

FULTON COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2013

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INTRODUCTORY SECTION

FULTON COUNTY SCHOOL DISTRICT

June 30, 2013

BOARD OF EDUCATION

Wiley Gannon, Chairperson
Rob Garrigan, Vice-Chair
Barry Patrick, Member
Perry Turner, Member
Phillip Vowell, Member

ADMINISTRATIVE STAFF

Dennis Bledsoe, Superintendent
Julie Vowell, Finance Officer

CURRENT BOARD OF EDUCATION

Rob Garrigan, Chairperson
Perry Turner, Vice-Chair
Wiley Gannon, Member
Barry Patrick, Member
Phillip Vowell, Member

CURRENT ADMINISTRATIVE STAFF

Aaron Collins, Superintendent
Shelly McClain, Finance Officer

FINANCIAL SECTION

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Tennessee Society of Certified Public Accountants
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County School District, as of and for the year ended June 30, 2013, 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.

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

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

Qualified Opinions

In our opinion, except for the effects of the matter described in the "*Basis for Qualified Opinion on General, Special Revenue, and Food Service Funds*" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general, special revenue, and food service funds of the Fulton County School District, as of June 30, 2013, 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fulton County School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-8 and 37-38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fulton County School District's basic financial statements. The introductory section, the combining fund financial statements and schedule of expenditures of federal awards, as

required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2014, on our consideration of the Fulton County School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Fulton County School District’s internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Alexander Thompson Arnold PLLC
Murray, Kentucky
February 11, 2014

FULTON COUNTY SCHOOLS

Proficiency, Positive Relationships, & Pilot Pride

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Hickman, Kentucky 42050

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Board of Education Members

Wiley Gannon, *Member*
Rob Garrigan, *Chair*
Perry Turner, *Vice Chair*
Barry Patrick, *Member*
Dale Vowell, *Member*

Superintendent

Aaron Collins

Director of Food Service

Delores Giles

Director of Special Education & Preschool Coordinator

Shelly Weatherford

Director of Maintenance & Transportation

Dale Jackson

Director of Curriculum & Instruction/ District Assessment Coordinator

PaTrice Chambers

Director of Pupil Personnel & Federal Programs

Craig Turner

Finance Officer

Shelly McClain

Administrative Assistant

Maegan Scott

FULTON COUNTY SCHOOL DISTRICT – HICKMAN, KY MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2013

The discussion and analysis of the Fulton County School District (District) provides a narrative overview and analysis of the District’s financial statements and activities for the fiscal year ended June 30, 2013. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$1,346,374. This total incorporates all funds. The General Fund cash balance at the beginning of the year was \$1,002,411. The General Fund cash balance at year-end was \$35,757.
- The General Fund had \$4,607,666 in revenue, which primarily consisted of the state program (SEEK), property, franchise, utilities and motor vehicle taxes. The General Fund expenditures were \$4,912,710.

USING THIS ANNUAL REPORT

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The Statement of Net Position on page 9 presents information on all the District's assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The Statement of Activities on page 10 presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flow. Thus revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

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

Fund financial statements start on page 11 of this report.

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 notes to the financial statements start on page 20 of this report.

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

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3,859,877 as of June 30, 2013.

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

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

Table 1 provides a comparison of the District's net position for 2013 and 2012:

Table 1

<u>Net Position as of June 30,</u>	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets			
Current Assets	\$1,542,362	\$1,709,318	\$ (166,956)
Noncurrent Assets	<u>5,641,028</u>	<u>6,072,553</u>	<u>(431,525)</u>
Total Assets	<u>7,183,390</u>	<u>7,781,871</u>	<u>(598,481)</u>
Liabilities			
Current Liabilities	467,948	477,094	(9,146)
Noncurrent Liabilities	<u>2,855,565</u>	<u>3,139,046</u>	<u>(283,481)</u>
Total Liabilities	<u>3,323,513</u>	<u>3,616,140</u>	<u>(292,627)</u>
Net Position			
Net investment in capital assets	2,671,046	2,776,593	(105,547)
Restricted	183,319	160,400	22,919
Unrestricted	<u>1,005,512</u>	<u>1,218,738</u>	<u>(213,226)</u>
Total Net Position	<u>\$3,859,877</u>	<u>\$4,155,731</u>	<u>\$ (295,854)</u>

Table 2 shows changes in net position for the fiscal years 2013 and 2012:

Table 2

<u>Statement of Activities for the</u> <u>year ended June 30,</u>	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for services	\$ 34,396	\$ 49,844	\$ (15,448)
Operating grants and contributions	2,051,699	2,057,991	(6,292)
General Revenues:			
Local taxes	1,559,632	1,451,836	107,796
State revenues	3,412,157	3,525,379	(113,222)
Investment earnings	16,733	26,218	(9,485)
Loss on disposal of fixed assets	(111,529)		(111,529)
Other revenues	44,433	29,707	14,726
Total Revenues	<u>7,007,521</u>	<u>7,140,975</u>	<u>(133,454)</u>
Expenses			
Instruction	3,853,236	4,206,013	(352,777)
Support services:			
Student	221,922	216,507	5,415
Instructional staff	512,330	437,318	75,012
District administration	575,400	438,856	136,544
School administration	324,100	361,274	(37,174)
Business	265,650	151,283	114,367
Plant operations and management	638,521	644,681	(6,160)
Student transportation	308,958	289,555	19,403
Non-instructional	79,662	86,538	(6,876)
Interest on long-term debt	119,004	129,783	(10,779)
Amortization - unallocated	5,826	6,273	(447)
Food service	404,479	415,532	(11,053)
Total Expenses	<u>7,309,088</u>	<u>7,383,613</u>	<u>(74,525)</u>
Change in Net Position	<u>\$ (301,567)</u>	<u>\$ (242,638)</u>	<u>\$ (58,929)</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Table 3 provides a comparison of the District's General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance for 2013 and 2012:

Table 3

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

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenues			
Taxes	\$1,448,940	\$1,340,481	\$ 108,459
Earnings on investment	16,402	25,620	(9,218)
Other local revenue	22,911	15,140	7,771
Intergovernmental – State	3,097,891	3,210,629	(112,738)
Intergovernmental – Federal	21,522	14,567	6,955
Total Revenues	<u>4,607,666</u>	<u>4,606,437</u>	<u>1,229</u>
Expenditures			
Current			
Instruction	2,487,420	2,711,271	(223,851)
Support services			
Student	219,646	207,000	12,646
Instructional staff	178,172	164,445	13,727
District administration	562,921	432,796	130,125
School administration	327,757	345,916	(18,159)
Business	265,131	153,291	111,840
Plant operation and mgt.	577,918	591,826	(13,908)
Student transportation	293,861	269,733	24,128
Total Expenditures	<u>4,912,826</u>	<u>4,876,278</u>	<u>36,548</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(305,160)</u>	<u>(269,841)</u>	<u>(35,319)</u>
Other Financing Sources (Uses)			
Transfers in	96,345	55,054	41,291
Transfers out	(7,731)	(19,995)	12,264
Total Other Financing Sources (Uses)	<u>88,614</u>	<u>35,059</u>	<u>53,555</u>
Net Change in Fund Balance	(216,546)	(234,782)	18,236
Fund Balance, July 1	<u>1,343,905</u>	<u>1,578,687</u>	<u>(234,782)</u>
Fund Balance, end of year	<u>\$1,127,359</u>	<u>\$1,343,905</u>	<u>\$(216,546)</u>

PLANNING FOR THE FUTURE

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

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

BASIC FINANCIAL STATEMENTS

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 195,476	\$ 64,842	\$ 260,318
Receivables			
Accounts	70,017	-	70,017
Intergovernmental - State	20,026	-	20,026
Intergovernmental - Federal	1,143,799	-	1,143,799
Inventories	-	7,028	7,028
Deferred bond issuance costs	41,174	-	41,174
Capital assets not being depreciated			
Land	11,000	-	11,000
Construction in progress	13,339	-	13,339
Capital assets, net of accumulated depreciation			
Land improvements	25,978	-	25,978
Buildings and improvements	5,436,654	-	5,436,654
Technology equipment	54,872	3,584	58,456
Vehicles	78,943	-	78,943
General equipment	16,658	-	16,658
Total assets	<u>7,107,936</u>	<u>75,454</u>	<u>7,183,390</u>
Liabilities			
Accounts payable	39,786	-	39,786
Accrued salaries	9,900	-	9,900
Unearned revenue	92,728	-	92,728
Accrued interest	36,963	-	36,963
Long-term liabilities			
Portion due or payable within one year			
Bonds and leases	277,320	-	277,320
Accrued sick leave	11,251	-	11,251
Portion due or payable after one year			
Bonds and leases	2,692,662	-	2,692,662
Accrued sick leave	158,889	4,014	162,903
Total liabilities	<u>3,319,499</u>	<u>4,014</u>	<u>3,323,513</u>
Net Position			
Net investment in capital assets	2,667,462	3,584	2,671,046
Restricted for			
Accumulated sick leave	23,600	-	23,600
SFCC escrow	159,719	-	159,719
Unrestricted	937,656	67,856	1,005,512
Total net position	<u>\$ 3,788,437</u>	<u>\$ 71,440</u>	<u>\$ 3,859,877</u>

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

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	\$ 3,853,236	\$ -	\$ 1,686,634	\$ (2,166,602)	\$ -	\$ (2,166,602)
Support services						
Student	221,922	-	-	(221,922)	-	(221,922)
Instructional staff	512,330	-	-	(512,330)	-	(512,330)
District administration	575,516	-	-	(575,516)	-	(575,516)
School administration	324,100	-	-	(324,100)	-	(324,100)
Business	265,650	-	-	(265,650)	-	(265,650)
Plant operations and management	638,521	-	-	(638,521)	-	(638,521)
Student transportation	308,958	-	-	(308,958)	-	(308,958)
Non-instructional services	79,662	-	-	(79,662)	-	(79,662)
Interest on long-term debt	119,004	-	-	(119,004)	-	(119,004)
Amortization - unallocated	5,826	-	-	(5,826)	-	(5,826)
Total governmental activities	<u>6,904,725</u>	<u>-</u>	<u>1,686,634</u>	<u>(5,218,091)</u>	<u>-</u>	<u>(5,218,091)</u>
Business-Type Activities						
Food service	404,479	34,396	365,065	-	(5,018)	(5,018)
Total business-type activities	<u>404,479</u>	<u>34,396</u>	<u>365,065</u>	<u>-</u>	<u>(5,018)</u>	<u>(5,018)</u>
Total primary government	<u>\$ 7,309,204</u>	<u>\$ 34,396</u>	<u>\$ 2,051,699</u>	<u>(5,218,091)</u>	<u>(5,018)</u>	<u>(5,223,109)</u>
General revenues:						
Taxes						
Property				779,534	-	779,534
Motor vehicle				352,783	-	352,783
Utilities				342,636	-	342,636
Other				84,679	-	84,679
Investment earnings				16,402	331	16,733
Other local revenue				22,911	-	22,911
State aid - formula grants				3,412,157	-	3,412,157
Medicaid reimbursement				21,522	-	21,522
Loss on disposal of fixed assets				(108,338)	(3,191)	(111,529)
Total general revenues				<u>4,924,286</u>	<u>(2,860)</u>	<u>4,921,426</u>
Change in net position				(293,805)	(7,878)	(301,683)
Net position, beginning of year				4,082,242	79,318	4,161,560
Net position, end of year				<u>\$ 3,788,437</u>	<u>\$ 71,440</u>	<u>\$ 3,859,877</u>

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

FULTON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 35,757	\$ -	\$ 159,719	\$ 195,476
Receivables				
Accounts	70,017	-	-	70,017
Intergovernmental - State	-	20,026	-	20,026
Intergovernmental - Federal	-	1,143,799	-	1,143,799
Due from other funds	1,070,946	-	-	1,070,946
Total assets	<u>\$ 1,176,720</u>	<u>\$ 1,163,825</u>	<u>\$ 159,719</u>	<u>\$ 2,500,264</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 39,461	\$ 325	\$ -	\$ 39,786
Accrued salaries	9,900	-	-	9,900
Due to other funds	-	1,070,946	-	1,070,946
Unearned revenue	-	92,728	-	92,728
Total liabilities	<u>49,361</u>	<u>1,163,999</u>	<u>-</u>	<u>1,213,360</u>
Fund Balances				
Restricted	23,600	-	159,719	183,319
Unassigned	1,103,759	(174)	-	1,103,585
Total fund balances	<u>1,127,359</u>	<u>(174)</u>	<u>159,719</u>	<u>1,286,904</u>
Total liabilities and fund balances	<u>\$ 1,176,720</u>	<u>\$ 1,163,825</u>	<u>\$ 159,719</u>	<u>\$ 2,500,264</u>

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

**FULTON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013**

Total fund balances - governmental funds		\$ 1,286,904
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets and inventories used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$11,508,161, and the accumulated depreciation is \$5,870,717.</p>		5,637,444
<p>Certain long-term assets related to bond issuance costs are not reported in the governmental funds because they are not available to pay current period expenditures. These assets are, however, included in the statement of net position.</p>		41,174
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>		
Bonds payable	(2,969,982)	
Accrued interest on the bonds	(36,963)	
Accrued sick leave payable	(170,140)	
		(3,177,085)
Total net position - governmental activities		<u>\$ 3,788,437</u>

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources				
Taxes				
Property	\$ 668,842	\$ -	\$ 110,692	\$ 779,534
Motor vehicle	352,783	-	-	352,783
Utilities	342,636	-	-	342,636
Other	84,679	-	-	84,679
Earnings on investments	16,402	-	-	16,402
Other local revenues	22,911	12,774	-	35,685
Intergovernmental - State	3,097,891	258,362	314,266	3,670,519
Intergovernmental - Indirect Federal	21,522	1,415,498	-	1,437,020
Total revenues	<u>4,607,666</u>	<u>1,686,634</u>	<u>424,958</u>	<u>6,719,258</u>
Expenditures				
Current				
Instruction	2,487,420	1,174,145	-	3,661,565
Support Services				
Student	219,646	7,895	-	227,541
Instructional staff	178,172	334,158	-	512,330
District administration	562,921	-	-	562,921
School administration	327,757	-	-	327,757
Business	265,131	-	-	265,131
Plant operation and management	577,918	3,184	-	581,102
Student transportation	293,861	-	-	293,861
Non-instructional services	-	78,638	-	78,638
Facilities acquisition and construction	-	-	13,339	13,339
Debt service				
Principal	-	-	285,540	285,540
Interest	-	-	121,710	121,710
Total expenditures	<u>4,912,826</u>	<u>1,598,020</u>	<u>420,589</u>	<u>6,931,435</u>
Excess (deficit) of revenues over expenditures	<u>(305,160)</u>	<u>88,614</u>	<u>4,369</u>	<u>(212,177)</u>
Other Financing Sources (Uses)				
Transfers in	96,345	7,731	205,759	309,835
Transfers out	(7,731)	(96,345)	(205,759)	(309,835)
Total other financing sources (uses)	<u>88,614</u>	<u>(88,614)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(216,546)	-	4,369	(212,177)
Fund balances, beginning of year	<u>1,343,905</u>	<u>(174)</u>	<u>155,350</u>	<u>1,499,081</u>
Fund balances, end of year	<u>\$ 1,127,359</u>	<u>\$ (174)</u>	<u>\$ 159,719</u>	<u>\$ 1,286,904</u>

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

FULTON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Total net change in fund balances - governmental funds	\$	(212,177)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported in governmental funds as expenditures and capital dispositions are not recorded. However, in the statement of activities, the cost of assets purchased is allocated over their estimated useful lives as depreciation expense and the excess of the sales price, if any, over the net book value of dispositions are recorded as a gain (loss) on disposal of assets . This is the amount by which loss on disposal of assets (\$108,338) and depreciation expense (\$286,390) exceeds capital outlays (\$26,545) in the period.</p>		(368,183)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		285,371
<p>In the statement of activities, certain operating expenses - accumulated sick leave - are recognized when they are incurred during the year. In the governmental funds, however, expenditures for these items are limited to only those that use current financial resources.</p>		4,135
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		2,875
<p>Some expenses, such as amortization expense, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		<hr style="width: 100%;"/> (5,826)
Change in net position of governmental activities	\$	<u>(293,805)</u>

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

**FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013**

	<u>Food Service Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 64,842
Inventories	<u>7,028</u>
Total current assets	<u>71,870</u>
Noncurrent Assets	
Technology equipment	5,458
General equipment	135,708
Accumulated depreciation	<u>(137,582)</u>
Total noncurrent assets	<u>3,584</u>
 Total assets	 <u>75,454</u>
Liabilities	
Long-term liabilities	
Accrued sick leave	<u>4,014</u>
Total long-term liabilities	<u>4,014</u>
Net Position	
Net investment in capital assets	3,584
Unrestricted	<u>67,856</u>
Total net position	<u>\$ 71,440</u>

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

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

For the Year Ended June 30, 2013

	<u>Food Service Fund</u>
Operating Revenues	
Lunchroom sales	\$ 34,396
Total operating revenues	<u>34,396</u>
Operating Expenses	
Salaries, wages and benefits	216,073
Contract services	21,304
Materials and supplies	163,951
Depreciation	3,151
Total operating expenses	<u>404,479</u>
Operating loss	<u>(370,083)</u>
Non-Operating Revenues (Expenses)	
Interest income	331
Donated commodities	19,995
Grants - child nutrition program	293,557
State funding - on-behalf payments	47,965
State matching	3,548
Loss on disposal of assets	(3,191)
Total non-operating revenues (expenses)	<u>362,205</u>
Change in net position	(7,878)
Total net position, beginning of year	<u>79,318</u>
Total net position, end of year	<u>\$ 71,440</u>

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 34,396
Cash paid for:	
Salaries, wages and benefits	(168,389)
Contract services	(21,304)
Materials and supplies	(141,190)
Net cash used by operating activities	<u>(296,487)</u>
Cash Flows from Noncapital Financing Activities	
Federal grants received	296,757
State grants received	3,548
Net cash provided by noncapital financing activities	<u>300,305</u>
Cash Flows from Investing Activities	
Interest income	<u>331</u>
Net increase in cash and cash equivalents	4,149
Cash and cash equivalents, beginning of year	<u>60,693</u>
Cash and cash equivalents, end of year	\$ 64,842
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating loss	\$ (370,083)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	3,151
Commodities used	19,995
Salaries, wages and benefits (on-behalf payments)	47,965
Changes in assets and liabilities	
Inventories	2,885
Accounts payable	(119)
Accrued sick leave	(281)
Net cash used by operating activities	<u>\$ (296,487)</u>
Noncash Noncapital Financing Activities	
Donated food commodities received from the U.S. Department of Agriculture	<u>\$ 19,995</u>
State funding - on-behalf payments	<u>\$ 47,965</u>

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

**FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2013**

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 55,499	\$ 90,038
Total assets	55,499	90,038
Liabilities		
Due to student groups	-	90,038
Total liabilities	-	\$ 90,038
Net Position		
Assets held in trust	55,499	
Total net position	\$ 55,499	

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

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2013

	<u>Private Purpose Trust Funds</u>
Additions	
Interest	\$ 55
Donations	16,100
Deductions	
Instruction	<u>(2,423)</u>
Change in net position	13,732
Net position, beginning of year	<u>41,767</u>
Net position, end of year	<u><u>\$ 55,499</u></u>

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

NOTES TO FINANCIAL STATEMENTS

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

June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation

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

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

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

June 30, 2013

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

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

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

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

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

The District has the following funds:

I. Governmental Fund Types

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

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

June 30, 2013

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

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

II. Proprietary Fund Type (Enterprise Fund)

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

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

III. Fiduciary Fund Type (includes agency funds)

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

C. Basis of Accounting

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

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

June 30, 2013

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes levied to finance fiscal year 2013 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and, matching requirements, in which the District must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

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

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

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

D. Property Taxes

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

The property tax rates for the year ended June 30, 2013 to finance the General Fund operations were \$.481 per \$100 valuation for real property, \$.481 per \$100 valuation for business tangible personal property, and \$.557 per \$100 valuation for motor vehicles.

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

June 30, 2013

E. Capital Assets

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

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

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

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

F. Interfund Activity

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

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

G. Budgetary Process

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

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

June 30, 2013

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

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

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

H. Encumbrance Accounting

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

I. Cash and Cash Equivalents

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

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

J. Inventories

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

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

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

K. Accrued and Long-Term Liabilities

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

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

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

June 30, 2013

L. Restricted Assets

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

M. Fund Balances

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

Nonspendable fund balance

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

Restricted fund balance

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

Committed fund balance

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

Assigned fund balance

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

Unassigned fund balance

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

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

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

June 30, 2013

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

N. Net Position

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

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

O. Estimates

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

P. Deferred Outflows and Inflows of Resources

During the year ended June 30, 2013, the District adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources, which are distinct from assets and liabilities and also renamed as net position, rather than net assets, the residual of all other elements presented in a statement of financial positions. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011.

As of June 30, 2013, the District did not have any financial statement elements that meet the definition of deferred outflows of resources or deferred inflows of resources under GASB statement No. 63.

Q. Impact of Recently Issued Accounting Pronouncements

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before

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

June 30, 2013

November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the District's financial statements.

NOTE 2 - DETAILED NOTES ON ACCOUNTS

A. Deposits

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

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

At fiscal year-end, the carrying amount of the District's deposits was \$405,855 and the bank balance was \$887,798. Of the District's bank balance, \$637,798 was collateralized as discussed above because it was uninsured, while \$250,000 was covered by Federal Deposit Insurance.

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

Reconciliation to Government-wide Statement of Net Position:

Unrestricted cash, including time deposits	\$ 260,318
Fiduciary fund cash (not included in government-wide statement)	<u>145,537</u>
	<u>\$ 405,855</u>

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

Governmental activities	\$ 195,476
Business-type activities	64,842
Fiduciary funds	<u>145,537</u>
	<u>\$ 405,855</u>

B. Capital Assets

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

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

June 30, 2013

<u>Governmental Activities</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
Non-depreciable				
Land	\$ 11,000	\$ -	\$ -	\$ 11,000
Construction in progress	<u>-</u>	<u>13,339</u>	<u>-</u>	<u>13,339</u>
Totals	<u>11,000</u>	<u>13,339</u>	<u>-</u>	<u>24,339</u>
Depreciable				
Land improvements	191,996	-	19,948	172,048
Buildings and improvements	10,125,213	-	6,144	10,119,069
Technology equipment	660,800	13,206	451,936	222,070
Vehicles	869,090	-	-	869,090
General equipment	<u>185,303</u>	<u>-</u>	<u>83,758</u>	<u>101,545</u>
Totals	<u>12,032,402</u>	<u>13,206</u>	<u>561,786</u>	<u>11,483,822</u>
Less: Accumulated depreciation				
Land improvements	162,095	3,265	19,290	146,070
Buildings and improvements	4,498,003	188,151	3,739	4,682,415
Technology equipment	448,361	75,555	356,718	167,198
Vehicles	775,127	15,020	-	790,147
General equipment	<u>154,189</u>	<u>4,399</u>	<u>73,701</u>	<u>84,887</u>
Totals	<u>6,037,775</u>	<u>286,390</u>	<u>453,448</u>	<u>5,870,717</u>
Net Book Value	<u>5,994,627</u>	<u>(273,184)</u>	<u>(108,338)</u>	<u>5,613,105</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 6,005,627</u>	<u>\$ (259,845)</u>	<u>\$ (108,338)</u>	<u>\$ 5,637,444</u>
Business-Type Activities				
Depreciable				
Technology equipment	\$ 13,101	\$ -	\$ 7,643	\$ 5,458
Food service equipment	<u>266,901</u>	<u>-</u>	<u>131,193</u>	<u>135,708</u>
Totals	<u>280,002</u>	<u>-</u>	<u>138,836</u>	<u>141,166</u>
Less: Accumulated depreciation				
Technology equipment	6,025	2,629	6,780	1,874
Food service equipment	<u>264,051</u>	<u>522</u>	<u>128,865</u>	<u>135,708</u>
Totals	<u>270,076</u>	<u>3,151</u>	<u>135,645</u>	<u>137,582</u>
Business-Type Activities				
Capital Assets – Net	<u>\$ 9,926</u>	<u>\$ (3,151)</u>	<u>\$ (3,191)</u>	<u>\$ 3,584</u>

The District incurred construction costs related to the renovation of the vocational school HVAC in the total amount of \$13,339 as of June 30, 2013. The estimated cost to complete the project is \$138,000. This project was not completed as of the balance sheet date and has been reported as construction in progress in the government-wide financial statements.

Amortization expense of \$5,826 related to bond issue costs and bond discounts was not allocated to governmental activities. Total amortization expense appears on the statement of activities as "unallocated".

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

June 30, 2013

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

Instruction	\$ 195,294
Support services:	
Student	221
District administration	15,366
School administration	2,550
Business support	519
Plant operations and management	57,419
Student transportation	<u>15,021</u>
	<u>\$ 286,390</u>

C. Long-Term Liabilities

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

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

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

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

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

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

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

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

June 30, 2013

<u>Issue</u>	<u>Balance at July 1, 2012</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2013</u>
1996	\$ 240,000	\$ -	\$ 45,000	\$ 195,000
2002	725,000	-	110,000	615,000
2008	2,070,000	-	95,000	1,975,000
2009 (KISTA)	89,631	-	20,432	69,199
2009 (KISTA)	<u>131,795</u>	<u>-</u>	<u>15,108</u>	<u>116,687</u>
	<u>\$ 3,256,426</u>	<u>\$ -</u>	<u>\$ 285,540</u>	<u>\$ 2,970,886</u>

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013, for debt service (principal and interest) are as follows:

<u>Fiscal Year</u>	<u>Fulton County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	\$ 162,481	\$ 44,144	\$ 115,008	\$ 66,812	\$ 308,445
2015	170,074	37,373	118,471	62,989	388,907
2016	179,178	30,215	124,422	58,916	392,731
2017	180,440	22,598	128,242	54,541	385,821
2018	151,922	16,438	115,042	50,233	333,635
2019-2023	127,711	44,554	582,895	187,253	942,413
2024-2028	<u>158,691</u>	<u>18,460</u>	<u>656,309</u>	<u>75,668</u>	<u>909,128</u>
	<u>\$ 1,130,497</u>	<u>\$ 213,782</u>	<u>\$ 1,840,389</u>	<u>\$ 556,412</u>	<u>\$ 3,741,080</u>

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

	<u>Balance at July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>	<u>Due in One Year</u>
Bonds	\$ 3,256,426	\$ -	\$ 285,540	\$ 2,970,886	\$ 277,489
Less unamortized call premium on refunding bond issue	<u>(1,073)</u>	<u>169</u>	<u>-</u>	<u>(904)</u>	<u>(169)</u>
	3,255,353	169	285,540	2,969,982	277,320
Accrued sick leave					
Governmental activities	174,275	16,654	20,789	170,140	11,251
Proprietary activities	<u>4,295</u>	<u>-</u>	<u>281</u>	<u>4,014</u>	<u>-</u>
	<u>\$ 3,433,923</u>	<u>\$ 16,823</u>	<u>\$ 306,610</u>	<u>\$ 3,144,136</u>	<u>\$ 288,571</u>

As explained in Note 1, payments on the District's bonds are made by the Debt Service Fund. The compensated absences will be liquidated by the General Fund. In the past, this liability has been paid each year by the General Fund.

D. Compensated Absences and Accumulated Sick Leave

Certified and classified employees of the District are entitled to payment of 15 - 30%, depending on the employee's position, of the value of accumulated sick and personal days upon retirement.

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

June 30, 2013

Kentucky Revised Statutes allow the District to restrict up to 50% of the accumulated benefits for all employees eligible to retire as of September 15, 2012. The total amount of accumulated benefits for all employees eligible to retire at this date is \$81,411. The District has a General Fund Balance restriction of \$23,600 at the balance sheet date. The District recognizes the expense of these benefits when payment is made by the governmental fund to a retiring employee.

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

E. Fund Balances

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2013, are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay</u>	<u>Building</u>	<u>Debt Service</u>
Restricted for:					
Sick leave	\$ 23,600	\$ -	\$ -	\$ -	\$ -
SFCC escrow	-	-	159,468	-	-
Debt service	-	-	-	-	251
	<u>23,600</u>	<u>-</u>	<u>159,468</u>	<u>-</u>	<u>251</u>
Unassigned	<u>1,103,759</u>	<u>(174)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	\$ <u>1,127,359</u>	\$ <u>(174)</u>	\$ <u>159,468</u>	\$ <u>-</u>	\$ <u>251</u>

F. Deficit Operating/Fund Balances

The Special Revenue Fund ended the year with a deficit fund balance in the amount of \$174. The District plans to eliminate this deficit balance in the succeeding year. The following funds had operations that resulted in a current year deficit of revenues/transfers in over expenditures/transfers out:

General Fund	\$ 216,430
Building Fund	72
Food Service Fund	7,878

G. Interfund Transactions

Interfund Receivables/Payables (Short-Term)

The General Fund extends short-term cashflow loans to funds outside the General Fund that receive funding on a reimbursement basis. Repayment is expected when available cash is in excess of that needed for operations. The balance of \$1,070,946 due to the General Fund from Special Revenue is a short-term cashflow loan.

Transfers

The following transfers were made during the year:

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

June 30, 2013

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue	KETS Match	\$ 7,731
Special Revenue	General Fund	Preschool	96,345
Building Fund	Debt Service	Debt Service	175,222
Capital Outlay	Debt Service	Debt Service	30,537

H. On-Behalf Payments

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2013:

Contributions to Kentucky Teachers' Retirement System	\$ 362,294
Health insurance, life insurance, flexible Spending accounts (includes administrative fee)	634,016
Technology	49,140
Debt Service	<u>201,491</u>
	<u>\$ 1,246,941</u>

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

Governmental activities	
General Fund	\$ 997,485
Debt Service Fund	201,491
Business-type activities	<u>47,965</u>
	<u>\$ 1,246,941</u>

NOTE 3 - OTHER INFORMATION

A. Retirement Plans

Pension plan

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

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

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

June 30, 2013

<http://ktrs.ky.gov/>. CERS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

Contribution rates for both plans are determined by the legislature. KTRS members are required to contribute 10.855% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.105% of salaries. The federal program for any salaries paid by that program is required to pay the matching contribution. The District is required to contribute 1.00% of all KTRS member salaries to KTRS. CERS members hired before September 1, 2008, are required to contribute 5% of their salaries to CERS. CERS members hired on or after September 1, 2008, are required to contribute 6% of their salaries to CERS. The District is required to contribute 19.55% of all CERS salaries.

The District's total payroll for the year was \$3,906,438. The payroll for employees covered under KTRS was \$2,837,864 and for CERS was \$186,416.

The contribution requirement for CERS for the year ended June 30, 2013 was \$236,346 which consisted of \$186,416 from the District and \$49,930 from the employees. The Commonwealth contributed \$362,294 to KTRS for the benefit of participating employees. The District contributions to KTRS were \$51,923, which represents \$14,900 those employees covered by federal programs, \$9,254 for critical shortage employees and \$27,769 for all KTRS employees.

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

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
6/30/13	\$ 238,339	
6/30/12	207,684	100%
6/30/11	196,643	100%

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations (all dollar amounts are \$1,000's) performed as of June 30, 2012, (the actuarial reports for the year ended June 30, 2013 are not yet available):

	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Underfunded Actuarial Liability as Percentage of Covered Payroll</u>
KTRS	\$ 14,691,371	\$ 26,973,854	\$ 12,282,483	54.5%	\$ 3,479,567	353.0%
CERS	7,294,615	12,149,560	4,854,945	60.0%	2,700,775	179.8%

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

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

June 30, 2013

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.

B. Commitments and Contingencies

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

The District has been notified by the Kentucky School Board Insurance Trust of a potential liability for workers compensation losses incurred by the Trust. The Trust estimates the District's liability to be between \$91,338 and \$115,739. As of June 30, 2013 the District had not received an indication of a final assessment or a process for payment of the potential liability.

C. Insurance and Related Activities

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

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

June 30, 2013

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, 2013.

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.

G. Misappropriation of Assets

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

REQUIRED SUPPLEMENTARY INFORMATION

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources				
Taxes				
Property	\$ 605,000	\$ 605,000	\$ 668,842	\$ 63,842
Motor vehicle	95,000	95,000	352,783	257,783
Utilities	255,000	255,000	342,636	87,636
Other	35,500	35,500	84,679	49,179
Earnings on investments	25,225	25,225	16,402	(8,823)
Other local revenues	7,575	7,575	22,911	15,336
Intergovernmental - State	1,935,044	1,935,044	2,100,406	165,362
Intergovernmental - Indirect Federal	8,300	8,300	21,522	13,222
Total revenues	<u>2,966,644</u>	<u>2,966,644</u>	<u>3,610,181</u>	<u>643,537</u>
Expenditures				
Current				
Instruction	1,975,460	2,029,474	1,875,664	153,810
Support Services				
Student	189,233	179,513	173,346	6,167
Instructional staff	159,786	166,306	140,652	25,654
District administration	897,034	881,315	514,950	366,365
School administration	247,313	248,443	246,651	1,792
Business	166,221	150,221	196,972	(46,751)
Plant operations and management	535,926	525,926	522,965	2,961
Student transportation	308,744	308,744	244,141	64,603
Total expenditures	<u>4,479,717</u>	<u>4,489,942</u>	<u>3,915,341</u>	<u>574,601</u>
Excess (deficit) of revenues over expenditures	<u>(1,513,073)</u>	<u>(1,523,298)</u>	<u>(305,160)</u>	<u>1,218,138</u>
Other Financing Sources (Uses)				
Transfers in	-	-	96,345	96,345
Transfers out	<u>(10,225)</u>	<u>-</u>	<u>(7,731)</u>	<u>(7,731)</u>
Total other financing sources (uses)	<u>(10,225)</u>	<u>-</u>	<u>88,614</u>	<u>88,614</u>
Net change in fund balances	<u>(1,523,298)</u>	<u>(1,523,298)</u>	<u>(216,546)</u>	<u>1,306,752</u>
Fund balances, beginning of year	<u>1,523,298</u>	<u>1,523,298</u>	<u>1,343,905</u>	<u>(179,393)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,127,359</u>	<u>\$ 1,127,359</u>
Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures				
Inflows/revenues:				
Actual amounts (budgetary basis)			\$ 3,610,181	
Differences - budget to GAAP:				
On-behalf payments recorded under GAAP basis not included in budget amounts			<u>997,485</u>	
Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds			<u>\$ 4,607,666</u>	
Outflows/expenditures:				
Actual amounts (budgetary basis)			\$ 3,915,341	
Differences - budget to GAAP:				
On-behalf payments recorded under GAAP basis not included in budget amounts			<u>997,485</u>	
Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds			<u>\$ 4,912,826</u>	

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - SPECIAL REVENUE FUND
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources				
Earnings on investments	\$ -	\$ -	\$ -	\$ -
Other local revenues	-	5,000	12,774	7,774
Intergovernmental - State	115,821	326,135	258,362	(67,773)
Intergovernmental - Indirect Federal	-	991,356	1,415,498	424,142
Total revenues	<u>115,821</u>	<u>1,322,491</u>	<u>1,686,634</u>	<u>364,143</u>
Expenditures				
Current				
Instruction	32,115	1,171,584	1,174,145	(2,561)
Support Services				
Student	-	5,000	7,895	(2,895)
Instructional staff	-	-	334,158	(334,158)
Plant operation and management	-	-	3,184	(3,184)
Non-instructional services	<u>83,706</u>	<u>153,638</u>	<u>78,638</u>	<u>75,000</u>
Total expenditures	<u>115,821</u>	<u>1,330,222</u>	<u>1,598,020</u>	<u>(267,798)</u>
Excess (deficit) of revenues over expenditures	<u>-</u>	<u>(7,731)</u>	<u>88,614</u>	<u>96,345</u>
Other Financing Sources (Uses)				
Transfers in	-	7,731	7,731	-
Transfers out	<u>-</u>	<u>-</u>	<u>(96,345)</u>	<u>(96,345)</u>
Total other financing sources (uses)	<u>-</u>	<u>7,731</u>	<u>(88,614)</u>	<u>(96,345)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>(174)</u>	<u>(174)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (174)</u>	<u>\$ (174)</u>

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

**FULTON COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS**
 June 30, 2013

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 159,468	\$ -	\$ 251	\$ 159,719
Total assets	\$ 159,468	\$ -	\$ 251	\$ 159,719
 Liabilities and Fund Balances				
Fund Balances				
Restricted	\$ 159,468	\$ -	\$ 251	\$ 159,719
Total fund balances	159,468	-	251	159,719
Total liabilities and fund balances	\$ 159,468	\$ -	\$ 251	\$ 159,719

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources				
Taxes				
Property	\$ -	\$ 110,692	\$ -	\$ 110,692
Intergovernmental - State	<u>48,317</u>	<u>64,458</u>	<u>201,491</u>	<u>314,266</u>
Total revenues	<u>48,317</u>	<u>175,150</u>	<u>201,491</u>	<u>424,958</u>
Expenditures				
Facilities acquisition and construction	13,339	-	-	13,339
Debt service				
Principal	-	-	285,540	285,540
Interest	-	-	121,710	121,710
Total expenditures	<u>13,339</u>	<u>-</u>	<u>407,250</u>	<u>420,589</u>
Excess (deficit) of revenues over expenditures	<u>34,978</u>	<u>175,150</u>	<u>(205,759)</u>	<u>4,369</u>
Other Financing Sources (Uses)				
Transfers in	-	-	205,759	205,759
Transfers out	<u>(30,537)</u>	<u>(175,222)</u>	<u>-</u>	<u>(205,759)</u>
Total other financing sources (uses)	<u>(30,537)</u>	<u>(175,222)</u>	<u>205,759</u>	<u>-</u>
Net change in fund balances	4,441	(72)	-	4,369
Fund balances, beginning of year	<u>155,027</u>	<u>72</u>	<u>251</u>	<u>155,350</u>
Fund balances, end of year	<u>\$ 159,468</u>	<u>\$ -</u>	<u>\$ 251</u>	<u>\$ 159,719</u>

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS
For the Year Ended June 30, 2013

Fund	July 1, 2012	Revenues	Expenditures	June 30, 2013
Activity Funds				
Fulton County High School				
Annual	\$ 4,913	\$ 5,290	\$ 1,303	\$ 8,900
Athletic	11,672	30,266	36,975	4,963
Charles Speed scholarship	1,567	674	600	1,641
Class of 2013	5,687	24,241	28,231	1,697
Class of 2014	1,930	1,365	1,107	2,188
Class of 2015	1,057	4,436	2,066	3,427
Faculty snacks	180	408	386	202
FFA alumni	4,796	8,181	5,745	7,232
FHA	172	-	-	172
Foreign language club	781	-	-	781
Future farmers of America	4,651	13,768	13,306	5,113
General fund	1,868	2,744	4,186	426
High school baseball	-	3,821	3,821	-
High school beta club	3,840	3,975	3,252	4,563
High school cheerleaders	4,704	6,082	8,090	2,696
High school football	1,024	3,232	2,346	1,910
Home economics	194	26	-	220
JAM	1,351	707	639	1,419
Joey Bumpous scholarship	718	-	250	468
Kuna	781	-	-	781
Lady pilot basketball	766	1,987	2,752	1
Lady pilot softball	5	1,900	1,397	508
Library grant	766	230	-	996
Maurice Tucker scholarship	1,370	-	250	1,120
Pep club	46	110	155	1
Pilot basketball	683	2,147	2,622	208
Science club	455	140	97	498
Track team	730	2,312	2,058	984
Trainable mentally handicapped (TMH)	236	-	-	236
Vending	2,353	4,667	6,114	906
Volleyball	530	2,263	2,308	485
FEA	-	423	328	95
Saturday league basketball	-	3,968	3,885	83
Four rivers scholarship	703	4,830	703	4,830
Art Club	-	229	229	-
Tom Pyron Scholarship	-	766	-	766
	<u>60,529</u>	<u>135,188</u>	<u>135,201</u>	<u>60,516</u>
Less: inter-fund transfers	-	190	190	-
Total Fulton County High School	60,529	134,998	135,011	60,516
Fulton County Elementary and Middle School	25,624	37,463	33,565	29,522
Total agency funds	\$ 86,153	\$ 172,461	\$ 168,576	\$ 90,038

See independent auditor's report.

FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
U.S. Department of Education				
Passed Through State Department of Education:				
Title I Cluster:				
Title I Grants to Local Educational Agencies	84.010	220-4500-3101	\$ 371,270	\$ (26,733)
Title I Grants to Local Educational Agencies	84.010	220-4500-3102	365,668	192,062
Title I Grants to Local Educational Agencies	84.010	220-4500-3103	348,957	259,608
Title I Grants to Local Educational Agencies	84.010	220-4500-3202	33,468	33,468
Title I Grants to Local Educational Agencies	84.010	220-4500-3201	54,768	46,617
		Sub-total	<u>1,174,131</u>	<u>505,022</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389A	220-4500-3919	238,781	3,309
Total Title I Cluster			<u>1,412,912</u>	<u>508,331</u>
Special Education Cluster:				
Special Education_Grants to States	84.027	220-4500-3370C	-	(4,123)
Special Education_Grants to States	84.027	220-4500-3371	159,444	4,407
Special Education_Grants to States	84.027	220-4500-3372	156,339	20,808
Special Education_Grants to States	84.027	220-4500-3373	158,921	126,057
Special Education_Preschool Grants	84.173	220-4500-3430	24,884	(9,219)
Special Education_Preschool Grants	84.173	220-4500-3431	24,884	(403)
Special Education_Preschool Grants	84.173	220-4500-3432	24,884	8,360
		Sub-total	<u>549,356</u>	<u>145,887</u>
ARRA - Special Education_Grants to States, Recovery Act	84.391A	220-4500-4249	148,743	10,002
ARRA - Special Education_Preschool Grants, Recovery Act	84.392A	220-4500-4239	10,003	-
Total Special Education Cluster			<u>708,102</u>	<u>155,889</u>
Education for Homeless Children and Youth	84.196	220-4500-3161	38,809	122
Education for Homeless Children and Youth	84.196	220-4500-3163	40,317	24,905
Education for Homeless Children and Youth	84.196	220-4500-3160	48,482	(82)
Education for Homeless Children and Youth	84.196	220-4500-3162	38,729	3,886
			<u>166,337</u>	<u>28,831</u>
21st Century Community Learning Centers Program	84.287	220-4500-5502H	155,000	52,401
21st Century Community Learning Centers Program	84.287	220-4500-5502M	155,000	63,313
21st Century Community Learning Centers Program	84.287	220-4500-5501M	150,000	63,824
21st Century Community Learning Centers Program	84.287	220-4500-5502S	5,000	1,432
21st Century Community Learning Centers Program	84.287	220-4500-5502S	5,000	-
21st Century Community Learning Centers Program	84.287	220-4500-5501H	150,000	78,790
21st Century Community Learning Centers Program	84.287	220-4500-5501J	12,000	9,054
			<u>632,000</u>	<u>268,814</u>
Federal Education Technology	84.318	220-4500-4251	1,238	1,238
Improving Teacher Quality State Grants	84.367	220-4500-4013	-	30,036
Improving Teacher Quality State Grants	84.367	220-4500-4012	63,665	21,299
			<u>63,665</u>	<u>51,335</u>

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

FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
ARRA - School Improvement Grants, Recovery Act	84.388A	220-4500-5600A	250,000	(42,417)
ARRA - School Improvement Grants, Recovery Act	84.388A	220-4500-5600B	250,000	193,661
ARRA - School Improvement Grants, Recovery Act	84.388A	220-4500-5600C	-	97,949
			<u>500,000</u>	<u>249,193</u>
 ARRA - Education Jobs Fund, Recovery Act	 84.410A	 220-4500-4411	 <u>143,121</u>	 <u>59,852</u>
 Race to the Top	 84.413A	 220-4500-4521	 <u>-</u>	 <u>3,579</u>
 Passed Through West Kentucky Educational Cooperative:				
Career and Technical Education_Basic Grants to States	84.048	220-4700-3482	4,371	27
Career and Technical Education_Basic Grants to States	84.048	220-4700-3483	-	645
			<u>4,371</u>	<u>672</u>
 Total U.S. Department of Education			 <u>3,631,746</u>	 <u>1,327,734</u>
 U.S. Department of Agriculture				
Passed Through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	510-4500	79,055	79,055
National School Lunch Program	10.555	510-4500	199,532	199,532
National School Lunch Program - Donated Commodities	10.555	510-4950	19,995	19,995
Summer Food Service Program for Children	10.559	510-4500	2,055	2,055
Total Child Nutrition Cluster			<u>300,637</u>	<u>300,637</u>
 Fresh Fruit and Vegetable Program	 10.582	 510-4500	 <u>14,883</u>	 <u>14,883</u>
 Total U.S. Department of Agriculture			 <u>315,520</u>	 <u>315,520</u>
 U.S. Department of Health and Human Services				
Passed Through Murray Independent Board of Education:				
Head Start	93.600	220-4700-6559	5,280	16,865
Head Start	93.600	220-4700-6550	194,280	(33,464)
Head Start	93.600	220-4700-6551	194,280	8,076
Head Start	93.600	220-4700-6552	-	96,345
Total U.S. Department of Health and Human Services			<u>393,840</u>	<u>87,822</u>
 Total federal awards			 <u>\$ 4,341,106</u>	 <u>\$ 1,731,076</u>

Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures

Total expenditures of federal awards	\$ 1,731,076
Total expenditures of state and local awards	(45,234)
Expenditure of federal awards in the food service fund	(315,520)
Expenditure of federal awards in the general fund	<u>(87,822)</u>
 Total expenditures as reported in the special revenue fund on statement of revenues, expenditures and changes in fund balance - governmental funds	 <u>\$ 1,598,020</u>

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

FULTON COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Fulton County School District under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Fulton County School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Fulton County School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 - FOOD DISTRIBUTION

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

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fulton County School District's basic financial statements and have issued our report thereon dated February 11, 2014.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2007-001, 2013-001, 2013-002, and 2013-003 to be material weaknesses.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of Fulton County School District in a separate letter dated February 11, 2014, as required by the auditor's contract with the Kentucky Department of Education.

Fulton County School District's Response to Findings

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

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Murray, Kentucky
February 11, 2014

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**Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Fulton County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Fulton County School District's major federal programs for the year ended June 30, 2013. Fulton County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinions on Title I Cluster and Federal Education Jobs Fund Grant

As described in the accompanying schedule of findings and questioned costs, Fulton County School District did not comply with requirements regarding CFDA 84.010 and 84.389A, Title I Cluster as described in finding number 2013-003 for Reporting and CFDA 84.410, Federal Education Jobs Fund Grant as described in finding numbers 2013-004 for Reporting and 2013-005 for Allowable Costs. Compliance with such requirements is necessary, in our opinion, for Fulton County School District to comply with the requirements applicable to those programs.

Qualified Opinion on Title I Cluster and Federal Education Jobs Fund Grant

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinions* paragraph, Fulton County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Title I Cluster and Federal Education Jobs Fund Grant for the year ended June 30, 2013.

Unmodified Opinion on the Other Major Federal Program

In our opinion, Fulton County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-006 and 2013-007. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-003, 2013-004 and 2013-005 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-006 and 2013-007 to be significant deficiencies.

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

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

Alexander Thompson Arnold PLLC

Murray, Kentucky
February 11, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FULTON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: qualified

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010 and 84.389A	Title I Grants to Local Educational Agencies
84.410	Education Jobs Fund
10.553, 10.555 and 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? yes x no

FINDINGS - FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

FINDING 2007-001

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

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

June 30, 2013

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

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

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

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

Management's Response: Management 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. Management plans to consider this circumstance.

FINDING 2013-001

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

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

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

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

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

Management's Response: Management agrees with this recommendation.

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

June 30, 2013

FINDING 2013-002

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

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

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

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

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

Management's Response: Management agrees with this recommendation.

FINDING 2013-003

Condition: An employee misappropriated funds in excess of \$100,000.

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

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

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

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

Management's Response: Management agrees with this recommendation.

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

June 30, 2013

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Questioned
Costs**

U.S. DEPARTMENT OF EDUCATION

Title I Cluster - CFDA No. 84.010 and 84.389A

MATERIAL WEAKNESS AND NONCOMPLIANCE

FINDING 2013-003

\$ 508,331

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

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

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

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

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

Management's Response: Management agrees with the recommendation and will implement procedures immediately.

SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE

FINDING 2013-006

\$ -

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

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

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

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

June 30, 2013

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

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

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

Management's Response: Management agrees with the recommendation and will implement procedures immediately.

Federal Education Jobs Fund Grant - CFDA No. 84.410

MATERIAL WEAKNESS AND NONCOMPLIANCE

FINDING 2013-004

\$ 59,852

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

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

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

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

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

Management's Response: Management agrees with the recommendation and will implement procedures immediately.

FINDING 2013-005

\$ -

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

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

June 30, 2013

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

Effect: The District violated the terms of the grant contract and may be subject to refunding the reimbursed funds. The questioned costs related to this finding are included in the questioned costs at finding 2013-004.

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

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

Management's Response: Management agrees with the recommendation and will implement procedures immediately.

Total - U.S. Department of Education

\$ 568,183

U.S. DEPARTMENT OF AGRICULTURE

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

SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE

FINDING 2013-007

\$ 2,000

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

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

Effect: The lack of supporting documentation limits the auditor's ability to obtain sufficient appropriate audit evidence to determine whether the costs were allowed or unallowed. This increases the likelihood of unallowed costs in the Child Nutrition Cluster.

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

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

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

June 30, 2013

Management's Response: Management agrees with the recommendation and will implement procedures immediately.

Total - U.S. Department of Agriculture	\$ 2,000
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MANAGEMENT LETTER POINTS

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

301 Maple St.
Murray, KY 42071

Phone 270.753.2424
Fax 270.753.3878
www.atacpa.net

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

In planning and performing our audit of the financial statements of Fulton County School District as of and for the year ended June 30, 2013, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

During our audit we did not become aware of any matters, other than inconsequential matters, that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter reflects that result. This letter does not affect our report dated February 11, 2014, on the financial statements of Fulton County School District.

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

Sincerely,

Alexander Thompson Arnold PLLC

Murray, Kentucky
February 11, 2014

**FULTON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS**

June 30, 2013

MANAGEMENT LETTER POINTS

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

Criteria: The *Accounting Procedures for School Activity Funds* handbook provides a method of uniform accounting for school activity funds. This handbook, commonly referred to as the "Redbook" is incorporated by reference and is part of the Kentucky Administrative Regulation 702 KAR:3:130. This Redbook requires the Board to approve activity fund budgets.

Cause: Inadvertent oversight of the requirements of the Redbook.

Effect: Noncompliance with Redbook.

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

Response: Management agrees with this recommendation.

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

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

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

Effect: Noncompliance with applicable statutes.

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

Response: Management agrees with this recommendation.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FULTON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2013

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

FINDING 2007-001

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

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

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

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

MANAGEMENT LETTER POINTS

None