

FULTON COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2015

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INTRODUCTORY SECTION

FULTON COUNTY SCHOOL DISTRICT

June 30, 2015

BOARD OF EDUCATION

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Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules on pages 4-8 and 44-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fulton County School District's basic financial statements. The introductory section, the combining fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2015, on our consideration of the Fulton County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fulton County School District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 11, 2015

FULTON COUNTY SCHOOLS

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Hickman, Kentucky 42050

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FULTON COUNTY SCHOOL DISTRICT – HICKMAN, KY MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2015

The discussion and analysis of the Fulton County School District (District) provides a narrative overview and analysis of the District’s financial statements and activities for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audit. The implementation of Governmental Accounting Standards Board (GASB) Statements no. 68 & 71, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – *an amendment of GASB Statement No. 68*, during 2015 causes some financial information reported in the MD&A for 2015 and 2014 not to be comparable.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$871,503. This total incorporates all funds. The General Fund cash balance at the beginning of the year was \$592,922. The General Fund cash balance at year-end was \$511,855.
- The General Fund had \$4,899,202 in revenue, which primarily consisted of the state program (SEEK), property, franchise, utilities and motor vehicle taxes. The General Fund expenditures were \$5,055,899.

USING THIS ANNUAL REPORT

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

- Governmental activities – All of the District's programs and services are reported here, including instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.
- Proprietary (Business-Type) Activity – This service is provided on a charge for goods or services basis to recover all the expenses on the goods or services provided. The Food Service enterprise fund is reported as a business activity.

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

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

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

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

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

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,112,337 as of June 30, 2015.

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

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

Table 1 provides a comparison of the District's net position for 2015 and 2014:

Table 1

<u>Net Position as of June 30,</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>
Assets			
Current Assets	\$ 2,573,353	\$ 1,089,737	\$ 1,483,616
Noncurrent Assets	7,165,447	5,595,552	1,569,895
Total Assets	<u>9,738,800</u>	<u>6,685,289</u>	<u>3,053,511</u>
Deferred Outflows of Resources			
Deferred amount on refunding	565	734	(169)
Pension – contributions subsequent to measurement date	156,224	-	156,224
Total Deferred Outflows of Resources	<u>156,789</u>	<u>734</u>	<u>156,055</u>
Liabilities			
Current Liabilities	666,717	650,758	15,959
Noncurrent Liabilities	6,999,440	2,647,466	4,351,974
Total Liabilities	<u>7,666,157</u>	<u>3,298,224</u>	<u>4,367,933</u>
Deferred Inflows of Resources			
Pension- difference between projected and actual earnings on investment	117,095	-	117,095
Net Position			
Net investment in capital assets	1,411,161	2,902,890	(1,491,729)
Restricted	1,822,251	81,410	1,740,841
Unrestricted	(1,121,075)	403,499	(1,524,574)
Total Net Position	<u>\$ 2,112,337</u>	<u>\$ 3,387,799</u>	<u>\$ (1,275,462)</u>

Table 2 shows changes in net position for the fiscal years 2015 and 2014:

Table 2

**Statement of Activities for the
year ended June 30,**

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for services	\$ 12,802	\$ 37,285	\$ (24,483)
Operating grants and contributions	1,626,772	1,931,354	(304,582)
General Revenues:			
Local taxes	1,570,060	1,431,270	138,790
State revenues	3,772,346	3,362,278	410,068
Investment earnings	14,094	7,873	6,221
Loss on disposal of fixed assets	0	(143)	143
Other revenues	235,659	40,528	195,131
Total Revenues	<u>7,231,733</u>	<u>6,810,445</u>	<u>421,288</u>
Expenses			
Instruction	4,174,112	3,842,922	331,190
Support services:			
Student	227,998	240,794	(12,796)
Instructional staff	158,612	300,106	(141,494)
District administration	454,992	589,216	(134,224)
School administration	350,034	346,109	3,925
Business	251,824	426,109	(174,285)
Plant operations and management	680,385	656,604	23,781
Student transportation	304,534	264,854	39,680
Non-instructional	80,418	77,994	2,424
Interest on long-term debt	114,741	108,440	6,301
Facilities acquisitions and construction	0	15,393	(15,393)
Bond issuance costs	70,720	0	70,720
Food service	389,019	372,778	16,241
Total Expenses	<u>7,257,389</u>	<u>7,241,319</u>	<u>16,070</u>
Change in Net Position	<u>\$ (25,656)</u>	<u>\$ (430,874)</u>	<u>\$ 405,218</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Table 3 provides a comparison of the District's General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance for 2015 and 2014:

Table 3**Table 3: General Fund: Statement of Revenues, Expenditures and Changes in Fund Balance for the year ended June 30,**

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Revenues			
Taxes	\$1,445,001	\$ 1,317,351	\$ 127,650
Earnings on investment	11,080	7,480	3,600
Other local revenue	210,977	19,621	191,356
Intergovernmental – State	3,048,635	3,071,642	(23,007)
Intergovernmental – Federal	30,585	26,555	4,030
Total Revenues	<u>4,746,278</u>	<u>4,442,649</u>	<u>303,629</u>
Expenditures			
Current			
Instruction	2,805,138	2,479,138	326,000
Support services			
Student	215,680	238,560	(22,880)
Instructional staff	146,974	156,241	(9,267)
District administration	442,643	485,974	(43,331)
School administration	331,124	333,578	(2,454)
Business	237,073	425,858	(188,785)
Plant operation and mgt.	604,598	563,140	41,458
Student transportation	261,108	339,093	(77,985)
Total Expenditures	<u>5,044,338</u>	<u>5,021,582</u>	<u>22,756</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(298,060)</u>	<u>(578,933)</u>	<u>280,873</u>
Other Financing Sources (Uses)			
Transfers in	152,924	121,854	31,070
Transfers out	(11,561)	(14,448)	2,887
Total Other Financing Sources (Uses)	<u>141,363</u>	<u>107,406</u>	<u>33,957</u>
Net Change in Fund Balance	(156,697)	(471,527)	314,328
Fund Balance, July 1	655,832	1,127,359	(471,527)
Prior Period Adjustment	73,683	0	73,683
Fund Balances, beginning of year, restated	<u>729,515</u>	<u>1,127,359</u>	<u>(397,844)</u>
Fund Balance, end of year	<u>\$ 572,818</u>	<u>\$ 655,832</u>	<u>\$ (83,516)</u>

PLANNING FOR THE FUTURE

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

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

BASIC FINANCIAL STATEMENTS

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,339,921	\$ 43,916	\$ 2,383,837
Receivables			
Accounts	11,381	-	11,381
Intergovernmental - Federal	68,374	-	68,374
Prepaid expenditures	101,895	-	101,895
Inventories	-	7,866	7,866
Capital assets not being depreciated			
Land	11,000	-	11,000
Construction in progress	1,758,870	-	1,758,870
Capital assets, net of accumulated depreciation			
Land improvements	19,976	-	19,976
Buildings and improvements	5,183,710	-	5,183,710
Technology equipment	20,296	398	20,694
Vehicles	141,650	-	141,650
General equipment	13,101	16,446	29,547
Total assets	<u>9,670,174</u>	<u>68,626</u>	<u>9,738,800</u>
Deferred Outflows of Resources			
Deferred amount on refunding	565	-	565
Pension - contributions subsequent to measurement date	132,790	23,434	156,224
Total deferred outflows of resources	<u>133,355</u>	<u>23,434</u>	<u>156,789</u>
Liabilities			
Accounts payable	178,075	19,745	197,820
Accrued salaries	6,191	-	6,191
Unearned revenue	76,809	-	76,809
Accrued interest	48,487	-	48,487
Long-term liabilities			
Portion due or payable within one year			
Insurance assessment	23,516	-	23,516
Bonds and leases	313,600	-	313,600
Accrued sick leave	294	-	294
Portion due or payable after one year			
Insurance assessment	63,410	-	63,410
Bonds and leases	5,441,251	-	5,441,251
Accrued sick leave	178,366	5,060	183,426
Pension liability	1,114,651	196,702	1,311,353
Total liabilities	<u>7,444,650</u>	<u>221,507</u>	<u>7,666,157</u>
Deferred Inflows of Resources			
Pension - difference between projected and actual earnings on investment	99,530	17,565	117,095
Net Position			
Net investment in capital assets	1,394,317	16,844	1,411,161
Restricted for			
Accumulated sick leave	23,600	-	23,600
SFCC escrow	30,744	-	30,744
Future construction	1,767,907	-	1,767,907
Unrestricted	(957,219)	(163,856)	(1,121,075)
Total net position	<u>\$ 2,259,349</u>	<u>\$ (147,012)</u>	<u>\$ 2,112,337</u>

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
Instruction	\$ 4,174,112	\$ -	\$ 1,257,016	\$ (2,917,096)	\$ -	\$ (2,917,096)
Support services						
Student	227,998	-	-	(227,998)	-	(227,998)
Instructional staff	158,612	-	-	(158,612)	-	(158,612)
District administration	454,992	-	-	(454,992)	-	(454,992)
School administration	350,034	-	-	(350,034)	-	(350,034)
Business	251,824	-	-	(251,824)	-	(251,824)
Plant operations and management	680,385	-	-	(680,385)	-	(680,385)
Student transportation	304,534	-	-	(304,534)	-	(304,534)
Non-instructional services	80,418	-	-	(80,418)	-	(80,418)
Bond issuance costs	70,720	-	-	(70,720)	-	(70,720)
Interest on long-term debt	114,741	-	-	(114,741)	-	(114,741)
Total governmental activities	<u>6,868,370</u>	<u>-</u>	<u>1,257,016</u>	<u>(5,611,354)</u>	<u>-</u>	<u>(5,611,354)</u>
Business-Type Activities						
Food service	389,019	12,802	369,756	-	(6,461)	(6,461)
Total business-type activities	<u>389,019</u>	<u>12,802</u>	<u>369,756</u>	<u>-</u>	<u>(6,461)</u>	<u>(6,461)</u>
Total primary government	<u>\$ 7,257,389</u>	<u>\$ 12,802</u>	<u>\$ 1,626,772</u>	<u>(5,611,354)</u>	<u>(6,461)</u>	<u>(5,617,815)</u>
General revenues:						
Taxes						
Property				838,053	-	838,053
Motor vehicle				364,394	-	364,394
Utilities				306,537	-	306,537
Other				61,076	-	61,076
Investment earnings				13,286	808	14,094
Other local revenue				205,074	-	205,074
State aid - formula grants				3,772,346	-	3,772,346
Medicaid reimbursement				30,585	-	30,585
Total general revenues				<u>5,591,351</u>	<u>808</u>	<u>5,592,159</u>
Change in net position				(20,003)	(5,653)	(25,656)
Net position, beginning of year				3,330,635	57,164	3,387,799
Restatement - Implementation of GASB Statement No. 68 and 71				(1,051,283)	(198,523)	(1,249,806)
Net position, beginning of year restated				<u>2,279,352</u>	<u>(141,359)</u>	<u>2,137,993</u>
Net position, end of year				<u>\$ 2,259,349</u>	<u>\$ (147,012)</u>	<u>\$ 2,112,337</u>

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

FULTON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 511,855	\$ 29,415	\$ 1,767,907	\$ 30,744	\$ 2,339,921
Receivables					
Accounts	11,381	-	-	-	11,381
Intergovernmental - Federal	-	68,374	-	-	68,374
Prepaid expenditures	101,895	-	-	-	101,895
Total assets	<u>\$ 625,131</u>	<u>\$ 97,789</u>	<u>\$ 1,767,907</u>	<u>\$ 30,744</u>	<u>\$ 2,521,571</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 46,122	\$ 20,980	\$ 134,489	\$ -	\$ 201,591
Accrued salaries	6,191	-	-	-	6,191
Unearned revenue	-	76,809	-	-	76,809
Total liabilities	<u>52,313</u>	<u>97,789</u>	<u>134,489</u>	<u>-</u>	<u>284,591</u>
Fund Balances					
Restricted	23,600	-	1,633,418	30,744	1,687,762
Assigned	15,336	-	-	-	15,336
Unassigned	533,882	-	-	-	533,882
Total fund balances	<u>572,818</u>	<u>-</u>	<u>1,633,418</u>	<u>30,744</u>	<u>2,236,980</u>
Total liabilities and fund balances	<u>\$ 625,131</u>	<u>\$ 97,789</u>	<u>\$ 1,767,907</u>	<u>\$ 30,744</u>	<u>\$ 2,521,571</u>

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

FULTON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2015

Total fund balances - governmental funds		\$ 2,236,980
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets and inventories used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$13,374,730, and the accumulated depreciation is \$6,360,616.		7,148,603
Certain long-term assets related to deferred amounts on refunding bonds are not reported in the governmental funds because they are not available to pay current period expenditures. These assets are, however, included in the statement of net position.		565
Deferred outflows of resources related to pensions are not reported in the governmental fund because the consumption of net position will occur in future periods.		132,790
Deferred inflows of resources related to pensions are not reported in the governmental fund because the acquisition of net position will occur in future periods.		(99,530)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and leases payable	(5,754,851)	
Accrued interest on the bonds	(48,487)	
Accrued sick leave payable	(178,660)	
Insurance assessment	(63,410)	
Pension liability	(1,114,651)	
		(7,160,059)
Total net position - governmental activities		\$ <u>2,259,349</u>

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources					
Taxes					
Property	\$ 712,994	\$ -	\$ -	\$ 125,059	\$ 838,053
Motor vehicle	364,394	-	-	-	364,394
Utilities	306,537	-	-	-	306,537
Other	61,076	-	-	-	61,076
Earnings on investments	11,080	-	-	2,206	13,286
Other local revenues	210,977	4,513	-	-	215,490
Intergovernmental - State	3,048,635	205,907	-	290,017	3,544,559
Intergovernmental - Indirect Federal	30,585	1,040,693	-	-	1,071,278
Total revenues	<u>4,746,278</u>	<u>1,251,113</u>	<u>-</u>	<u>417,282</u>	<u>6,414,673</u>
Expenditures					
Current					
Instruction	2,805,138	957,185	-	-	3,762,323
Support Services					
Student	215,680	-	-	-	215,680
Instructional staff	146,974	-	-	-	146,974
District administration	442,643	-	-	-	442,643
School administration	331,124	-	-	-	331,124
Business	237,073	-	-	-	237,073
Plant operation and management	604,598	76,064	-	-	680,662
Student transportation	261,108	-	-	-	261,108
Non-instructional services	-	76,501	-	-	76,501
Facilities acquisition and construction	-	-	1,701,303	-	1,701,303
Debt service					
Issuance costs	-	-	-	70,720	70,720
Principal	-	-	-	288,545	288,545
Interest	-	-	-	100,362	100,362
Total expenditures	<u>5,044,338</u>	<u>1,109,750</u>	<u>1,701,303</u>	<u>459,627</u>	<u>8,315,018</u>
Excess (deficit) of revenues over expenditures	<u>(298,060)</u>	<u>141,363</u>	<u>(1,701,303)</u>	<u>(42,345)</u>	<u>(1,900,345)</u>
Other Financing Sources (Uses)					
Bond proceeds	-	-	-	3,350,000	3,350,000
Transfers in	152,924	11,561	3,334,721	207,447	3,706,653
Transfers out	(11,561)	(152,924)	-	(3,542,168)	(3,706,653)
Total other financing sources (uses)	<u>141,363</u>	<u>(141,363)</u>	<u>3,334,721</u>	<u>15,279</u>	<u>3,350,000</u>
Net change in fund balances	(156,697)	-	1,633,418	(27,066)	1,449,655
Fund balances, beginning of year	655,832	-	-	57,810	713,642
Prior period adjustment	73,683	-	-	-	73,683
Fund balances, beginning of year, restated	<u>729,515</u>	<u>-</u>	<u>-</u>	<u>57,810</u>	<u>787,325</u>
Fund balances, end of year	<u>\$ 572,818</u>	<u>\$ -</u>	<u>\$ 1,633,418</u>	<u>\$ 30,744</u>	<u>\$ 2,236,980</u>

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

FULTON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Total net change in fund balances - governmental funds	\$	1,449,655
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Capital outlays are reported in governmental funds as expenditures and capital dispositions are not recorded. However, in the statement of activities, the cost of assets purchased is allocated over their estimated useful lives as depreciation expense and the excess of the sales price, if any, over the net book value of dispositions are recorded as a gain (loss) on disposal of assets. This is the amount by which capital outlays (\$1,661,082) exceeds depreciation expense (\$240,529) in the period.		1,555,042
Issuance of bonds (\$3,350,000) are other financing sources in the governmental funds, but the issuance increases long-term liabilities in the statement of net assets.		(3,350,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		288,545
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities as a component of interest expense. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(169)
In the statement of activities, certain operating expenses - accumulated sick leave - are recognized when they are incurred during the year. In the governmental funds, however, expenditures for these items are limited to only those that use current financial resources.		(15,957)
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.		(14,210)
In the governmental funds, the KSBIT insurance assessment amount repaid during the year (\$23,516) is recorded as an expenditure. However, in the government-wide statements of net position, the total KSBIT insurance assessment (\$124,929) was recorded as a long-term liability in the year assessed, and the amount repaid during the current year (\$23,516) reduces long-term liabilities.		23,516
The actuarially determined pension expense does not consume current financial resources and, therefore, is not reported in the governmental funds. It is reported as expenses in the statement of activities.		(89,215)
The payment of pension contributions consumes current financial resources in the governmental funds. In the statement of activities, however, current year pension contributions are reported as deferred outflows of resources.		132,790
Change in net position of governmental activities	\$	<u>(20,003)</u>

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	<u>Food Service Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 43,916
Inventories	<u>7,866</u>
Total current assets	<u>51,782</u>
Noncurrent Assets	
Technology equipment	5,458
General equipment	152,292
Accumulated depreciation	<u>(140,906)</u>
Total noncurrent assets	<u>16,844</u>
Total assets	<u>68,626</u>
Deferred Outflows of Resources	
Pension - contributions subsequent to measurement date	<u>23,434</u>
Liabilities	
Current Liabilities	
Accounts payable	<u>19,745</u>
Total current liabilities	<u>19,745</u>
Long-term Liabilities	
Accrued sick leave	5,060
Pension liability	<u>196,702</u>
Total long-term liabilities	<u>201,762</u>
Total liabilities	<u>221,507</u>
Deferred Inflows of Resources	
Pension - difference between projected and actual earnings on investments	<u>17,565</u>
Net Position	
Investment in capital assets	16,844
Unrestricted	<u>(163,856)</u>
Total net position	<u>\$ (147,012)</u>

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Food Service Fund
Operating Revenues	
Lunchroom sales	\$ 11,930
Other	872
Total operating revenues	12,802
Operating Expenses	
Salaries, wages and benefits	181,810
Contract services	12,936
Materials and supplies	192,542
Depreciation	1,731
Total operating expenses	389,019
Operating loss	(376,217)
Non-Operating Revenues (Expenses)	
Interest income	808
Donated commodities	21,756
Grants - child nutrition program	318,348
State funding - on-behalf payments	26,447
State matching	3,205
Total non-operating revenues (expenses)	370,564
Change in net position	(5,653)
Total net position, beginning of year	57,164
Restatement - Implementation of GASB Statement No. 68 and 71	(198,523)
Total net position, beginning of year, restated	(141,359)
Total net position, end of year	\$ (147,012)

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 11,930
Other	872
Cash paid for:	
Salaries, wages and benefits	(161,559)
Contract services	(12,936)
Materials and supplies	(150,786)
Net cash used by operating activities	<u>(312,479)</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	<u>(16,584)</u>
Cash Flows from Noncapital Financing Activities	
Federal grants received	318,348
State grants received	3,205
Net cash provided by noncapital financing activities	<u>321,553</u>
Cash Flows from Investing Activities	
Interest income	<u>808</u>
Net decrease in cash and cash equivalents	(6,702)
Cash and cash equivalents, beginning of year	<u>50,618</u>
Cash and cash equivalents, end of year	<u>\$ 43,916</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating loss	\$ (376,217)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	1,731
Commodities used	21,756
Salaries, wages and benefits (on-behalf payments)	26,447
Changes in assets and liabilities	
Inventories	3,535
Accounts payable	17,544
Accrued sick leave	418
Pension contributions subsequent to the measurement date in excess of actuarially determined pension expense	<u>(7,693)</u>
Net cash used by operating activities	<u>\$ (312,479)</u>
Noncash Noncapital Financing Activities	
Donated food commodities received from the U.S. Department of Agriculture	<u>\$ 21,756</u>
State funding - on-behalf payments	<u>\$ 26,447</u>

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

**FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2015**

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 75,868	\$ 124,320
Total assets	75,868	124,320
Liabilities		
Due to student groups	-	124,320
Total liabilities	-	\$ 124,320
Net Position		
Assets held in trust	75,868	
Total net position	\$ 75,868	

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2015

	<u>Private Purpose Trust Funds</u>
Additions	
Interest	\$ 1,169
Donations	20,100
Deductions	
Instruction	(7,696)
Non-instructional services	<u>(900)</u>
Change in net position	12,673
Net position, beginning of year	<u>63,195</u>
Net position, end of year	<u><u>\$ 75,868</u></u>

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

NOTES TO FINANCIAL STATEMENTS

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

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation

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

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

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

June 30, 2015

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

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

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

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

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

The District has the following funds:

I. Governmental Fund Types

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

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

June 30, 2015

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

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

II. Proprietary Fund Type (Enterprise Fund)

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

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

III. Fiduciary Fund Type (includes agency funds)

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

C. Basis of Accounting

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

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

June 30, 2015

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes levied to finance fiscal year 2015 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and, matching requirements, in which the District must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received, payments made by the State on behalf of the District, and changes in 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, 2015 to finance the General Fund operations were \$.468 per \$100 valuation for real property, \$.468 per \$100 valuation for business tangible personal property, and \$.557 per \$100 valuation for motor vehicles.

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

June 30, 2015

E. Capital Assets

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

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

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

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

F. Interfund Activity

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

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

G. Budgetary Process

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

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

June 30, 2015

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

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

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

H. Encumbrance Accounting

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

I. Cash and Cash Equivalents

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

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

J. Inventories

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

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

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

K. Accrued and Long-Term Liabilities

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

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

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

June 30, 2015

L. Restricted Assets

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

M. Fund Balances

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

Nonspendable fund balance

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

Restricted fund balance

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

Committed fund balance

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

Assigned fund balance

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

Unassigned fund balance

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

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

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

June 30, 2015

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

N. Net Position

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

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

O. Estimates

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

P. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports pension-related items and deferred charges on refunding bonds in this category.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District records pension-related items as deferred inflows of resources.

Q. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (CERS) and Teachers' Retirement System of the State of Kentucky (KTRS) and additions to/deductions from fiduciary net

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position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. Impact of Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. The District has implemented this statement in the year ended June 30, 2015. The implementation resulted in the presentation of a net pension liability, deferred outflows of resource, and deferred inflows of resources on the statement of net position that previously had not reported. As a result, the related beginning balances of \$1,323,489 have been recorded in the prior period adjustment explained in Note 2I.

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

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

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective

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

NOTE 2 - DETAILED NOTES ON ACCOUNTS

A. Deposits

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

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

At fiscal year-end, the carrying amount of the District's deposits was \$2,584,025 and the bank balance was \$2,703,725. Of the District's bank balance, \$2,453,725 was collateralized as discussed above because it was uninsured, while \$250,000 was covered by Federal Deposit Insurance.

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

Reconciliation to Government-wide Statement of Net Position:	
Unrestricted cash, including time deposits	\$ 2,383,837
Fiduciary fund cash (not included in government-wide statement)	<u>200,188</u>
	<u>\$ 2,584,025</u>

These amounts are reported in the financial statements, as follows:	
Governmental activities	\$ 2,339,921
Business-type activities	43,916
Fiduciary funds	<u>200,188</u>
	<u>\$ 2,584,025</u>

**FULTON COUNTY SCHOOL DISTRICT
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B. Capital Assets

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

<u>Governmental Activities</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
Non-depreciable				
Land	\$ 11,000	\$ -	\$ -	\$ 11,000
Construction in progress	-	1,758,870	-	1,758,870
Totals	<u>11,000</u>	<u>1,758,870</u>	<u>-</u>	<u>1,769,870</u>
Depreciable				
Land improvements	172,048	-	-	172,048
Buildings and improvements	10,241,775	6,630	-	10,248,405
Technology equipment	220,338	12,321	-	232,659
Vehicles	966,942	17,750	-	984,692
General equipment	101,545	-	-	101,545
Totals	<u>11,702,648</u>	<u>36,701</u>	<u>-</u>	<u>11,739,349</u>
Less: Accumulated depreciation				
Land improvements	149,071	3,001	-	152,072
Buildings and improvements	4,871,261	193,434	-	5,064,695
Technology equipment	199,431	12,932	-	212,363
Vehicles	813,658	29,384	-	843,042
General equipment	86,666	1,778	-	88,444
Totals	<u>6,120,087</u>	<u>240,529</u>	<u>-</u>	<u>6,360,616</u>
Net Book Value	<u>5,582,561</u>	<u>(203,828)</u>	<u>-</u>	<u>5,378,733</u>
Governmental activities capital assets - net	<u>\$ 5,593,561</u>	<u>\$ 1,555,042</u>	<u>\$ -</u>	<u>\$ 7,148,603</u>
 <u>Business-Type Activities</u>				
Depreciable				
Technology equipment	\$ 5,458	\$ -	\$ -	\$ 5,458
General equipment	135,708	16,584	-	152,292
Totals	<u>141,166</u>	<u>16,584</u>	<u>-</u>	<u>157,750</u>
Less: Accumulated depreciation				
Technology equipment	3,467	1,593	-	5,060
General equipment	135,708	138	-	135,846
Totals	<u>139,175</u>	<u>1,731</u>	<u>-</u>	<u>140,906</u>
Business-type activities capital assets - net	<u>\$ 1,991</u>	<u>\$ 14,853</u>	<u>\$ -</u>	<u>\$ 16,844</u>

**FULTON COUNTY SCHOOL DISTRICT
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Depreciation expense has been recorded as a direct expense in the applicable governmental activity functions, as follows:

Instruction	\$ 134,106
Support services:	
District administration	14,858
Plant operations and management	64,843
Student transportation	<u>26,722</u>
	<u>\$ 240,529</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>
1996	\$ 575,000	5.30%	2017
2002	1,520,000	3.75%	2018
2008	2,405,000	3.75%	2028
2009 (KISTA)	133,915	1.00% - 3.00%	2016
2009 (KISTA)	172,246	1.00% - 3.00%	2019
2015	3,350,000	2.00% - 3.00%	2035

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

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

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

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

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<u>Issue</u>	<u>Balance at July 1, 2014</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2015</u>
1996	\$ 150,000	\$ -	\$ 45,000	\$ 105,000
2002	500,000	-	120,000	380,000
2008	1,890,000	-	90,000	1,800,000
2009 (KISTA)	52,378	-	17,302	35,076
2009 (KISTA 2015	101,018 -	-	16,243 -	84,775 3,350,000
	<u>\$ 2,693,396</u>	<u>\$ 3,350,000</u>	<u>\$ 288,545</u>	<u>\$ 5,754,851</u>

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

<u>Fiscal Year</u>	<u>Fulton County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2016	\$ 189,178	\$ 109,005	\$ 124,422	\$ 58,916	\$ 481,521
2017	190,440	104,373	128,242	54,541	477,596
2018	191,922	98,013	115,042	50,233	455,210
2019	183,227	91,515	119,295	46,017	440,054
2020	189,332	87,445	123,752	41,616	442,145
2021-2025	1,057,391	370,869	587,609	144,272	2,160,141
2026-2030	1,081,452	237,311	408,547	31,016	1,758,326
2031-2035	<u>1,065,000</u>	<u>98,325</u>	-	-	<u>1,163,325</u>
	<u>\$4,147,942</u>	<u>\$1,196,856</u>	<u>\$ 1,606,909</u>	<u>\$ 426,611</u>	<u>\$ 7,378,318</u>

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

	<u>Balance at July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2015</u>	<u>Due in One Year</u>
Bonds	\$ 2,693,396	\$3,350,000	\$ 288,545	\$ 5,754,851	\$ 313,600
Insurance assessment	124,929	-	23,516	101,413	23,516
Accrued sick leave					
Governmental activities	162,703	30,675	14,718	178,660	294
Proprietary activities	<u>4,647</u>	<u>413</u>	<u>-</u>	<u>5,060</u>	<u>-</u>
	167,350	31,088	14,718	183,720	294
Pension liability:					
Governmental activities	1,273,855	246,890	406,095	1,114,650	-
Proprietary activities	<u>224,798</u>	<u>43,569</u>	<u>71,664</u>	<u>196,703</u>	<u>-</u>
	<u>1,498,653</u>	<u>290,459</u>	<u>477,759</u>	<u>1,311,353</u>	<u>-</u>
	<u>\$ 4,484,328</u>	<u>\$3,671,547</u>	<u>\$ 804,538</u>	<u>\$ 7,351,337</u>	<u>\$ 337,410</u>

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

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D. Compensated Absences and Accumulated Sick Leave

Certified and classified employees of the District are entitled to payment of 15 - 30%, depending on the employee's position, of the value of accumulated sick and personal days upon retirement. Kentucky Revised Statutes allow the District to restrict up to 50% of the accumulated benefits for all employees eligible to retire as of September 15, 2014. The total amount of accumulated benefits for all employees eligible to retire at this date is \$76,586. The District has a General Fund Balance restriction of \$23,600 at the balance sheet date. The District recognizes the expense of these benefits when payment is made by the governmental fund to a retiring employee.

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

E. Fund Balances

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2015, are as follows:

	General Fund	Special Revenue Fund	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund
Restricted for:						
Sick leave	\$ 23,600	\$ -	\$ -	\$ -	\$ -	\$ -
SFCC escrow	-	-	25,059	5,434	-	-
Future construction	-	-	-	-	1,767,907	-
Debt service	-	-	-	-	-	251
	<u>23,600</u>	<u>-</u>	<u>25,059</u>	<u>5,434</u>	<u>1,767,907</u>	<u>251</u>
Assigned for:						
Encumbrances	<u>15,336</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned	<u>533,882</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>\$ 572,818</u>	<u>\$ -</u>	<u>\$ 25,059</u>	<u>\$ 5,434</u>	<u>\$ 1,767,907</u>	<u>\$ 251</u>

F. Deficit Operating/Fund Balances

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

General Fund	\$ 156,697
Capital Outlay	32,500
Food Service Fund	5,653

**FULTON COUNTY SCHOOL DISTRICT
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G. Interfund Transactions

Transfers

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue	KETS Match	\$ 11,561
Special Revenue	General Fund	Preschool	152,924
Building Fund	Debt Service	Debt Service	179,732
Capital Outlay	Debt Service	Debt Service	27,715
Capital Outlay	Construction	Construction	55,441
Debt Service	Construction	Construction	3,279,280

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, 2015:

Contributions to Kentucky Teachers' Retirement System	\$ 401,788
Health insurance, life insurance, flexible Spending accounts (includes administrative fee)	613,865
Technology	36,683
Debt Service	<u>181,460</u>
	<u>\$ 1,233,796</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	\$ 1,025,889
Debt Service Fund	181,460
Business-type activities	<u>26,447</u>
	<u>\$ 1,233,796</u>

I. Prior Period Adjustment

During the current year, it was discovered that check in the amount of \$73,683 cleared through the District's general fund operating bank account. These checks were not removed from the outstanding check list but were recorded in the general fund by journal entry. The effect was to duplicate expenditures in the prior year, thus, both the beginning net position of the governmental activities and general fund balance were restated by the amount of this error.

J. Restatement of Net Position

Due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the*

**FULTON COUNTY SCHOOL DISTRICT
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Measurement Date – an amendment of GASB Statement No. 68, described above in Note 1R, beginning net position was restated to reflect the retrospective application. The restatement resulted in a \$1,498,653 reduction in the beginning net position to record the beginning net pension liability and an increase of \$175,164 to record beginning deferred outflows of resources – District’s contributions subsequent to the measurement date. The net change to net position was a decrease of \$1,323,489.

NOTE 3 - OTHER INFORMATION

A. Retirement Plans

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

For the year ended June 30, 2015, the District’s total payroll for all employees was \$3,559,356. Total covered payroll was \$885,780 for CERS and \$2,330,829 for KTRS. Covered payroll refers to all compensation paid by the District to active employees covered by the Plan.

County Employees Retirement System Non-Hazardous (CERS)

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit plan. CERS is administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

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

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

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	At least 5 years of service and 55 years old
		At least 25 years of service and any age
Tier 2	Participation date	Before September 1, 2008 – December 31, 2013

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	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87
	Reduced retirement	At least 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87
	Reduced retirement	Not available

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

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

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

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommended rates. The District's contributions to CERS for the year ended June 30, 2015 were \$156,404.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the District reported a liability \$1,311,353 for its proportionate share of the net pension liability. The net pension liability for the plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.040419%.

For the year ended June 30, 2015, the District recognized pension expense of \$104,959. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	117,095
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	156,224	-
	<u>\$ 156,224</u>	<u>\$ 117,095</u>

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

Year ended June 30:	
2016	\$ 29,274
2017	29,274
2018	29,274
2019	29,273

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

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

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

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates

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inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Discount rate – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District’s proportionate share of net pension liability	\$ 1,480,560	\$ 1,311,353	\$ 1,142,146

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

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

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

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

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

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

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of the final average salary for each year of service if, upon retirement, their total service is less than ten year. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten year. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member’s five highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. KTRS also provides disability benefits for

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

June 30, 2015

vested members at the rate of 60% of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disable employees.

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

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

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

The District's contributions to KTRS for the year ended June 30, 2015 were \$109,597.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the District did not report a liability for the District's proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The District recognized pension expense of \$835,482 related to KTRS. The District also recognized revenue of \$835,482 for KTRS support provided by the Commonwealth.

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

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

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

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

June 30, 2015

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

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

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

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

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

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

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

June 30, 2015

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

Medical Insurance Plan

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

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

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

B. Commitments and Contingencies

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

C. Insurance and Related Activities

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

D. Litigation

The Board’s legal counsel has advised that the District is not subject to any litigation or unasserted claims as of June 30, 2015.

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

June 30, 2015

E. Risk Management

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

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

F. COBRA

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

G. Subsequent Events

On October 13, 2015 the Fulton County School District issued bonds with a par value of \$1,236,000. These bonds are for the Phase II renovation of the Elementary and Middle School.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources				
Taxes				
Property	\$ 603,000	\$ 871,674	\$ 712,994	\$ (158,680)
Motor vehicle	325,000	133,628	364,394	230,766
Utilities	298,000	305,000	306,537	1,537
Other	-	-	61,076	61,076
Earnings on investments	12,225	7,000	11,080	4,080
Other local revenues	75	210,034	210,977	943
Intergovernmental - State	2,062,690	2,123,537	2,022,746	(100,791)
Intergovernmental - Indirect Federal	13,000	17,000	30,585	13,585
Total revenues	<u>3,313,990</u>	<u>3,667,873</u>	<u>3,720,389</u>	<u>52,516</u>
Expenditures				
Current				
Instruction	1,913,575	2,041,585	2,090,778	(49,193)
Support Services				
Student	181,020	177,907	179,436	(1,529)
Instructional staff	152,233	110,384	111,264	(880)
District administration	536,895	448,647	398,119	50,528
School administration	257,028	236,204	254,232	(18,028)
Business	288,707	176,829	166,504	10,325
Plant operations and management	597,823	587,863	579,421	8,442
Student transportation	304,903	294,124	238,695	55,429
Contingency	181,806	137,617	-	137,617
Total expenditures	<u>4,413,990</u>	<u>4,211,160</u>	<u>4,018,449</u>	<u>192,711</u>
Excess (deficit) of revenues over expenditures	<u>(1,100,000)</u>	<u>(543,287)</u>	<u>(298,060)</u>	<u>245,227</u>
Other Financing Sources (Uses)				
Transfers in	-	-	152,924	152,924
Transfers out	-	(11,568)	(11,561)	7
Total other financing sources (uses)	<u>-</u>	<u>(11,568)</u>	<u>141,363</u>	<u>152,931</u>
Net change in fund balances	(1,100,000)	(554,855)	(156,697)	398,158
Fund balances, beginning of year	1,100,000	554,855	655,832	100,977
Prior period adjustment	-	-	73,683	73,683
Fund balances, beginning of year, restated	<u>1,100,000</u>	<u>554,855</u>	<u>729,515</u>	<u>174,660</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 572,818</u>	<u>\$ 572,818</u>

**Explanation of Differences Between Budgetary Inflows and Outflows
and GAAP Revenues and Expenditures**

Inflows/revenues:	
Actual amounts (budgetary basis)	\$ 3,720,389
Differences - budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts	<u>1,025,889</u>
Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 4,746,278</u>
Outflows/expenditures:	
Actual amounts (budgetary basis)	\$ 4,018,449
Differences - budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts	<u>1,025,889</u>
Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 5,044,338</u>

See independent auditor's report.

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

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources				
Other local revenues	\$ -	\$ 4,535	\$ 4,513	\$ (22)
Intergovernmental - State	173,896	222,685	205,907	(16,778)
Intergovernmental - Indirect Federal	605,549	1,124,221	1,040,693	(83,528)
Total revenues	<u>779,445</u>	<u>1,351,441</u>	<u>1,251,113</u>	<u>(100,328)</u>
Expenditures				
Current				
Instruction	694,796	1,218,098	957,185	260,913
Support Services				
Instructional staff	2,112	-	-	-
Plant operation and management	-	67,036	76,064	(9,028)
Student transportation	6,000	-	-	-
Non-instructional services	76,537	77,868	76,501	1,367
Total expenditures	<u>779,445</u>	<u>1,363,002</u>	<u>1,109,750</u>	<u>253,252</u>
Excess (deficit) of revenues over expenditures	<u>-</u>	<u>(11,561)</u>	<u>141,363</u>	<u>152,924</u>
Other Financing Sources (Uses)				
Transfers in	-	11,561	11,561	-
Transfers out	-	-	(152,924)	(152,924)
Total other financing sources (uses)	<u>-</u>	<u>11,561</u>	<u>(141,363)</u>	<u>(152,924)</u>
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report.

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

	2014
District's proportion of the net pension liability (asset)	0.040%
District's proportionate share of the net pension liability (asset)	<u>\$ 1,311,353</u>
District's covered-employee payroll	\$ 941,782
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	139.24%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

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

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

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
County Employee's Retirement System
Fiscal Years Ending June 30,

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 175,164	\$ 156,224
Contributions in relation to the contractually required contribution	<u>(175,164)</u>	<u>(156,224)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 941,782	\$ 885,780
Contributions as a percentage of covered-employee payroll	18.60%	17.64%

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

See independent auditor's report.

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

	2015
District's proportion of the net pension liability (asset)	0.000%
District's proportionate share of the net pension liability (asset)	\$ -
State's proportionate share of the net pension liability (asset) associated with the District	17,049,945
Total proportionate share of the net pension liability (asset)	\$ 17,049,945
District's covered-employee payroll	\$ 2,330,829
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

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

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

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
Kentucky Teachers' Retirement System
Fiscal Years Ending June 30,

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 77,030	\$ 109,597
Contributions in relation to the contractually required contribution	<u>(77,030)</u>	<u>(109,597)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 2,534,847	\$ 2,330,899
Contributions as a percentage of covered-employee payroll	3.04%	4.70%

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

FULTON COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015

County Employee's Retirement System

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

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

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

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

Kentucky Teachers' Retirement System

Changes of benefit terms - None

Changes of assumptions - None

SUPPLEMENTARY AND OTHER INFORMATION

**FULTON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**
June 30, 2015

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 25,059	\$ 5,434	\$ 251	\$ 30,744
Total assets	\$ 25,059	\$ 5,434	\$ 251	\$ 30,744
 Liabilities and Fund Balances				
Fund Balances				
Restricted	\$ 25,059	\$ 5,434	\$ 251	\$ 30,744
Total fund balances	25,059	5,434	251	30,744
Total liabilities and fund balances	\$ 25,059	\$ 5,434	\$ 251	\$ 30,744

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources				
Taxes				
Property	\$ -	\$ 125,059	\$ -	\$ 125,059
Earnings on investments	1,422	784	-	2,206
Intergovernmental - State	49,234	59,323	181,460	290,017
Total revenues	<u>50,656</u>	<u>185,166</u>	<u>181,460</u>	<u>417,282</u>
Expenditures				
Debt service				
Issuance costs	-	-	70,720	70,720
Principal	-	-	288,545	288,545
Interest	-	-	100,362	100,362
Total expenditures	<u>-</u>	<u>-</u>	<u>459,627</u>	<u>459,627</u>
Excess (deficit) of revenues over expenditures	<u>50,656</u>	<u>185,166</u>	<u>(278,167)</u>	<u>(42,345)</u>
Other Financing Sources (Uses)				
Bond proceeds	-	-	3,350,000	3,350,000
Transfers in	-	-	207,447	207,447
Transfers out	(83,156)	(179,732)	(3,279,280)	(3,542,168)
Total other financing sources (uses)	<u>(83,156)</u>	<u>(179,732)</u>	<u>278,167</u>	<u>15,279</u>
Net change in fund balances	(32,500)	5,434	-	(27,066)
Fund balances, beginning of year	<u>57,559</u>	<u>-</u>	<u>251</u>	<u>57,810</u>
Fund balances, end of year	<u>\$ 25,059</u>	<u>\$ 5,434</u>	<u>\$ 251</u>	<u>\$ 30,744</u>

See independent auditor's report.

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

Fund	July 1, 2014	Revenues	Expenditures	June 30, 2015
Activity Funds				
Fulton County High School				
Academic Team	\$ -	\$ 2,053	\$ 1,206	\$ 847
Annual	5,712	5,610	6,662	4,660
Athletic	6,916	22,021	20,824	8,113
Band	-	8,566	1,014	7,552
Charles Speed scholarship	1,996	813	-	2,809
Class of 2013	72	-	72	-
Class of 2014	1,544	-	1,544	-
Class of 2015	8,097	9,462	12,395	5,164
Class of 2016	-	3,141	375	2,766
Class of 2017	-	4,929	2,187	2,742
Class of 2018	-	4,128	2,652	1,476
Cross country	-	1,000	-	1,000
Faculty snacks	219	452	99	572
FEA	303	1,126	714	715
FFA alumni	6,728	130	6,858	-
FHA	172	-	172	-
Foreign language club	780	530	814	496
Four rivers scholarship	16,197	22,249	25,844	12,602
Future farmers of America	2,285	22,086	16,424	7,947
General fund	1,081	1,775	581	2,275
Home economics	247	-	247	-
High school baseball	582	3,092	3,279	395
High school beta club	4,984	6,326	5,801	5,509
High school cheerleaders	2,670	7,547	7,050	3,167
High school football	671	2,688	2,879	480
High school volleyball	743	6,258	5,792	1,209
JAM	1,390	290	533	1,147
Joey Bumpous scholarship	1,173	300	-	1,473
Kuna	648	-	648	-
Lady pilot basketball	271	8,287	6,230	2,328
Lady pilot softball	508	1,887	1,653	742
Laura Weatherly Scholarship	500	1,000	500	1,000
Library grant	809	20	39	790
Maurice Tucker scholarship	871	100	250	721
McWhirt Scholarship	500	500	500	500
Pep club	78	848	499	427
Pilot basketball	1,013	5,991	4,717	2,287
Project Graduation 2014	649	-	649	-
Prom	229	2,646	2,354	521
Saturday league basketball	910	-	-	910
Science club	588	40	-	628
Tom Pyron Scholarship	566	-	-	566
Track team	38	15,302	15,314	26
Trainable mentally handicapped (TMH)	236	-	-	236
Vending	1,136	413	933	616
	<u>74,112</u>	<u>173,606</u>	<u>160,304</u>	<u>87,414</u>
Less: inter-fund transfers	-	1,694	1,694	-
Total Fulton County High School	<u>74,112</u>	<u>171,912</u>	<u>158,610</u>	<u>87,414</u>
Fulton County Elementary and Middle School	<u>32,846</u>	<u>41,087</u>	<u>37,027</u>	<u>36,906</u>
Total agency funds	<u>\$ 106,958</u>	<u>\$ 212,999</u>	<u>\$ 195,637</u>	<u>\$ 124,320</u>

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
U.S. Department of Education				
Passed Through State Department of Education:				
Title I Cluster:				
Title I Grants to Local Educational Agencies	84.010	220-4500-310A	\$ 314,920	\$ 285,460
Total Title I Cluster			<u>314,920</u>	<u>285,460</u>
Special Education Cluster:				
Special Education_Grants to States	84.027	220-4500-3373	158,946	25
Special Education_Grants to States	84.027	220-4500-337A	152,138	145,417
Special Education_Preschool Grants	84.173	220-4500-343A	24,763	24,763
Total Special Education Cluster			<u>335,847</u>	<u>170,205</u>
Education for Homeless Children and Youth	84.196	220-4500-316A	39,526	12,393
Education for Homeless Children and Youth	84.196	220-4500-3164	6,883	6,883
			<u>46,409</u>	<u>19,276</u>
21st Century Community Learning Centers Program	84.287	220-4500-5503H	57,297	57,297
21st Century Community Learning Centers Program	84.287	220-4500-5503J	1,000	1,000
21st Century Community Learning Centers Program	84.287	220-4500-5503M	92,531	92,531
21st Century Community Learning Centers Program	84.287	220-4500-5503U	1,860	1,685
21st Century Community Learning Centers Program	84.287	220-4500-5503Z	2,978	2,350
21st Century Community Learning Centers Program	84.287	220-4500-5504H	75,000	73,810
21st Century Community Learning Centers Program	84.287	220-4500-5504M	112,500	69,406
			<u>343,166</u>	<u>298,079</u>
Improving Teacher Quality State Grants	84.367	220-4500-401A	60,257	27,364
Race to the Top Incentive Grants	84.395	220-4500-4521	5,117	9,965
Passed Through West Kentucky Educational Cooperative:				
Career and Technical Education_Basic Grants to States	84.048	220-4700-3483	1,291	(1,291)
Career and Technical Education_Basic Grants to States	84.048	220-4700-3484	645	645
Career and Technical Education_Basic Grants to States	84.048	220-4700-348A	2,581	2,001
			<u>4,517</u>	<u>1,355</u>
Total U.S. Department of Education			<u>1,110,233</u>	<u>811,704</u>
U.S. Department of Agriculture				
Passed Through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	510-4500	84,511	84,511
National School Lunch Program	10.555	510-4500	230,683	230,683
National School Lunch Program - Donated Commodities	10.555	510-4950	21,756	21,756
Summer Food Service Program for Children	10.559	510-4500	3,154	3,154
Total Child Nutrition Cluster			<u>340,104</u>	<u>340,104</u>
Total U.S. Department of Agriculture			<u>340,104</u>	<u>340,104</u>

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

FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

<u>Federal Grantor/ Pass-Through Grantor/CFDA Program Title</u>	<u>Federal CFDA Number</u>	<u>MUNIS Account Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services				
Passed Through Murray Independent Board of Education:				
Head Start	93.600	220-4700-655A	<u>152,924</u>	<u>152,924</u>
Total U.S. Department of Health and Human Services			<u>152,924</u>	<u>152,924</u>
Total federal awards			<u>\$ 1,603,261</u>	<u>\$ 1,304,732</u>

Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures

Total expenditures of federal awards	\$ 1,304,732
Total expenditures of state and local awards	298,046
Expenditure of federal awards in the food service fund	(340,104)
Expenditure of federal awards in the general fund	<u>(152,924)</u>
Total expenditures as reported in the special revenue fund on statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 1,109,750</u>

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

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Fulton County School District under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Fulton County School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Fulton County School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 - FOOD DISTRIBUTION

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

INTERNAL CONTROL AND COMPLIANCE SECTION

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Certified Public Accountants
Offices in Tennessee & Kentucky

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fulton County School District's basic financial statements and have issued our report thereon dated November 11, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of Fulton County School District in a separate letter dated November 11, 2015, as required by the auditor's contract with the Kentucky Department of Education.

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 11, 2015

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**Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required by OMB Circular A-133**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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 11, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2015

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> yes	<u> x </u> no	
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> 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

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555 and 10.559	Child Nutrition Cluster
84.287	21 st Century Community Learning Centers Program
84.367	Improving Teacher Quality State Grants

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

Auditee qualified as low-risk auditee? yes x no

FINDINGS - FINANCIAL STATEMENT AUDIT

None reported

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

MANAGEMENT LETTER POINTS

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

In planning and performing our audit of the financial statements of Fulton County School District as of and for the year ended June 30, 2015, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

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 11, 2015, on the financial statements of Fulton County School District.

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

Sincerely,

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 11, 2015

**FULTON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS**

June 30, 2015

MANAGEMENT LETTER POINTS

- I. **Condition:** A lack of segregation of duties related to user access within the District's MUNIS system. Certain users who authorize transactions and have custody of assets within the organization are also superusers of the MUNIS accounting software.

Criteria: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement AU-C Section 315 addresses the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment, including the entity's internal control. Segregation of duties is a basic component of internal control and is referenced in the above professional standard.

Cause: Due to the limited number of available staff, user rights within the system for certain employees include unlimited access to all modules in MUNIS.

Effect: Unlimited access within the MUNIS system paired with users who authorize transactions and have custody of assets in the organization provide opportunity for manipulation of accounting records and misappropriation of assets.

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

Response: Due to the frequent need to perform functions only available to superusers the District accepts the risks described above.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FULTON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2015

FINDINGS - FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

FINDING 2007-001

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

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

Current Status: This circumstance has been resolved.

FINDING 2013-001

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

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

Current Status: This circumstance has been resolved.

FINDING 2013-002

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

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

Current Status: This circumstance has been resolved.

FINDING 2013-008

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

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

June 30, 2015

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

Current Status: This circumstance has been resolved.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

	<u>Questioned Costs</u>
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U.S. DEPARTMENT OF EDUCATION

Title I Cluster - CFDA No. 84.010 and 84.389A

MATERIAL WEAKNESS AND NONCOMPLIANCE

FINDING 2013-003	\$ 4,899
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Condition: The District could not produce evidence that the required Title I Cluster reports were properly reviewed and approved by a person possessing the knowledge, skills, experience and ability to determine the reports included only allowable costs and were accurate.

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

Current Status: This circumstance has been resolved.

SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE

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

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

Current Status: This circumstance has been resolved.

FULTON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2015

MANAGEMENT LETTER POINTS

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

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

Current Status: This condition has been resolved.

II. Condition: The District did not publish annual financial statements.

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

Current Status: This condition has been resolved.

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

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

Current Status: This condition has been resolved.