                     |
| General Fund                     | 3,048                   | 3,194                    | 4,956                    | 1,286                   |
| Girls' Basketball                | 2,168                   | 5,937                    | 3,202                    | 4,903                   |
| Football                         | -                       | 8,261                    | 8,261                    | -                       |
| Boys' Basketball                 | 5,988                   | 5,938                    | 6,399                    | 5,527                   |
| Baseball                         | 1,732                   | 1,752                    | 2,075                    | 1,409                   |
| Softball                         | -                       | 7,449                    | 7,449                    | -                       |
| Cheerleaders                     | -                       | 2,460                    | 2,460                    | -                       |
| Play                             | 2,187                   | 13,050                   | 15,215                   | 22                      |
| Math/Science Club                | 2,003                   | 356                      | 412                      | 1,947                   |
| Beta Club                        | 452                     | 3,337                    | 3,203                    | 586                     |
| FCA                              | 145                     | -                        | -                        | 145                     |
| Y-Club                           | 1,164                   | 204                      | 523                      | 845                     |
| Yearbook                         | 525                     | 4,400                    | 4,243                    | 682                     |
| Kennel                           | 104                     | -                        | 104                      | -                       |
| Volleyball                       | 1,558                   | 6,163                    | 7,539                    | 182                     |
| Concessions                      | 1,525                   | 19,003                   | 19,681                   | 847                     |
| Student Vending                  | -                       | 254                      | -                        | 254                     |
| Lounge Fund                      | 2,270                   | 386                      | 493                      | 2,163                   |
| FEA                              | 1,448                   | -                        | 49                       | 1,399                   |
| High School Student Council      | 114                     | 383                      | 390                      | 107                     |
| Bulldog Academy                  | 216                     | -                        | -                        | 216                     |
| Book Club                        | 388                     | -                        | -                        | 388                     |
| Supplies (Carr)                  | 111                     | -                        | -                        | 111                     |
| Lounge Fund (Carr)               | 1,237                   | 990                      | 597                      | 1,630                   |
| 7th Grade                        | 188                     | 382                      | 266                      | 304                     |
| 8th Grade                        | 655                     | 1,042                    | 1,292                    | 405                     |
| Class of 2009                    | 43                      | -                        | 43                       | -                       |
| Senior Class                     | 1,976                   | 1,524                    | 3,500                    | -                       |
| Junior Class                     | 218                     | 407                      | 110                      | 515                     |
| Sophomore Class                  | 119                     | 258                      | -                        | 377                     |
| Freshmen Class                   | -                       | 136                      | -                        | 136                     |
| Relay (Relay for Life)           | 275                     | -                        | -                        | 275                     |
| High School District Tournaments | -                       | 8,580                    | 8,580                    | -                       |
|                                  | <u>37,311</u>           | <u>113,220</u>           | <u>115,531</u>           | <u>35,000</u>           |
| Less: inter-fund transfers       | -                       | 8,979                    | 8,979                    | -                       |
| <b>Total agency funds</b>        | <b><u>\$ 37,311</u></b> | <b><u>\$ 104,241</u></b> | <b><u>\$ 106,552</u></b> | <b><u>\$ 35,000</u></b> |

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

| Federal Grantor/<br>Pass-Through Grantor/CFDA<br>Program Title | Federal<br>CFDA<br>Number | MUNIS<br>Account<br>Number | Program<br>or Award<br>Amount | Expenditures   |
|--|---------------------------|----------------------------|-------------------------------|----------------|
| <b>U.S. Department of Education</b>                            |                           |                            |                               |                |
| Passed Through State Department of Education:                  |                           |                            |                               |                |
| Title I Cluster:   |                           |                            |                               |                |
| Title I Grants to Local Educational Agencies                   | 84.010                    | 220-4500-3103              | \$ 296,898                    | \$ (5,691)     |
| Title I Grants to Local Educational Agencies                   | 84.010                    | 220-4500-3104              | 280,909                       | 303,587        |
| Title I Grants to Local Educational Agencies                   | 84.010A                   | 220-4500-3202              | 24,291                        | 26,894         |
| Total Title I Cluster  |                           |                            | <u>602,098</u>                | <u>324,790</u> |
| Special Education Cluster:                                     |                           |                            |                               |                |
| Special Education Grants to States                             | 84.027                    | 220-4500-3373              | 118,980                       | (1,435)        |
| Special Education Grants to States                             | 84.027                    | 220-4500-3374              | 110,552                       | 104,382        |
|  |                           | Sub-total                  | <u>229,532</u>                | <u>102,947</u> |
| Special Education Preschool Grants                             | 84.173                    | 220-4500-3434              | 18,937                        | 17,876         |
| Special Education Preschool Grants                             | 84.173                    | 220-4500-3433              | 1,943                         | 1,943          |
|  |                           | Sub-total                  | <u>20,880</u>                 | <u>19,819</u>  |
| Total Special Education Cluster                                |                           |                            | <u>250,412</u>                | <u>122,766</u> |
| Career and Technical Education Basic Grants to States          | 84.048                    | 220-4500-3483              | 5,817                         | (237)          |
| Career and Technical Education Basic Grants to States          | 84.048                    | 220-4500-3484              | 4,351                         | 5,208          |
|  |                           |                            | <u>10,168</u>                 | <u>4,971</u>   |
| Rural Education  | 84.358                    | 220-4500-3503              | -                             | 672            |
|  |                           |                            | <u>-</u>                      | <u>672</u>     |
| Passed Through State Department of Education:                  |                           |                            |                               |                |
| Improving Teacher Quality State Grants                         | 84.367                    | 220-4500-4012              | 38,573                        | 56,026         |
| Title II Perkins Reserve Fund Grant                            | 84.243                    | 220-4500-3633              | 93,000                        | (1,025)        |
| Race to the Top  | 84.413A                   | 220-4500-4521              | 11,973                        | 586            |
| 21st Century Community Learning Centers                        | 84.287C                   | 220-4500-5503              | 156,000                       | 117,989        |
| Total U.S. Department of Education                             |                           |                            | <u>1,162,224</u>              | <u>626,775</u> |
| <b>U.S. Department of Agriculture</b>                          |                           |                            |                               |                |
| Passed Through State Department of Education:                  |                           |                            |                               |                |
| Child Nutrition Cluster:                                       |                           |                            |                               |                |
| School Breakfast Program                                       | 10.553                    | 510-4500                   | 65,073                        | 65,073         |
| National School Lunch Program                                  | 10.555                    | 510-4500                   | 181,493                       | 181,493        |
| National School Lunch Program - Donated Commodities            | 10.555                    | 510-4950                   | 16,712                        | 16,712         |
| Summer Feeding Program   | 10.559                    | 510-4500                   | 2,307                         | 2,307          |
| Total Child Nutrition Cluster                                  |                           |                            | <u>265,585</u>                | <u>265,585</u> |

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

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

| Federal Grantor/<br>Pass-Through Grantor/CFDA<br>Program Title  | Federal<br>CFDA<br>Number | MUNIS<br>Account<br>Number | Program<br>or Award<br>Amount | Expenditures      |
|---|---------------------------|----------------------------|-------------------------------|-------------------|
| Fresh Fruit and Vegetable Program   | 10.582                    | 510-4500                   | 12,851                        | 12,851            |
| Total U.S. Department of Agriculture  |                           |                            | 278,436                       | 278,436           |
| <b>U.S. Department of Health &amp; Human Services</b>   |                           |                            |                               |                   |
| Passed Through Murray Independent School District:  |                           |                            |                               |                   |
| Head Start  | 93.600                    | 220-4700-6554              | 45,000                        | 39,483            |
| Head Start  | 93.600                    | 220-4700-6553              | 45,000                        | 4,500             |
| Total U.S. Department of Health & Human Services  |                           |                            | 40,500                        | 43,983            |
| <b>Total federal awards</b>   |                           |                            | <b>\$ 1,481,160</b>           | <b>\$ 949,194</b> |
| <br><b>Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures</b>   |                           |                            |                               |                   |
| Total expenditures of federal awards  |                           |                            |                               | \$ 949,194        |
| Total expenditures of state and local awards  |                           |                            |                               | 291,596           |
| Expenditure of federal awards in the food service fund  |                           |                            |                               | (278,436)         |
| <b>Total expenditures as reported in the special revenue fund on statement revenues,<br/>expenditures and changes in fund balances - governmental funds</b> |                           |                            |                               | <b>\$ 962,354</b> |

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

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

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Fulton Independent School District under programs of the federal government for the year ended June 30, 2013. 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 Independent School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Fulton Independent School District.

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

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

**NOTE 3 - FOOD DISTRIBUTION**

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

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

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AICPA Governmental Audit Quality Center  
AICPA Employee Benefit Plan Audit Quality Center  
Tennessee Society of Certified Public Accountants  
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Murray, KY 42071

Phone 270.753.2424  
Fax 270.753.3878  
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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 Independent Board of Education  
Fulton, 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 Independent School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fulton Independent School District's basic financial statements and have issued our report thereon dated November 14, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Fulton Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fulton Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Fulton Independent 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2007-001 and 2014-001 to be material weaknesses.

## **Compliance and Other Matters**

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

We noted no other matters that we reported to management of Fulton Independent School District in the separate letter dated November 14, 2014, as required by the auditor's contract with the Kentucky Department of Education.

## **Fulton Independent School District's Response to Findings**

Fulton Independent School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Fulton Independent 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  
November 14, 2014

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Tennessee Society of Certified Public Accountants  
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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 Independent Board of Education  
Fulton, Kentucky

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

We have audited Fulton Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Fulton Independent School District's major federal programs for the year ended June 30, 2014. Fulton Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

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

### **Report on Internal Control Over Compliance**

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

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

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

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

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 14, 2014

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 June 30, 2014

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: unmodified

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

Noncompliance material to financial statements noted?        yes   x   no

**Federal Awards**

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

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

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

Identification of major programs: Title I (CFDA #84.010)  
Child Nutrition (CFDA #10.553, 10.555 and 10.559)

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

Auditee qualified as low-risk auditee?        yes   x   no

**FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

**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.

**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 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement AU-C 315. A system of internal control over financial reporting does not

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

June 30, 2014

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 is 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 will evaluate the costs versus the benefits of employing a trained accounting professional or another CPA firm to correct this deficiency. Management recognizes that the costs may exceed the benefits and understands, and is willing to accept the risk that its financial statements may contain misstatements that could go undetected.

**FINDING 2014-001**

**Condition:** The District's cash account is not reconciled at year-end. The un-reconciled balance is \$18,318.

**Criteria:** Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement AU-C 315 states internal controls are designed to provide reasonable assurance about the reliability of financial reporting and effectiveness and efficiency of operations. Reconciling cash reported in financial statements is a key internal control over cash.

**Cause:** The District failed to properly record transactions in MUNIS.

**Effect:** Cash is overstated.

**Recommendation:** The district should exercise great care to ensure that all bank disbursements are properly recorded in the appropriate fund and appropriate period. Reconciliation differences should be immediately investigated and resolved.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**None reported**

## **MANAGEMENT LETTER POINT**

**Members of:**

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AICPA Governmental Audit Quality Center  
AICPA Employee Benefit Plan Audit Quality Center  
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Tammy Smith, Superintendent  
Fulton Independent Board of Education  
Fulton, Kentucky

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

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 November 14, 2014, on the financial statements of Fulton Independent School District.

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 14, 2014

**FULTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS**

June 30, 2014

**MANAGEMENT LETTER POINTS**

None Reported

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

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

**FINANCIAL STATEMENT FINDINGS**

**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.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported

**MANAGEMENT LETTER POINTS**

- I. Condition:*** Tax rates levied were not forwarded to the Kentucky Board of Education within 30 days of receipt of assessment data.

***Recommendation:*** The District should forward tax rates to the Kentucky Board of Education within 30 days of receipt of the assessment data.

***Current Status:*** Circumstance has been corrected.