

**FULTON INDEPENDENT SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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

**FULTON INDEPENDENT SCHOOL DISTRICT**

June 30, 2015

**BOARD OF EDUCATION**

Debbie Vaughn, Chairman  
Bill Robertson, Vice Chairman  
Carol Bransford, Member  
Sam Hancock, Member  
Willie Nicholson, Member

**ADMINISTRATIVE STAFF**

Tamara Smith, Superintendent  
Laurie Thorpe, Finance Officer

## **FINANCIAL SECTION**

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**Certified Public Accountants**  
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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton Independent School District, as of and for the year ended June 30, 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 Independent School District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **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*. 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 management's discussion and analysis on pages 4–8, schedules related to pensions on pages 40–41 and budgetary comparison information on pages 42–43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2015, on our consideration of the Fulton Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fulton Independent School District's internal control over financial reporting and compliance.

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 15, 2015

# Fulton Independent School District

*Office of the Superintendent  
304 West State Line  
Fulton, KY 42041  
Phone 270-472-1553 Fax 270-472-6921*

## **FULTON INDEPENDENT SCHOOL DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS FISCAL YEAR ENDING JUNE 30, 2015**

The discussion and analysis of the Fulton Independent School District provides a narrative overview and analysis of the financial activities for the District's financial statements and activities for the fiscal year ended June 30, 2015. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audit.

### **FINANCIAL HIGHLIGHTS**

- The Fulton Independent School District decreased expenditures in the General Fund by \$178,531.81 from the previous year.
- The District continued to maintain facilities by replacing carpet in the libraries and classrooms.
- A challenge for Fulton Independent School District is declining enrollment and funding. The District strives to maintain financial soundness in order to enhance student learning achievements but yet keep teaching salaries competitive with surrounding districts.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements and notes to those statements. These financial statements are organized so that the reader can understand the Fulton Independent School District as a whole or as one operating entity (government-wide financial statements). The statements then provide an increasingly detailed look at the District's operations.

### **OVERVIEW OF FINANCIAL STATEMENTS**

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

**Government-wide financial statements:** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. These statements include the Statement of Net Position and the Statement of Activities. In the Statement of Net Position and the Statement of Activities, the District is divided into two distinct types of activities:

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

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

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

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

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

**Fund Financial Statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

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

## **THE DISTRICT AS A WHOLE--GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,554,893.00 as of June 30, 2015.

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

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

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

**Table 1 - Net position**

<b>Assets</b>	<b>2014</b>	<b>2015</b>
Current Assets	\$ 737,458	\$ 817,582
Noncurrent Assets	3,622,736	3,542,974
<b>Total Assets</b>	<b>4,360,394</b>	<b>4,360,556</b>
<b>Liabilities</b>		
Current Liabilities	247,208	1,252,521
Noncurrent Liabilities	1,532,907	1,446,142
<b>Total Liabilities</b>	<b>1,780,115</b>	<b>2,698,663</b>
<b>Net position</b>		
Net Investment in Capital Assets	2,150,772	2,070,515
Restricted	56,656	37,425
Unrestricted	372,851	(553,047)
<b>Total Net position</b>	<b>\$ 2,580,279</b>	<b>\$ 1,554,893</b>

Table 2 shows changes in net position for fiscal year 2014 as compared to 2015.

**Table 2 - Changes in Net position**

	<b>2014</b>	<b>2015</b>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 16,176	\$ 12,363
Operating Grants and Contributions	1,265,549	1,528,870
General Revenues:		
Local Taxes	1,125,469	1,084,976
Investment Earnings	12,869	10,784
Other Local Revenue	6,048	11,565
State Aid- Formula Grants	2,346,361	2,604,818
Indirect Federal Reimbursements	16,093	37,329
Sale of Assets	(119)	(1,190)
<b>Total Revenues</b>	<b>4,788,446</b>	<b>5,289,515</b>
<b>Program Expenses</b>		
Instruction	2,972,125	3,010,693
Support Services		
Student	243,415	289,050
Instructional Staff	152,554	182,467
District Administration	441,532	401,689
School Administration	272,569	314,810
Business	144,315	146,692
Plant Operations and Management	494,396	464,167
Student Transportation	73,137	71,244
Non-instructional Services/Other	76,096	78,401
Interest on long-term debt	57,804	53,874
Food Service	301,256	343,101
<b>Total Expenses</b>	<b>5,229,199</b>	<b>5,356,188</b>
<b>Change in Net position</b>	<b>\$ (440,753)</b>	<b>\$ (66,673)</b>

## Governmental Activities

Total revenues for governmental activities for 2015 were \$4,915,210. Taxes decreased slightly from the previous year down from 25% to 22% of revenues for governmental activities for the District. State aid and state and federal grants accounted for 77% of governmental revenue. The total cost of all programs and services for governmental activities was \$5,013,087. Instruction comprises 60% of expenses as it did for Fiscal Year 2014. Governmental expenditures for the District for 2015 exceeded governmental revenues by \$85,877.

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

**Table 3 - Cost of Services**

	<b>Total Cost of Services 2015</b>	<b>Net Cost of Services 2015</b>
Instruction	\$3,010,693	\$1,841,129
Support Services		
Student	289,050	289,050
Instructional Staff	182,467	182,467
District Administration	401,689	401,689
School Administration	314,810	314,810
Business	146,692	146,692
Plant Operations and Management	464,167	464,167
Student Transportation	71,244	71,244
Non-instructional Services/Other	78,401	78,401
Interest on L/T debt	53,874	53,874
<b>Total Expenses</b>	<b>\$5,013,087</b>	<b>\$3,843,523</b>

## Proprietary (Business-Type) Activities

The only proprietary (business-type) activity of the school district is the food service operation. The following table represents a summary of revenues and expenses for the fiscal year ended June 30, 2015.

	<u>Amount</u>
<b>Revenues:</b>	
Local revenue sources	\$ 12,363
State revenue sources	2,615
State on-behalf payments	58,860
Federal revenue	282,194
Interest Income	2,636
Loss on disposal of assets	
Donated commodities	<u>15,637</u>
<b>Total revenue</b>	<b>374,305</b>
<b>Expenses:</b>	
Food Service	<u>355,101</u>
<b>Change in Net position</b>	<b><u>\$ 19,204</u></b>

## **BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July 1 – June 30; other programs (i.e. some federal programs) operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The District adopted a 2014-15 budget with \$280,000 in contingency (7%). Significant Board action that impacts the finances included rank/experience changes for qualifying certified and classified employees and mandated local match for classified retirement contributions.

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

## **BASIC FINANCIAL STATEMENTS**

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 364,956	\$ 168,291	\$ 533,247
Receivables			
Accounts	45,459	-	45,459
Intergovernmental - State	3,368	-	3,368
Intergovernmental - Federal	223,956	-	223,956
Inventories	-	11,552	11,552
Capital assets not being depreciated			
Land	93,600	-	93,600
Capital assets, net of accumulated depreciation			
Land improvements	6,916	-	6,916
Buildings and improvements	2,995,141	105,813	3,100,954
Technology equipment	127,810	2,159	129,969
Vehicles	41,835	-	41,835
General equipment	4,849	22,757	27,606
Total assets	<u>3,907,890</u>	<u>310,572</u>	<u>4,218,462</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension contributions	102,118	16,759	118,877
Deferred amount on refunding	23,217	-	23,217
Total deferred outflows of resources	<u>125,335</u>	<u>16,759</u>	<u>142,094</u>
<b>Liabilities</b>			
Accounts payable	17,479	-	17,479
Unearned revenue	94,829	-	94,829
Accrued interest	11,692	-	11,692
Long-term liabilities			
Net pension liability	825,600	134,400	960,000
Portion due or payable within one year			
Insurance assessment	13,682	-	13,682
Bonds	118,780	-	118,780
Accrued sick leave	1,306	-	1,306
Portion due or payable after one year			
Insurance assessment	34,753	-	34,753
Bonds	1,234,802	-	1,234,802
Accrued sick leave	197,396	13,944	211,340
Total liabilities	<u>2,550,319</u>	<u>148,344</u>	<u>2,698,663</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to pensions	<u>92,020</u>	<u>14,980</u>	<u>107,000</u>
<b>Net Position</b>			
Net investment in capital assets	1,939,786	130,729	2,070,515
Restricted for			
SFCC escrow	37,425	-	37,425
Unrestricted	(586,325)	33,278	(553,047)
<b>Total net position</b>	<u>\$ 1,390,886</u>	<u>\$ 164,007</u>	<u>\$ 1,554,893</u>

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

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

Functions / Programs	Program Revenues			Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
Instruction	\$ 3,010,693	\$ -	\$ 1,169,564	\$ (1,841,129)	\$ -	\$ (1,841,129)
Support services						
Student	289,050	-	-	(289,050)	-	(289,050)
Instructional staff	182,467	-	-	(182,467)	-	(182,467)
District administration	401,689	-	-	(401,689)	-	(401,689)
School administration	314,810	-	-	(314,810)	-	(314,810)
Business	146,692	-	-	(146,692)	-	(146,692)
Plant operations and management	464,167	-	-	(464,167)	-	(464,167)
Student transportation	71,244	-	-	(71,244)	-	(71,244)
Non-instructional services	78,401	-	-	(78,401)	-	(78,401)
Interest on long-term debt	53,874	-	-	(53,874)	-	(53,874)
Total governmental activities	<u>5,013,087</u>	<u>-</u>	<u>1,169,564</u>	<u>(3,843,523)</u>	<u>-</u>	<u>(3,843,523)</u>
Business-Type Activities						
Food service	343,101	12,363	359,306	-	28,568	28,568
Total business-type activities	<u>343,101</u>	<u>12,363</u>	<u>359,306</u>	<u>-</u>	<u>28,568</u>	<u>28,568</u>
Total primary government	<u>\$ 5,356,188</u>	<u>\$ 12,363</u>	<u>\$ 1,528,870</u>	<u>(3,843,523)</u>	<u>28,568</u>	<u>(3,814,955)</u>
<b>General Revenues:</b>						
Taxes						
Property				703,724	-	703,724
Motor vehicle				71,694	-	71,694
Utilities				257,479	-	257,479
Other				52,079	-	52,079
Investment earnings				8,148	2,636	10,784
Other local revenue				11,565	-	11,565
State aid - formula grants				2,604,818	-	2,604,818
Medicaid reimbursement				37,329	-	37,329
Loss on disposal of assets				(1,190)	-	(1,190)
Total general revenues				<u>3,745,646</u>	<u>2,636</u>	<u>3,748,282</u>
Transfers				<u>12,000</u>	<u>(12,000)</u>	<u>-</u>
Change in net position				<b>(85,877)</b>	<b>19,204</b>	<b>(66,673)</b>
Net position, beginning of year				2,301,256	279,023	2,580,279
Restatement for adoption of pension standards				(824,493)	(134,220)	(958,713)
Total net position, beginning of year - as restated				<u>1,476,763</u>	<u>144,803</u>	<u>1,621,566</u>
Net position, end of year				<u>\$ 1,390,886</u>	<u>\$ 164,007</u>	<u>\$ 1,554,893</u>

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 328,421	\$ -	\$ 36,535	\$ 364,956
Receivables				
Accounts	44,569	-	890	45,459
Intergovernmental - State	-	3,368	-	3,368
Intergovernmental - Federal	-	223,956	-	223,956
Due from other funds	132,495	-	-	132,495
<b>Total assets</b>	<b>\$ 505,485</b>	<b>\$ 227,324</b>	<b>\$ 37,425</b>	<b>\$ 770,234</b>
<b>Liabilities</b>				
Accounts payable	\$ 17,479	\$ -	\$ -	\$ 17,479
Due to other funds	-	132,495	-	132,495
Unearned revenue	-	94,829	-	94,829
Total liabilities	17,479	227,324	-	244,803
<b>Fund Balances</b>				
Restricted	25,000	-	37,425	62,425
Committed	50,000	-	-	50,000
Assigned	50,593	1,745	-	52,338
Unassigned	362,413	(1,745)	-	360,668
Total fund balances	488,006	-	37,425	525,431
<b>Total liabilities and fund balances</b>	<b>\$ 505,485</b>	<b>\$ 227,324</b>	<b>\$ 37,425</b>	<b>\$ 770,234</b>

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

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

<b>Total fund balances - governmental funds</b>		<b>\$ 525,431</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$6,814,733 and the accumulated depreciation is \$3,544,582.		3,270,151
Assets reported in the statement of net position related to refunding bonds are not reported in the governmental funds because they are not available to pay current period expenditures.		23,217
Net pension liability and deferred inflows and outflows related to pensions are not due and payable in the current period and, therefore, are not reported in the governmental funds. Amounts related to pensions reported in the statement of net position are as follows:		
Net pension liability	(825,600)	
Deferred inflows of resources related to pensions	(92,020)	
Deferred outflows of resources related to pensions	<u>102,118</u>	
		(815,502)
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 payable	(1,353,582)	
Accrued interest on the bonds	(11,692)	
Accrued sick leave payable	(198,702)	
Insurance assessment	<u>(48,435)</u>	
		<u>(1,612,411)</u>
<b>Total net position - governmental activities</b>		<b><u>\$ 1,390,886</u></b>

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

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
From local sources				
Taxes				
Property	\$ 651,751	\$ -	\$ 51,973	\$ 703,724
Motor vehicle	67,066	-	4,628	71,694
Utilities	257,479	-	-	257,479
Other	52,079	-	-	52,079
Earnings on investments	7,882	-	266	8,148
Donations	180	13,077	-	13,257
Other local revenues	11,565	-	-	11,565
Intergovernmental - State	2,496,353	176,117	108,464	2,780,934
Intergovernmental - Indirect Federal	37,329	642,426	-	679,755
Total revenues	<u>3,581,684</u>	<u>831,620</u>	<u>165,331</u>	<u>4,578,635</u>
<b>Expenditures</b>				
Current				
Instruction	1,839,789	749,794	-	2,589,583
Support Services				
Student	258,291	-	-	258,291
Instructional staff	157,569	4,604	-	162,173
District administration	368,324	-	-	368,324
School administration	279,709	-	-	279,709
Business	138,785	-	-	138,785
Plant operation and management	468,857	-	-	468,857
Student transportation	59,469	-	-	59,469
Non-instructional services	-	77,222	-	77,222
Debt Service				
Principal	8,582	-	109,998	118,580
Interest	1,626	-	49,564	51,190
Total expenditures	<u>3,581,001</u>	<u>831,620</u>	<u>159,562</u>	<u>4,572,183</u>
Revenues over expenditures	<u>683</u>	<u>-</u>	<u>5,769</u>	<u>6,452</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	12,000	-	157,820	169,820
Transfers out	-	-	(157,820)	(157,820)
Total other financing sources (uses)	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
<b>Net change in fund balances</b>	<b>12,683</b>	<b>-</b>	<b>5,769</b>	<b>18,452</b>
Fund balances, beginning of year	<u>475,323</u>	<u>-</u>	<u>31,656</u>	<u>506,979</u>
Fund balances, end of year	<u>\$ 488,006</u>	<u>\$ -</u>	<u>\$ 37,425</u>	<u>\$ 525,431</u>

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

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

**Total net change in fund balances - governmental funds** **\$ 18,452**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay in the period. (199,466)

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the cost of the capital assets sold. (1,190)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 118,582

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 only when it is payable and 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 paid. 1,882

financial resources and, therefore, is not reported as an expenditure in governmental funds. (4,568)

In the statement of activities, expenses related to pensions are a function of various changes in the net pension liability. In the governmental funds, only actual expenditures for pension contributions are reported. This is the amount of actual contributions made in excess of the pension expense recognized in the statement of activities. 8,991

In the statement of activities, expenses for accumulated sick leave are recognized when the liability is incurred. In the governmental funds, however, expenditures for these items are limited to only those that use current financial resources. (28,560)

**Change in net position of governmental activities** **\$ (85,877)**

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

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

	<u>Food Service Fund</u>
<b>Assets</b>	
Current Assets	
Cash and cash equivalents	\$ 168,291
Receivables - intergovernmental - State	
Inventories	<u>11,552</u>
Total current assets	<u>179,843</u>
Noncurrent Assets	
Buildings and improvements	296,786
Technology equipment	5,937
General equipment	179,783
Accumulated depreciation	<u>(351,777)</u>
Total noncurrent assets	<u>130,729</u>
Total assets	<u>310,572</u>
<b>Deferred Outflows of Resources</b>	
Deferred pension contributions	<u>16,759</u>
<b>Liabilities</b>	
Noncurrent liabilities	
Accrued sick leave	13,944
Net pension liability	<u>134,400</u>
Total liabilities	<u>148,344</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows related to pensions	<u>14,980</u>
<b>Net Position</b>	
Investment in capital assets	130,729
Unrestricted	<u>33,278</u>
Total net position	<u><b>\$ 164,007</b></u>

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

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

	<u>Food Service Fund</u>
<b>Operating Revenues</b>	
Lunchroom sales	\$ <u>12,363</u>
<b>Operating Expenses</b>	
Salaries, wages and benefits	176,026
Contract services	10,006
Materials and supplies	149,926
Depreciation	<u>7,143</u>
Total operating expenses	<u>343,101</u>
Operating loss	<u>(330,738)</u>
<b>Non-Operating Revenues (Expenses)</b>	
Interest income	2,636
Donated commodities	15,637
Grants - child nutrition program	282,194
State funding - on-behalf payments	58,860
State matching	<u>2,615</u>
Total non-operating revenues (expenses)	<u>361,942</u>
Income before transfers	<b>31,204</b>
Transfer out - indirect costs	<u>(12,000)</u>
<b>Change in net position</b>	<b>19,204</b>
Net position, beginning of year	279,023
Restatement for adoption of pension standards	<u>(134,220)</u>
Net position, beginning of year - as restated	<u>144,803</u>
Net position, end of year	<u>\$ 164,007</u>

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

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

	<u><b>Food Service Fund</b></u>
<b>Cash Flows from Operating Activities</b>	
Cash received from lunchroom sales	\$ 12,363
Cash paid for salaries and benefits	(117,015)
Cash paid for services and supplies	<u>(146,580)</u>
Net cash used by operating activities	<u>(251,232)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Interfund transfer	(12,000)
Nonoperating federal grants received	282,194
Nonoperating state grants received	<u>2,639</u>
Net cash provided by noncapital financing activities	<u>272,833</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of capital assets	<u>(13,528)</u>
<b>Cash Flows from Investing Activities</b>	
Interest income	<u>2,636</u>
<b>Net increase in cash and cash equivalents</b>	<b>10,709</b>
Cash and cash equivalents, beginning of year	<u>157,582</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 168,291</u></b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>	
Operating loss	\$(330,738)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	7,143
Commodities used	15,637
State funding - on-behalf payments	58,860
Pension contributions	(16,759)
Pension expense	15,160
Changes in assets and liabilities	
Inventories	(2,285)
Accrued sick leave	<u>1,750</u>
Net cash used by operating activities	<u>\$(251,232)</u>
<b>Noncash Noncapital Financing Activities</b>	
Donated food commodities received from the U.S. Department of Agriculture	<u>\$ 15,637</u>
State funding - on-behalf payments	<u>\$ 58,860</u>
Pension activity:	
Net pension liability	\$ 134,400
Deferred inflows related to pensions	14,980
Restatement of net position for beginning pension balances	(134,220)
Pension expense	<u>(15,160)</u>
	<u>\$ -</u>

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

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

	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 263,251	\$ 34,766
<b>Liabilities</b>		
Due to student groups	-	34,766
<b>Net Position</b>		
Net position held in trust	\$ 263,251	\$ -

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

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

	<u>Private Purpose Trust Funds</u>
<b>Additions</b>	
Interest	\$ 3,263
Other local revenue	<u>29,185</u>
Total additions	32,448
 <b>Disbursements</b>	 <u>-</u>
<b>Change in net position</b>	<b>32,448</b>
Net position, beginning of year	<u>230,803</u>
 <b>Net position, end of year</b>	 <u><b>\$ 263,251</b></u>

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

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

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

**A. Reporting Entity**

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

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

The financial statements of the Board do include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board. Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

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

**B. Basis of Presentation**

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

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

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 District reports the following major governmental funds:

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.

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than agency funds or major capital projects) that are legally restricted to disbursements for specified purposes. They include federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

The District reports the following major proprietary fund:

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).

Additionally, the District reports the following funds:

Capital Projects Funds are governmental funds 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).

- a. 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.
- b. 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.

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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- c. The Construction Funds account for proceeds from sales of bonds and other revenues to be used for authorized construction.

The Debt Service Fund is used to account for the payment of general long-term debt principal and interest and related costs, and for the accumulation of resources for such payments; also, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Fiduciary Fund Type (includes agency and trust 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 the Kentucky *Uniform Program of Accounting for School Activity Funds*.
- b. The Private Purpose Trust Fund is used to report trust arrangements that benefit individuals, private organizations, or other governments.

**C. Measurement Focus and 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 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 – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Under the 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. Under the modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

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

Expenses/Expenditures – Under the accrual basis of accounting, expenses are recognized at the time the obligation is incurred, regardless of the actual timing of the related cash disbursements. Expenditures under the modified accrual basis are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

June 30, 2015

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 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. 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. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. 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. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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

**E. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$1,000 with the exception of technology equipment for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed as a current operating expenditure.

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

Land and improvements .....	20 years
Building improvements .....	25-50 years
Technology equipment .....	5 years
Vehicles and general equipment .....	5-10 years
Food service equipment .....	12 years

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**F. Interfund Activity**

Interfund 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 business-type activities are reported in the government-wide financial statements as "internal balances".

Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Transfers within the governmental funds are netted in the government-wide presentation.

**G. Budgetary Information**

The District's budgetary process accounts for transactions on a basis consistent with U.S. generally accepted accounting principles (GAAP).

The approved budget can be amended by the Board and all budget appropriations lapse at year-end. 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 re-appropriated in the next year.

**H. Cash and Cash Equivalents**

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

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

**I. Inventories**

Inventories in the proprietary fund are stated at cost using the first-in, first-out method. Nonmonetary assistance is reported at the market value of the commodities received/used.

**J. Accrued and Long-Term Liabilities**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, as are those in proprietary funds.

In governmental funds, 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.

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

Certified and classified employees of the District are entitled to payment of 30% of the value of accumulated sick and personal days upon retirement. Kentucky Revised Statutes allow the District to restrict up to 50% of accumulated benefits for all employees eligible to retire as of September 15, 2014. The total amount of accumulated benefits for all employees eligible to retire at this date is \$68,951. The District has a General Fund Balance restriction of \$25,000 at the balance sheet date. The District recognizes the expense of these benefits when payment is made by the governmental fund to a retiring

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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employee. Accrued sick leave benefits are estimated by the vesting method. This entire future obligation is reported in the government-wide financial statements.

**L. 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 deferred charge on refunding reported in the government-wide statement of net position results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also has deferred outflows related to pensions. See Note 3A for details of this item.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has items related to pensions that qualify for reporting in this category. See Note 3A for specific details.

**M. Long-Term Liabilities**

Long-term obligations are reported in the government-wide financial statements and proprietary fund financial statements. 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.

**N. Pensions**

For 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 Kentucky Retirement Systems (KRS) County Employees Retirement System (CERS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by KRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Plan. Investments are reported at fair value.

**O. Fund Balances**

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.

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

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

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

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

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

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

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which was effective for fiscal years beginning after June 15, 2014. This statement establishes 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 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers report liabilities related to pension obligations. As a result of adopting Statement 68, the District restated certain beginning balances to reflect its pension activity as of July 1, 2014. In governmental activities, beginning net pension liability was increased by \$934,820 and deferred outflows of resources was increased by \$110,327, which resulted in a decrease in beginning net position of \$824,493. These same accounts were also restated in the proprietary fund and business-type activities. Net pension

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liability was increased by \$152,180, deferred outflows increased by \$17,960 and net position decreased by \$134,220.

**NOTE 2 – DETAILED NOTES ON ACCOUNTS**

**A. Cash and 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).

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.

**B. Capital Assets**

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

	Balance <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2015</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 93,600	\$ -	\$ -	\$ 93,600
Capital assets being depreciated				
Land improvements	324,165	-	-	324,165
Buildings and improvements	5,582,108	22,255	-	5,604,363
Technology equipment	575,327	180	44,763	530,744
Vehicles	200,208	-	-	200,208
General equipment	<u>62,852</u>	-	<u>1,199</u>	<u>61,653</u>
Total	<u>6,744,660</u>	<u>22,435</u>	<u>45,962</u>	<u>6,721,133</u>
Less accumulated depreciation				
Land improvements	313,348	3,901	-	317,249
Buildings and improvements	2,474,048	135,174	-	2,609,222
Technology equipment	376,283	70,264	43,613	402,934
Vehicles	148,025	10,348	-	158,373
General equipment	<u>55,749</u>	<u>2,214</u>	<u>1,159</u>	<u>56,804</u>
Total	<u>3,367,453</u>	<u>221,901</u>	<u>44,772</u>	<u>3,544,582</u>
Net capital assets being depreciated	<u>3,377,207</u>	<u>(199,466)</u>	<u>1,190</u>	<u>3,176,551</u>
Total governmental capital assets, net	<u>\$ 3,470,807</u>	<u>\$ (199,466)</u>	<u>\$ 1,190</u>	<u>\$ 3,270,151</u>

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

Instruction	\$196,647
Support services:	
Student	3,195
Instructional staff	476
District administration	6,895
School administration	476
Business support	1,127
Plant operations and management	4,025
Student transportation	8,748
Non-instructional services	312
Total	\$221,901

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Business-type Activities				
Capital assets being depreciated				
Buildings and improvements	296,786	-	-	296,786
Technology equipment	9,741	-	3,804	5,937
General equipment	168,031	13,528	1,776	179,783
Total	474,558	13,528	5,580	482,506
Less accumulated depreciation				
Buildings and improvements	185,970	5,003	-	190,973
Technology equipment	6,613	969	3,804	3,778
General equipment	157,631	1,171	1,776	157,026
Total	350,214	7,143	5,580	351,777
Net capital assets being depreciated	124,344	6,385	-	130,729
Total business-type capital assets, net	\$ 124,344	\$ 6,385	\$ -	\$ 130,729

**C. Long-Term Liabilities**

The District's debt is the responsibility of the governmental activities. The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Fulton Independent Fiscal Court and the Fulton Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The original amount of each bond issue, the bond issue dates, interest rates, and maturity dates are summarized below:

Issue	Original Amount	Interest Rate	Maturity Date
2009	\$855,000	3.50% - 4.25%	2029
2009 Refunding	900,000	3.50% - 4.25%	2029
2009 (KISTA)	87,480	2.00% - 3.60%	2020

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

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

In 1987, the District entered into "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs.

As of June 30, 2015, estimated future debt service on these obligations, including amounts to be paid by the Commission, are as follows:

Year	Fulton Independent School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2016	\$ 117,766	\$ 47,235	\$ 1,014	\$ 728	\$ 166,743
2017	122,968	43,730	1,049	694	168,441
2018	123,208	39,922	1,086	656	164,872
2019	126,983	36,007	1,124	618	164,732
2020	132,221	31,847	1,163	580	165,811
2021-2025	393,448	109,789	6,552	2,160	511,949
2026-2029	318,713	34,594	6,287	682	360,276
	<u>\$ 1,335,307</u>	<u>\$ 343,124</u>	<u>\$ 18,275</u>	<u>\$ 6,118</u>	<u>\$ 1,702,824</u>

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

	Balance at July 1, 2014	Issues	Retirements	Balance at June 30, 2015	Due Within One Year
<b>Governmental activities:</b>					
2009 Bonds	\$ 775,000	\$ -	\$ 25,000	\$ 750,000	\$ 25,000
2009 Refunding Bonds	645,000	-	85,000	560,000	85,000
2009 KISTA Bonds	52,164	-	8,582	43,582	8,780
Deferred loss on refunding bonds	(27,785)	-	(4,568)	(23,217)	(4,568)
Insurance assessment	70,189	-	21,754	48,435	13,682
Compensated absences	170,142	28,560	-	198,702	1,306
	<u>\$ 1,684,710</u>	<u>\$ 28,560</u>	<u>\$ 135,768</u>	<u>\$ 1,577,502</u>	<u>\$ 129,220</u>

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	<u>Balance at July 1, 2014</u>	<u>Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2015</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Compensated absences	\$ 12,194	\$ 1,750	\$ -	\$ 13,944	-

As explained in Note 1, payments on the District's bonds are made by the Debt Service Fund. The insurance assessment and compensated absences for governmental activities will be liquidated by the General Fund.

**D. Fund Balances**

Spendable fund balance has been reported in the following categories for the year ended June 30, 2015:

	<u>General</u>	<u>Capital Outlay</u>	<u>Building</u>	<u>Special Revenue</u>
Restricted for:				
Sick leave	\$ 25,000	\$ -	\$ -	\$ -
SFCC escrow	-	28,217	9,208	-
Committed for future construction	50,000	-	-	-
Assigned for:				
Purchase obligations	593	-	-	1,745
Other	50,000	-	-	-

**E. Interfund Transactions**

The General Fund extends short-term cash flow loans to funds outside the General Fund that receive funding on a reimbursement basis. Repayment is expected when available cash is in excess of that needed for operations. The balance of \$132,495 due to the General fund from Special Revenue is a short-term cash flow loan.

The following interfund transfers were made during the year:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay	Debt Service	Debt service	\$ 23,868
Building	Debt Service	Debt service	133,952
Food Service	General	Indirect costs	12,000
			<u>\$ 169,820</u>

**F. Deficit Operating/Fund Balances**

For the year ended June 30, 2015, the Building Fund's activities resulted in a deficit as summarized below:

Revenues	\$ 129,638
Expenditures	-
Transfers out	(133,952)
Net change in fund balance	<u>\$ (4,314)</u>

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The current year deficit did not result in negative fund balance for the Building Fund, which was \$9,208 as of June 30, 2015.

**G. 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	\$ 347,157
Health insurance, life insurance, flexible spending accounts (including administrative fee)	491,263
Technology	28,117
Debt service	1,742
	<u>\$ 868,279</u>

The total of these payments has been included in revenues and expenditures in the financial statements as follows:

Governmental funds	
General Fund	\$ 807,677
Debt Service Fund	1,742
Proprietary fund	58,860
	<u>\$ 868,279</u>

**NOTE 3 – OTHER INFORMATION**

**A. Pension Plans**

The District's employees are provided with retirement benefits through two separate pension plans, based on eligibility requirements. Following are details related to each plan.

**Plan Description.** Certain employees of the District participate in the Teachers' Retirement System of the State of Kentucky (KTRS). KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a cost-sharing multiple-employer defined benefit plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state.

KRS 161.250 provides that the general administration and management of KTRS, and the responsibility for its proper operation, is vested in a board of trustees. The board of trustees consists of the chief state school officer, the State Treasurer, and seven elected trustees. Four of the elected trustees are active teachers, two are not members of the teaching profession, and one is an annuitant of the retirement system.

Employers are comprised of local school districts, Department of Education Agencies, universities, the Kentucky Community and Technical College System, and other educational organizations. The State under GASB No. 67 is recognized as a non-employer contributing entity providing the employer matching contributions for members employed by the local school districts and regional educational cooperatives.

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According to KRS 161.220 " . . . any regular or special teacher, or professional occupying a position requiring certification or graduation from a four (4) year college or university . . . " is eligible to participate in the System.

*Benefits provided.*

For Members before July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete twenty-seven (27) years of Kentucky service.

Non-university members receive monthly payments equal to two percent (2%) (service prior to July 1, 1983) and two and one-half percent (2.5%) (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002, will receive monthly benefits equal to two percent (2%) of their final average salary for each year of service if, upon retirement, their total service is less than ten (10) years. New members after July 1, 2002, who retire with ten (10) or more years of total service will receive monthly benefits equal to two and one-half percent (2.5%) of their final average salary for each year of service, including the first ten (10) years. In addition, non-university members who retire July 1, 2004, and later with more than thirty (30) years of service will have their multiplier increased for all years over thirty (30) from two and one-half percent (2.5%) to three percent (3%) to be used in their benefit calculation.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.

For Members on or after July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age sixty (60) and complete five (5) years of Kentucky service, or
- 2.) Complete twenty-seven (27) years of Kentucky service, or
- 3.) Attain age fifty-five (55) and complete ten (10) years of Kentucky service.

The annual retirement allowance for non-university members is equal to: (a) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is 10 years or less; (b) two percent (2.0%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) two and three tenths percent (2.3%) of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) two and one half percent (2.5%) of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) three percent (3.0%) of final average salary for years of credited service greater than 30 years.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

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

For the year ended June 30, 2015, the District's total payroll for all employees was \$2,693,881. Total covered payroll was \$1,625,134. Covered payroll refers to all compensation paid by the District to active employees covered by the KTRS plan.

*Contributions.* Contribution rates are established by Kentucky Revised Statutes. Non-university members are required to contribute 12.105 percent of their salaries to the System. For members employed by local school districts, the State, as a non-employer contributing entity, contributes 13.105 percent of salary for those who joined before July 1, 2008, and 14.105 percent for those who joined thereafter. For salaries that are federally funded, the District contributes 15.355 percent of salaries. The District's contributions for the year ended June 30, 2015, were \$87,944. If a member leaves covered employment before accumulating five (5) years of credited service, accumulated member contributions to the retirement annuity plan plus interest are refunded upon the member's request.

*Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions.* The State of Kentucky has determined that districts will not recognize their proportionate share of the net pension liability. The State will record the KTRS pension fund liability for local school district employers on its financial statements. The net pension liability 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 June 30, 2013. An expected total pension liability is determined as of June 30, 2014, using standard roll forward techniques. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the assumed interest rate for the year. At June 30, 2014, the State's proportionate share of the net pension liability associated with Fulton Independent School District was \$13,977,416. Pension expense reported by the State associated with Fulton Independent School District was \$684,922.

*Actuarial Assumptions.* A summary of the actuarial assumptions as of the latest actuarial valuation is shown below.

Valuation Date	6/30/2013
Actuarial cost method	Entry Age
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Projected salary increases	4.00 - 8.20%, including inflation
Inflation rate	3.50%
Municipal bond index rate	4.35%
Single equivalent interest rate	5.23%

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 experience study is scheduled to be conducted in 2016.

The long-term expected real 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 real rate of return

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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 estimates of arithmetic real rates of return for each major asset class, as provided by KTRS' investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
U.S. equity	45%	6.4%
Non-U.S. equity	17%	6.5%
Fixed income	24%	1.6%
High yield bonds	4%	3.1%
Real estate	4%	5.8%
Alternatives	4%	6.8%
Cash	<u>2%</u>	1.5%
Total	100%	

*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 members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods 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 payments streams was used to determine the total pension liability.

*Sensitivity of the District's Proportionate Share of the State's Net Pension Liability to Changes in the Discount Rate.* The following presents the District's proportionate share of the State's net pension liability calculated using the discount rate of 5.23 percent, as well as what the District's proportionate share of the State's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23 percent) or 1-percentage-point higher (6.23 percent) than the current rate:

	1% decrease (4.23%)	Current discount rate (5.23%)	1% increase (6.23%)
State's proportionate share of net pension liability associated with the District	\$17,557,506	\$13,977,416	\$11,022,860

*Plan Fiduciary Net Position.* Detailed information about the Plan's fiduciary net position is available in the separately issued Kentucky Teachers' Retirement Systems comprehensive annual financial report for the fiscal year ended June 30, 2014.

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**Plan Description.** The District contributes to the Kentucky Retirement Systems (KRS) County Employees Retirement System (CERS), hereafter referred to as the "Plan," which is a cost-sharing multiple employer defined benefit pension plan. The Plan was established in 1958 by the Kentucky General Assembly in order to supplement the benefits provided by Social Security. Under the provisions of Kentucky Revised Statute Section 61.701, the KRS Board of Trustees administers the Kentucky Retirement Systems Insurance Fund. District employees not eligible for the Teachers' Retirement System are covered under this Plan.

**Benefits provided.** The Plan provides for retirement, disability, and death benefits to Plan members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. 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 Unreduced retirement Reduced retirement	Before September 1, 2008 27 years' service or 65 years old At least 5 years' service and 55 years old At least 25 years' service and any age
Tier 2	Participation date Unreduced retirement  Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age equals 87 At least 10 years' service and 60 years old
Tier 3	Participation date Unreduced retirement  Reduced retirement	After December 31, 2013 At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age equals 87 Not available

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

For the year ended June 30, 2015, the District's total payroll for all employees was \$2,693,881. Total covered payroll under CERS was \$672,793. Covered payroll refers to all compensation paid by the District to active employees covered by the CERS Plan.

**Contributions.** The contribution requirements of Plan members and the District are established by state statute. Employee contributions for nonhazardous employees who began participating with KRS prior to September 1, 2008, contribute 5% of all their creditable compensation to KRS. Those beginning on or after that date contribute a total of 6%, with one percent of each employee's contribution deposited to the KRS Pension Fund 401(h) account for the payment of health insurance benefits. If a member terminates his/her employment and applies to take a refund, the member is entitled to a full refund of contributions and interest in his/her account; however, the 1% contributed to the 401(h) account is non-refundable and is forfeited. Employer contribution rates for fiscal year 2015 were adopted by the Board of KRS based on actuarially recommended rates. The required contribution rate for the year ended June 30, 2015, was 17.67% for nonhazardous employees. The District's contributions to the Plan for the year ended June 30, 2015, were \$118,877.

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*Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions.* At June 30, 2015, the District reported a liability of \$960,000 for its proportionate share of the net pension liability. The net pension liability 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 was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the District's proportion was 0.029602 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$108,287. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Plan investments	-	107,000
Contributions subsequent to the measurement date of June 30, 2014	118,877	<i>(not applicable)</i>
Total	\$ 118,877	\$ 107,000

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

Year Ending June 30:	
2016	\$21,400
2017	21,400
2018	21,400
2019	21,400
2020	21,400

*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	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of Plan investment expense, including inflation

Mortality rates for the period after service retirement were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

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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 rate of return on pension plan investments 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 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 and net of investment expense) 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.

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
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	100%	

*Discount Rate.* The discount rate used to measure the total pension liability was 7.75 percent. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2116. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

	1% decrease (6.75%)	Current discount rate (7.75%)	1% increase (8.75%)
District's proportionate share of the net pension liability	\$835,000	\$960,000	\$1,056,000

*Plan Fiduciary Net Position.* Detailed information about the Plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems comprehensive annual financial report for the fiscal year ended June 30, 2014.

The District also offers employees the option to participate in a defined contribution plan under Internal Revenue Code Sections 403(b) and 457. The District does not contribute to these plans.

**B. Medical Insurance Plan**

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

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

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

**C. Contingencies and Commitments**

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**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.

**E. Risk Management**

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

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

**F. COBRA**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**FULTON INDEPENDENT SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION**  
For the Year Ended June 30, 2015

**Schedule of State of Kentucky's Proportionate Share of the Net Pension Liability  
Associated with Fulton Independent School District – Special Funding Situation  
Kentucky Teachers' Retirement System**  
Fiscal Years Ending June 30,

	2014
Fulton Independent School District's proportion of the collective net pension liability	0.00%
Fulton Independent School District's proportionate share of the net pension liability	\$ 0
Portion of the State's proportionate share of the collective net pension liability that is associated with Fulton Independent School District	\$ 13,977,416
Total proportionate share of the collective net pension liability	\$ 13,977,416
Fulton Independent School District's covered employee payroll	\$ 1,625,134
Fulton Independent School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

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 future fiscal years until 10 years of information is available.

**Schedule of Fulton Independent School District's Proportionate Share of the  
Net Pension Liability – County Employees Retirement System of  
Kentucky Retirement Systems**  
Fiscal Years Ending June 30,

	2014
Fulton Independent School District's proportion of the collective net pension liability	.029602%
Fulton Independent School District's proportionate share of the net pension liability	\$ 960,000
Fulton Independent School District's covered employee payroll	\$ 672,793
Fulton Independent School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	142.69%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

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 future fiscal years until 10 years of information is available.

*See independent auditor's report.*

**FULTON INDEPENDENT SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION**  
For the Year Ended June 30, 2015

**Schedule of Fulton Independent School District's Contributions  
County Employees Retirement System of Kentucky Retirement Systems**  
Fiscal Years Ending June 30,

	2014	2015
Actuarially determined contributions	\$ 124,848	\$ 118,877
Contributions in relation to the actuarially determined contribution	124,848	118,877
Contribution deficiency (excess)	\$ -	\$ -
Fulton Independent School District's covered employee payroll	\$ 659,420	\$ 672,793
Fulton Independent School District's contributions as a percentage of covered employee payroll	18.89%	17.67%

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 future fiscal years until 10 years of information is available.

**Notes to Schedules – County Employees Retirement System**

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

2013 – The amortization period of the unfunded accrued liability was reset to a closed 30 year period.

*Method and assumptions used in calculations of actuarially determined contributions.* The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary increase	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

*See independent auditor's report.*

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>Revenues</b>				
Local Taxes				
Property	\$ 630,000	\$ 665,000	\$ 651,751	\$ (13,249)
Motor vehicle	60,000	60,000	67,066	7,066
Utilities	250,000	270,000	257,479	(12,521)
Other	55,000	55,000	52,079	(2,921)
Earnings on investments	11,000	11,000	7,882	(3,118)
Donations	-	-	180	180
Other local revenues	6,000	6,000	11,565	5,565
Intergovernmental - State	2,221,555	2,389,051	2,496,353	107,302
Intergovernmental - Indirect Federal	13,000	13,000	37,329	24,329
Total revenues	<u>3,246,555</u>	<u>3,469,051</u>	<u>3,581,684</u>	<u>112,633</u>
<b>Expenditures</b>				
Current				
Instruction	1,779,737	1,851,797	1,839,789	12,008
Support Services			-	
Student	249,241	257,243	258,291	(1,048)
Instructional staff	159,307	160,616	157,569	3,047
District administration	665,608	701,936	368,324	333,612
School administration	278,122	268,000	279,709	(11,709)
Business	122,695	122,695	138,785	(16,090)
Plant operations and management	405,579	427,782	468,857	(41,075)
Student transportation	49,849	50,831	59,469	(8,638)
Debt service				
Principal	-	813	8,582	(7,769)
Interest	-	-	1,626	(1,626)
Total expenditures	<u>3,710,138</u>	<u>3,841,713</u>	<u>3,581,001</u>	<u>260,712</u>
Revenues over (under) expenditures	(463,583)	(372,662)	683	373,345
<b>Other Financing Sources (Uses)</b>				
Transfers in	12,000	12,000	12,000	-
<b>Net change in fund balance</b>	<b>(451,583)</b>	<b>(360,662)</b>	<b>12,683</b>	<b>373,345</b>
Fund balance, beginning of year	450,000	362,242	475,323	113,081
Fund balance, end of year	<u>\$ (1,583)</u>	<u>\$ 1,580</u>	<u>\$ 488,006</u>	<u>\$ 486,426</u>

*See independent auditor's report.*

**FULTON INDEPENDENT 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>		
<b>Revenues</b>				
From local sources				
Donations	\$ 4,435	\$ 7,481	\$ 13,077	\$ 5,596
Intergovernmental - State	200,902	201,020	176,117	(24,903)
Intergovernmental - Indirect Federal	449,438	451,702	642,426	190,724
Total revenues	<u>654,775</u>	<u>660,203</u>	<u>831,620</u>	<u>171,417</u>
<b>Expenditures</b>				
Current				
Instruction	579,044	600,228	749,794	(149,566)
Support Services				
Instructional staff	3,239	3,243	4,604	(1,361)
Non-instructional services	72,492	72,604	77,222	(4,618)
Total expenditures	<u>654,775</u>	<u>676,075</u>	<u>831,620</u>	<u>(155,545)</u>
Excess revenues over expenditures	-	(15,872)	-	15,872
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	8,716	-	(8,716)
<b>Net change in fund balance</b>	-	<b>(7,156)</b>	-	<b>7,156</b>
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ (7,156)</u>	<u>\$ -</u>	<u>\$ 7,156</u>

*See independent auditor's report.*

## **OTHER SUPPLEMENTARY INFORMATION SECTION**

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

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 28,217	\$ 8,318	\$ -	\$ 36,535
Accounts receivable	<u>-</u>	<u>890</u>	<u>-</u>	<u>890</u>
<b>Total assets</b>	<b><u>\$ 28,217</u></b>	<b><u>\$ 9,208</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 37,425</u></b>
<b>Liabilities and Fund Balances</b>				
Liabilities	\$ -	\$ -	\$ -	\$ -
Fund balances				
Restricted	<u>28,217</u>	<u>9,208</u>	<u>-</u>	<u>37,425</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 28,217</u></b>	<b><u>\$ 9,208</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 37,425</u></b>

*See independent auditor's report.*

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

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Revenues</b>				
From local sources				
Taxes				
Property	\$ -	\$ 51,973	\$ -	\$ 51,973
Motor vehicle	-	4,628	-	4,628
Earnings on investments	-	266	-	266
Intergovernmental - State	<u>33,951</u>	<u>72,771</u>	<u>1,742</u>	<u>108,464</u>
Total revenues	<u>33,951</u>	<u>129,638</u>	<u>1,742</u>	<u>165,331</u>
<b>Expenditures</b>				
Debt service				
Principal	-	-	109,998	109,998
Interest	-	-	49,564	49,564
Total expenditures	<u>-</u>	<u>-</u>	<u>159,562</u>	<u>159,562</u>
Revenues over (under) expenditures	<u>33,951</u>	<u>129,638</u>	<u>(157,820)</u>	<u>5,769</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	157,820	157,820
Transfers out	<u>(23,868)</u>	<u>(133,952)</u>	<u>-</u>	<u>(157,820)</u>
Total other financing sources (uses)	<u>(23,868)</u>	<u>(133,952)</u>	<u>157,820</u>	<u>-</u>
<b>Net change in fund balances</b>	<b>10,083</b>	<b>(4,314)</b>	<b>-</b>	<b>5,769</b>
Fund balances, beginning of year	<u>18,134</u>	<u>13,522</u>	<u>-</u>	<u>31,656</u>
Fund balances, end of year	<u>\$ 28,217</u>	<u>\$ 9,208</u>	<u>\$ -</u>	<u>\$ 37,425</u>

*See independent auditor's report.*

**FULTON INDEPENDENT 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
<b>Activity Funds</b>				
<b>Fulton Independent School:</b>				
Middle School Football	\$ -	\$ 2,475	\$ 2,475	\$ -
Middle School Boys' Basketball	2,843	6,225	8,538	530
Middle School Cheerleaders	349	1,198	1,547	-
Middle School Girls' Basketball	3,956	4,934	7,612	1,278
Middle School Beta Club	254	-	-	254
Middle School Academic Team	376	63	109	330
Bulldog All-stars	561	625	407	779
General Fund	1,286	2,491	2,819	958
Girls' Basketball	4,903	4,935	5,811	4,027
Football	-	12,059	10,764	1,295
Boys' Basketball	5,527	8,876	6,873	7,530
Baseball	1,409	1,560	2,969	-
Softball	-	6,218	5,041	1,177
Cheerleaders	-	3,263	1,932	1,331
Play	22	10,240	9,819	443
Math/Science Club	1,947	391	1,426	912
Beta Club	586	7,307	7,805	88
FCA	145	-	-	145
Y-Club	845	-	-	845
Yearbook	682	4,123	3,688	1,117
Volleyball	182	6,119	4,454	1,847
Concessions	847	17,328	16,707	1,468
Student Vending	254	167	-	421
Lounge Fund	2,163	509	293	2,379
FEA	1,399	190	489	1,100
High School Student Council	107	314	421	-
Bulldog Academy	216	-	-	216
Student Rewards	-	189	-	189
Book Club	388	-	-	388
Supplies (Carr)	111	-	-	111
Lounge Fund (Carr)	1,630	853	951	1,532
7th Grade	304	418	488	234
8th Grade	405	-	-	405
Senior Class	515	1,060	1,575	-
Junior Class	377	356	231	502
Sophomore Class	136	126	-	262
Freshmen Class	-	106	-	106
Relay (Relay for Life)	275	292	-	567
	<u>35,000</u>	<u>105,010</u>	<u>105,244</u>	<u>34,766</u>
Less: inter-fund transfers	-	4,222	4,222	-
<b>Total agency funds</b>	<b><u>\$ 35,000</u></b>	<b><u>\$ 100,788</u></b>	<b><u>\$ 101,022</u></b>	<b><u>\$ 34,766</u></b>

See independent auditor's report.

**FULTON INDEPENDENT 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	Expenditures
<b>U.S. Department of Education</b>			
Passed Through State Department of Education			
Title I Cluster:			
Title I Grants to Local Educational Agencies	84.010	220-4500-3104	\$ (22,678)
Title I Grants to Local Educational Agencies	84.010	220-4500-310A	273,732
Title I Grants to Local Educational Agencies	84.010	220-4500-3202	<u>(2,603)</u>
Total Title I Cluster			<u>248,451</u>
Special Education Cluster:			
Special Education_Grants to States	84.027	220-4500-3374	5,628
Special Education_Grants to States	84.027	220-4500-337A	<u>173,204</u>
		Sub-total	<u>178,832</u>
Special Education_Preschool Grants	84.173	220-4500-3434	909
Special Education_Preschool Grants	84.173	220-4500-343A	<u>1,284</u>
		Sub-total	<u>2,193</u>
Total Special Education Cluster			<u>181,025</u>
21st Century Community Learning Centers	84.287C	220-4500-5504	<u>113,559</u>
Career and Technical Education Basic Grants to States	84.048	220-4500-3484	(849)
Career and Technical Education Basic Grants to States	84.048	220-4500-348A	<u>6,344</u>
			<u>5,495</u>
Improving Teacher Quality State Grants	84.367	220-4500-401A	<u>56,930</u>
Race To The Top	84.413A	220-4500-5503	<u>6,347</u>
Total U.S. Department of Education			<u>611,807</u>
<b>U.S. Department of Agriculture</b>			
Passed Through State Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	510-4500	83,110
National School Lunch Program	10.555	510-4500	185,971
Summer Food Service Program for Children	10.555	510-4500	2,946
National School Lunch Program - Donated Commodities	10.559	510-4950	<u>15,637</u>
Total Child Nutrition Cluster			287,664
Fresh Fruit and Vegetable Program	10.582	510-4500	<u>11,717</u>
Total U.S. Department of Agriculture			<u>299,381</u>
<b>U.S. Department of Health and Human Resources</b>			
Passed Through Murray Board of Education			
Head Start	93.600	220-4700-6554	4,392
Head Start	93.600	220-4700-6553	<u>26,000</u>
Total U.S. Department of Health and Human Resources			<u>30,392</u>
<b>Total federal awards</b>			<b><u>\$ 941,580</u></b>
<b>Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures</b>			
Total expenditures of federal awards			\$ 941,580
Total expenditures of state and local awards			189,421
Expenditure of federal awards in the food service fund			<u>(299,381)</u>
<b>Total expenditures as reported in the special revenue fund on the statement of revenues, expenditures and changes in fund balance - governmental funds</b>			<b><u>\$ 831,620</u></b>

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

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

**NOTE 1 - BASIS OF PRESENTATION**

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

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

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**

**Members of:**

American Institute of Certified Public Accountants  
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**Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton Independent School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fulton Independent School District's basic financial statements and have issued our report thereon dated November 15, 2015.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2015-001 to be material weaknesses.

## **Compliance and Other Matters**

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

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

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

## **Purpose of this Report**

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

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 15, 2015

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American Institute of Certified Public Accountants  
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**Independent Auditor's Report on Compliance for Each Major Federal Program and  
on Internal Control Over Compliance Required by OMB Circular A-133**

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

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

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

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

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

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

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

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

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 15, 2015

**FULTON INDEPENDENT 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?   x   yes        no  
 Significant deficiency(ies) identified?        yes   x   none reported

Noncompliance material to financial statements noted?        yes   x   no

**Federal Awards**

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
10.553, 10.555 and 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee?        yes   x   no

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

June 30, 2015

**FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

**FINDING 2015-001**

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

**Criteria:** Internal controls should be in place in order for the District to be able to prevent, detect, and correct potential misstatements in its financial statements, as prescribed by Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement AU-C 315. A system of internal control over financial reporting does not consist solely of controls over the proper recording of accounting transactions. Rather, it includes controls over financial statement preparation, including the footnote disclosures.

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

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

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

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

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**None reported**

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS**  
June 30, 2015

**FINANCIAL STATEMENT FINDINGS**

**FINDING 2007-001 – Material Weakness**

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

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

**Current Status:** This circumstance continues to exist. See finding 2015-001.

**FINDING 2014-001**

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

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

**Current Status:** This circumstance was corrected.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported