

**FULTON INDEPENDENT SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2013**

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## **INTRODUCTORY SECTION**

**FULTON INDEPENDENT SCHOOL DISTRICT**

June 30, 2013

**BOARD OF EDUCATION**

Debbie Vaughn, Chairman  
Bill Robertson, Vice Chairman  
Dr. Lee Seng, Member  
Sam Hancock, Member  
Dr. Josh Whitley, Member

**ADMINISTRATIVE STAFF**

Tamara Smith, Superintendent  
Laurie Thorpe, Finance Officer

## **FINANCIAL SECTION**

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## Independent Auditor's Report

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

### Report on the Financial Statements

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fulton Independent School District, as of June 30, 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 4-9 and 38-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2013, on our consideration of the Fulton Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Fulton Independent School District's internal control over financial reporting and compliance.

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
October 21, 2013

# Fulton Independent School District

*Educational Excellence*

Office of the Superintendent

304 W. Stateline, Fulton, Kentucky 42041

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

## **FULTON INDEPENDENT SCHOOL DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS FISCAL YEAR ENDING JUNE 30, 2013**

The discussion and analysis of the Fulton Independent School District provides a narrative overview and analysis of the financial activities for the District's financial statements and activities for the fiscal year ended June 30, 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 Fulton Independent School District replaced door locks and keys at elementary, middle and high school.
- Carr Elementary received new carpet in two classrooms.
- Carr Elementary added a sink for the Nurse's station.
- The Fulton Independent School District made electrical upgrades; we replaced wiring, housing and bulbs for lighting at the Football Field.
- The Fulton Independent School was able to replace two air conditioning units at the high school.
- The District repaired roof damages at the Board Office, enclosed a new office area, repaired the air conditioning unit, cleaned out stopped up sewer lines and put in handicapped toilets.
- Repairs to the roof were again made at Carr Elementary.
- Carr Elementary revamped and added electrical wiring, adding several drops, plugs and connections concerning technology, to create an improved Media Center for all students.

### **USING THIS ANNUAL REPORT**

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



**"Home of the Fighting Bulldogs"**

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,156,888 as of June 30, 2013.

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

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

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

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

<b>Assets</b>	<b>2012</b>	<b>2013</b>
Current Assets	\$ 1,192,143	\$ 1,179,894
Noncurrent Assets	3,962,872	3,816,873
<b>Total Assets</b>	<b>5,155,015</b>	<b>4,996,767</b>
<b>Liabilities</b>		
Current Liabilities	255,804	263,913
Noncurrent Liabilities	1,735,909	1,575,966
<b>Total Liabilities</b>	<b>1,991,713</b>	<b>1,839,879</b>
<b>Net position</b>		
Net Investment in Capital Assets	2,294,925	2,254,532
Restricted	92,590	77,590
Unrestricted	775,787	824,766
<b>Total Net position</b>	<b>\$ 3,163,302</b>	<b>\$ 3,156,888</b>

Table 2 shows changes in net position for fiscal year 2012 as compared to 2013.

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

	<b>2012</b>	<b>2013</b>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 19,188	\$ 14,105
Operating Grants and Contributions	1,166,829	1,297,800
General Revenues:		
Local Taxes	1,190,936	1,088,373
Investment Earnings	15,196	13,884
Other Local Revenue	15,484	10,045
State Aid- Formula Grants	2,612,963	2,458,386
Indirect Federal Reimbursements	37,662	10,342
Sale of Assets	20	3,458
<b>Total Revenues</b>	<b>5,058,278</b>	<b>4,896,393</b>
<b>Program Expenses</b>		
Instruction	\$2,803,039	2,828,252
Support Services		
Student	237,795	189,811
Instructional Staff	184,466	189,088
District Administration	358,861	319,233
School Administration	264,591	260,751
Business	175,838	186,544
Plant Operations and Management	395,831	451,103
Student Transportation	59,291	43,300
Non-instructional Services/Other	74,429	78,630
Interest on long-term debt	4,211	60,265
Amortization – unallocated	4,239	4,239
Food Service	288,720	291,590
<b>Total Expenses</b>	<b>4,851,311</b>	<b>4,902,806</b>
<b>Change in Net position</b>	<b>\$ 206,967</b>	<b>\$ (6,413)</b>

**Governmental Activities**

Total revenues for governmental activities for 2013 were \$4,574,253. Taxes increased slightly to 24% of revenues for governmental activities for the District. State aid and state and federal grants accounted for 75% of governmental revenue. The total cost of all programs and services for governmental activities was \$4,611,216. Instruction comprises 61% of expenses. Governmental expenditures for the District for 2013 exceeded governmental revenues by \$36,963.

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

**Table 3  
Cost of Services**

	<b>Total Cost of Services 2013</b>	<b>Net Cost of Services 2013</b>
Instruction	\$2,828,252	\$1,837,154
Support Services		
Student	189,811	189,811
Instructional Staff	189,088	189,088
District Administration	319,233	319,233
School Administration	260,751	260,751
Business	186,544	186,544
Plant Operations and Management	451,103	451,103
Student Transportation	43,300	43,300
Non-instructional Services/Other	78,630	78,630
Interest on L/T debt	60,265	60,265
Amortization – unallocated	4,239	4,239
<b>Total Expenses</b>	<b>4,611,216</b>	<b>3,620,118</b>

**Proprietary (Business-Type) Activities**

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

	<u>Amount</u>
<b>Revenues:</b>	
Local revenue sources	\$ 14,105
State revenue sources	2,608
State on-behalf payments	32,552
Federal revenue	257,950
Interest Income	1,333
Loss on disposal of assets	(286)
Donated commodities	<u>13,878</u>
<b>Total revenue</b>	<b><u>322,140</u></b>
<b>Expenses:</b>	
Food Service	<u>291,590</u>
<b>Total expenses</b>	<b><u>291,590</u></b>
<b>Change in Net position</b>	<b><u>\$ 30,550</u></b>

## **BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July 1 – June 30; other programs (i.e. some federal programs) operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The District adopted a 2012-13 budget with again \$330,308 in contingency (8.4%). Significant Board action that impacts the finances included rank/experience changes for qualifying certified and classified employees and mandated local match for classified retirement contributions.

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

## **BASIC FINANCIAL STATEMENTS**

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 533,501	\$ 105,099	\$ 638,600
Receivables			
Accounts	71,262	-	71,262
Intergovernmental - State	227,478	16,971	244,449
Intergovernmental - Federal	215,067	-	215,067
Inventories	-	10,516	10,516
Deferred bond issuance cost, net	30,199	-	30,199
Capital assets not being depreciated:			
Land	93,600	-	93,600
Capital assets, net of accumulated depreciation:			
Land improvements	14,718	-	14,718
Buildings and improvements	3,242,955	115,819	3,358,774
Technology equipment	237,956	3,402	241,358
Vehicles	62,532	-	62,532
General equipment	9,422	6,270	15,692
Total assets	<u>4,738,690</u>	<u>258,077</u>	<u>4,996,767</u>
<b>Liabilities</b>			
Unearned revenue	135,771	-	135,771
Accrued interest	14,365	-	14,365
Long-term liabilities			
Portion due or payable within one year			
Bonds	103,816	-	103,816
Accrued sick leave	9,961	-	9,961
Portion due or payable after one year			
Bonds	1,444,379	-	1,444,379
Accrued sick leave	121,282	10,305	131,587
Total liabilities	<u>1,829,574</u>	<u>10,305</u>	<u>1,839,879</u>
<b>Net Position</b>			
Net investment in capital assets	2,129,041	125,491	2,254,532
Restricted for			
Accumulated sick leave	25,000	-	25,000
SFCC escrow	52,590	-	52,590
Unrestricted	702,485	122,281	824,766
<b>Total net position</b>	<u>\$ 2,909,116</u>	<u>\$ 247,772</u>	<u>\$ 3,156,888</u>

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

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

<u>Functions / Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities						
Instruction	\$ 2,828,252	\$ -	\$ 991,098	\$ (1,837,154)	\$ -	\$ (1,837,154)
Support services						
Student	189,811	-	-	(189,811)	-	(189,811)
Instructional staff	189,088	-	-	(189,088)	-	(189,088)
District administration	319,233	-	-	(319,233)	-	(319,233)
School administration	260,751	-	-	(260,751)	-	(260,751)
Business support	186,544	-	-	(186,544)	-	(186,544)
Plant operations and management	451,103	-	-	(451,103)	-	(451,103)
Student transportation	43,300	-	-	(43,300)	-	(43,300)
Non-instructional services	78,630	-	-	(78,630)	-	(78,630)
Interest on long-term debt	60,265	-	-	(60,265)	-	(60,265)
Amortization - unallocated	4,239	-	-	(4,239)	-	(4,239)
Total governmental activities	<u>4,611,216</u>	<u>-</u>	<u>991,098</u>	<u>(3,620,118)</u>	<u>-</u>	<u>(3,620,118)</u>
Business-type activities						
Food service	291,590	14,105	306,702	-	29,217	29,217
Total business-type activities	<u>291,590</u>	<u>14,105</u>	<u>306,702</u>	<u>-</u>	<u>29,217</u>	<u>29,217</u>
Total primary government	<u>\$ 4,902,806</u>	<u>\$ 14,105</u>	<u>\$ 1,297,800</u>	<u>(3,620,118)</u>	<u>29,217</u>	<u>(3,590,901)</u>
<b>General revenues:</b>						
Taxes						
Property				721,357	-	721,357
Motor vehicle				70,011	-	70,011
Utilities				271,300	-	271,300
Other				25,705	-	25,705
Investment earnings				12,551	1,333	13,884
Other local revenue				10,045	-	10,045
State aid - formula grants				2,458,386	-	2,458,386
Medicaid reimbursement				10,342	-	10,342
Gain on sale of capital assets				3,458	-	3,458
Total general revenues and transfers				<u>3,583,155</u>	<u>1,333</u>	<u>3,584,488</u>
<b>Change in net position</b>				<b>(36,963)</b>	<b>30,550</b>	<b>(6,413)</b>
Net position, beginning of year				<u>2,946,079</u>	<u>217,222</u>	<u>3,163,301</u>
Net position, end of year				<u>\$ 2,909,116</u>	<u>\$ 247,772</u>	<u>\$ 3,156,888</u>

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

**FULTON INDEPENDENT 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>
<b>Assets</b>				
Cash and cash equivalents	\$ 471,364	\$ -	\$ 62,137	\$ 533,501
Receivables				
Accounts	70,743	-	519	71,262
Intergovernmental - State	-	227,478	-	227,478
Intergovernmental - Federal	-	215,067	-	215,067
Due from other funds	306,774	-	-	306,774
<b>Total assets</b>	<b><u>\$ 848,881</u></b>	<b><u>\$ 442,545</u></b>	<b><u>\$ 62,656</u></b>	<b><u>\$ 1,354,082</u></b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Unearned revenue	\$ -	\$ 135,771	\$ -	\$ 135,771
Due to other funds	-	306,774	-	306,774
Total liabilities	<u>-</u>	<u>442,545</u>	<u>-</u>	<u>442,545</u>
<b>Fund Balances</b>				
Restricted	25,000	-	62,656	87,656
Committed	50,000	-	-	50,000
Assigned	201,109	-	-	201,109
Unassigned	572,772	-	-	572,772
Total fund balances	<u>848,881</u>	<u>-</u>	<u>62,656</u>	<u>911,537</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 848,881</u></b>	<b><u>\$ 442,545</u></b>	<b><u>\$ 62,656</u></b>	<b><u>\$ 1,354,082</u></b>

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

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

June 30, 2013

<b>Total fund balances - governmental funds</b>		<b>\$ 911,537</b>
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$6,833,731, and the accumulated depreciation is \$3,172,548.</p>		3,661,183
<p>Certain long-term assets related to prior bond issues and a refunding bond discount related to a refunding bond issue 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>		30,199
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>		
Bonds payable	(1,548,195)	
Accrued interest on bonds	(14,365)	
Accrued sick leave payable	(131,243)	
	(1,693,803)	(1,693,803)
<b>Total net position - governmental activities</b>		<b><u>\$ 2,909,116</u></b>

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

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
From local sources				
Taxes				
Property	\$ 668,103	\$ -	\$ 53,254	\$ 721,357
Motor vehicle	65,415	-	4,596	70,011
Utilities	271,300	-	-	271,300
Other	25,705	-	-	25,705
Earnings on investments	12,160	-	391	12,551
Donations	-	21,491	-	21,491
Other local revenues	8,405	1,640	-	10,045
Intergovernmental - State	2,352,049	298,066	106,337	2,756,452
Intergovernmental - Indirect Federal	10,342	671,541	-	681,883
Total revenues	<u>3,413,479</u>	<u>992,738</u>	<u>164,578</u>	<u>4,570,795</u>
<b>Expenditures</b>				
Current				
Instruction	1,824,321	915,729	-	2,740,050
Support Services				
Student	196,456	-	-	196,456
Instructional staff	185,432	3,369	-	188,801
District administration	325,430	-	-	325,430
School administration	261,647	-	-	261,647
Business	184,971	-	-	184,971
Plant operation and management	447,445	-	-	447,445
Student transportation	34,452	-	-	34,452
Non-instructional services	-	78,395	-	78,395
Debt service				
Principal	8,186	-	100,000	108,186
Interest	1,978	-	54,512	56,490
Total expenditures	<u>3,470,318</u>	<u>997,493</u>	<u>154,512</u>	<u>4,622,323</u>
Excess (deficit) of revenues over expenditures	<u>(56,839)</u>	<u>(4,755)</u>	<u>10,066</u>	<u>(51,528)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of assets	3,458	-	-	3,458
Transfers in	-	4,755	152,770	157,525
Transfers out	<u>(4,755)</u>	<u>-</u>	<u>(152,770)</u>	<u>(157,525)</u>
Total other financing sources (uses)	<u>(1,297)</u>	<u>4,755</u>	<u>-</u>	<u>3,458</u>
<b>Net change in fund balances</b>	<b>(58,136)</b>	<b>-</b>	<b>10,066</b>	<b>(48,070)</b>
Fund balances, beginning of year	<u>907,017</u>	<u>-</u>	<u>52,590</u>	<u>959,607</u>
Fund balances, end of year	<u>\$ 848,881</u>	<u>\$ -</u>	<u>\$ 62,656</u>	<u>\$ 911,537</u>

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

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

<b>Total net change in fund balances - governmental funds</b>	<b>\$ (48,070)</b>
 Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.	(134,491)
Repayment of long-term liabilities such as bond principal and capital leases are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.	108,186
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.	45,426
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(3,775)
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.	<u>(4,239)</u>
 <b>Change in net position of governmental activities</b>	 <b><u>\$ (36,963)</u></b>

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
June 30, 2013

	<u><b>Food Service Fund</b></u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 105,099
Receivables - intergovernmental state	16,971
Inventories	<u>10,516</u>
Total current assets	<u>132,586</u>
Noncurrent assets	
Buildings and improvements	296,786
Technology equipment	8,853
General equipment	166,723
Accumulated depreciation	<u>(346,871)</u>
Total noncurrent assets	<u>125,491</u>
Total assets	<u>258,077</u>
<b>Liabilities</b>	
Noncurrent liabilities	
Accrued sick leave	<u>10,305</u>
Total noncurrent liabilities	<u>10,305</u>
Total liabilities	<u>10,305</u>
<b>Net Position</b>	
Invested in capital assets	125,491
Unrestricted	<u>122,281</u>
<b>Total net position</b>	<u><b>\$ 247,772</b></u>

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
For the Year Ended June 30, 2013

	<u>Food Service Fund</u>
<b>Operating Revenues</b>	
Lunchroom sales	\$ 14,105
Total operating revenues	<u>14,105</u>
<b>Operating Expenses</b>	
Salaries, wages and benefits	146,092
Contract services	10,673
Materials and supplies	124,605
Depreciation	<u>10,220</u>
Total operating expenses	<u>291,590</u>
Operating loss	<u>(277,485)</u>
<b>Non-Operating Revenues (Expenses)</b>	
Interest income	1,333
State matching	2,608
Grants - child nutrition program	257,950
Donated commodities	13,878
Loss on disposal of assets	(286)
State funding - on-behalf payments	<u>32,552</u>
Total non-operating revenues (expenses)	<u>308,035</u>
<b>Change in net position</b>	<b>30,550</b>
Total net position, beginning of year	<u>217,222</u>
<b>Total net position, end of year</b>	<b><u>\$ 247,772</u></b>

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
For the Year Ended June 30, 2013

	<u>Food Service Fund</u>
<b>Cash Flows from Operating Activities</b>	
Cash received from:	
Lunchroom sales	\$ 14,105
Cash paid for:	
Salaries, wages and benefits	(114,260)
Contract services	(10,673)
Materials and supplies	<u>(107,028)</u>
Net cash used by operating activities	<u>(217,856)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchases of capital assets	<u>(3,237)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Nonoperating federal grants received	240,979
Nonoperating state grants received	<u>2,608</u>
Net cash provided by noncapital financing activities	<u>243,587</u>
<b>Cash Flows from Investing Activities</b>	
Interest income	<u>1,333</u>
<b>Net increase in cash and cash equivalents</b>	<b>23,827</b>
Cash and cash equivalents, beginning of year	<u>81,272</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 105,099</u></b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>	
Operating loss	\$ (277,485)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	10,220
Donated commodities	13,878
State funding - on-behalf payments	32,552
Changes in assets and liabilities	
Inventories	3,699
Accrued sick leave	<u>(720)</u>
Net cash used by operating activities	<u>\$ (217,856)</u>
<b>Noncash Noncapital Financing Activities</b>	
Donated food commodities received from the U.S. Department of Agriculture	<u>\$ 13,878</u>
State funding - on-behalf payments	<u>\$ 32,552</u>
Accrued sick leave	<u>\$ 720</u>

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

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

	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 33,257	\$ 37,312
Total assets	33,257	37,312
<b>Liabilities</b>		
Due to student groups	-	37,312
<b>Total liabilities</b>	-	<b>\$ 37,312</b>
<b>Net Position</b>		
Net position held in trust	33,257	
<b>Total net position</b>	<b>\$ 33,257</b>	

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

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

	<u>Private Purpose Trust Funds</u>
<b>Additions</b>	
Interest	\$ 275
<b>Disbursements</b>	
Scholarship awards	<u>500</u>
<b>Change in net position</b>	<b>(225)</b>
Net position, beginning of year	<u>33,482</u>
<b>Net position, end of year</b>	<b><u>\$ 33,257</u></b>

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

## **NOTES TO FINANCIAL STATEMENTS**

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

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

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

**A. Reporting Entity**

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

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

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

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

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

**B. Basis of Presentation**

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

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

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

II. Proprietary Fund Type (Enterprise Fund)

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

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

III. Fiduciary Fund Type (includes agency and trust funds)

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

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**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 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, payment made by the State on-behalf of the District and changes in the accrued sick leave liability during the year are reported in the statement of cash flows of the proprietary fund as a noncash, noncapital financing activity.

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

**D. Property Taxes**

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

The property tax rates for the year ended June 30, 2013, to finance the General Fund operations were \$.738 per \$100 valuation for real property, \$.738 per \$100 valuation for business tangible personal property, and \$.78 per \$100 valuation for motor vehicles.

**FULTON INDEPENDENT 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 \$1,000 with the exception of technology equipment for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed as a current operating expenditure.

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

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

**F. Interfund Activity**

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

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

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

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

**J. Inventories**

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

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

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

**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 INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**L. Fund Balances**

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

**Nonspendable fund balance**

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

**Restricted fund balance**

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

**Committed fund balance**

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

**Assigned fund balance**

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

**Unassigned fund balance**

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

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

**M. Net Position**

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governmental entities.

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

**N. Estimates**

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

**O. Deferred Outflows and Inflows of Resources**

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 position. The provisions of this statement are effective for financial statements for 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.

**P. 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 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.

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**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 \$709,109 and the bank balance was \$1,094,153. Of the District's bank balance, \$754,582 was collateralized as discussed above because it was uninsured, while \$339,571 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	\$ 638,600
Fiduciary fund cash (not included in government-wide statement)	<u>70,569</u>
	<u>\$ 709,169</u>

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

Governmental activities	\$ 533,501
Business-type activities	105,099
Fiduciary funds	<u>70,569</u>
	<u>\$ 709,169</u>

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**B. Capital Assets**

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

<u>Governmental Activities</u>	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Non-depreciable				
Land	\$ 93,600	\$ -	\$ -	\$ 93,600
Totals	<u>93,600</u>	<u>-</u>	<u>-</u>	<u>93,600</u>
Depreciable				
Land improvements	324,165	-	-	324,165
Buildings and improvements	5,582,108	-	-	5,582,108
Technology equipment	477,687	84,307	(14,165)	547,829
Vehicles	192,208	8,000	-	200,208
General equipment	85,821	-	-	85,821
Totals	<u>6,661,989</u>	<u>92,307</u>	<u>(14,165)</u>	<u>6,740,131</u>
Less: Accumulated depreciation				
Land improvements	(305,546)	(3,901)	-	(309,447)
Buildings and improvements	(2,204,258)	(134,895)	-	(2,339,153)
Technology equipment	(249,336)	(74,702)	14,165	(309,873)
Vehicles	(127,328)	(10,348)	-	(137,676)
General equipment	(73,447)	(2,952)	-	(76,399)
Totals	<u>(2,959,915)</u>	<u>(226,798)</u>	<u>14,165</u>	<u>(3,172,548)</u>
Net Book Value	<u>3,702,074</u>	<u>(134,491)</u>	<u>-</u>	<u>3,567,583</u>
Governmental activities capital assets - net	<u>\$ 3,795,674</u>	<u>\$ (134,491)</u>	<u>\$ -</u>	<u>\$ 3,661,183</u>
<u>Business-Type Activities</u>				
Buildings and improvements	\$ 296,786	\$ -	\$ -	\$ 296,786
Technology equipment	9,916	3,237	(4,300)	8,853
General equipment	166,723	-	-	166,723
Totals	<u>473,425</u>	<u>3,237</u>	<u>(4,300)</u>	<u>472,362</u>
Less: Accumulated depreciation				
Buildings and improvements	(175,964)	(5,003)	-	(180,967)
Technology equipment	(6,888)	(2,577)	4,014	(5,451)
General equipment	(157,813)	(2,640)	-	(160,453)
Totals	<u>(340,665)</u>	<u>(10,220)</u>	<u>4,014</u>	<u>(346,871)</u>
Business-type activities capital assets - net	<u>\$ 132,760</u>	<u>\$ (6,983)</u>	<u>\$ (286)</u>	<u>\$ 125,491</u>

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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Amortization expense of \$4,239, related to bond issue costs and bond discounts, was not allocated to governmental activities. It appears on the statement of activities as "unallocated".

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

Instruction	\$ 196,795
Support services:	
Student	5,028
Instructional staff	938
District administration	9008
School administration	638
Business support	1,573
Plant operations and management	3,658
Student transportation	8,848
Non-instructional services	312
	\$ 226,798

**C. Long-Term Liabilities**

The District's debt is the responsibility of the governmental activities. The original amount of each bond issue, the bond issue dates, interest rates, and maturity dates are summarized below:

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

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

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

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

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

<u>Issue</u>	<u>Balance at July 1, 2012</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2013</u>
2009	\$ 825,000	\$ -	\$ 25,000	\$ 800,000
2009 Refunding	795,000	-	75,000	720,000
2009 KISTA	<u>68,734</u>	-	<u>8,186</u>	<u>60,548</u>
	<u>\$ 1,688,734</u>	<u>\$ -</u>	<u>\$ 108,186</u>	<u>\$ 1,580,548</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>Year</u>	<u>Fulton Independent 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	\$ 107,438	\$ 53,231	\$ 946	\$ 796	\$ 162,411
2015	117,603	50,426	979	764	169,772
2016	117,766	47,235	1,014	728	166,743
2017	122,968	43,730	1,049	694	168,441
2018	123,208	39,922	1,086	656	164,872
2019-2023	510,428	141,553	6,063	2,648	660,692
2024-2028	377,608	67,142	7,392	1,321	453,463
2029	<u>83,329</u>	<u>3,542</u>	<u>1,671</u>	<u>71</u>	<u>88,613</u>
	<u>\$ 1,560,348</u>	<u>\$ 446,781</u>	<u>\$ 20,200</u>	<u>\$ 7,678</u>	<u>\$ 2,035,007</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	\$ 1,688,734	\$ -	\$ 108,186	\$ 1,580,548	\$ 108,384
Less unamortized deferred loss on refunding issue	<u>(36,921)</u>	<u>4,568</u>	<u>-</u>	<u>(32,353)</u>	<u>(4,568)</u>
	1,651,813	4,568	108,186	1,548,195	103,816
Accrued Sick Leave					
Governmental activities	176,669	-	45,426	131,243	9,961
Business-type activities	<u>11,025</u>	<u>-</u>	<u>720</u>	<u>10,305</u>	<u>-</u>
	<u>\$ 1,839,507</u>	<u>\$ 4,568</u>	<u>\$ 154,332</u>	<u>\$ 1,689,743</u>	<u>\$ 113,777</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, these liabilities have been paid each year by the General Fund.

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

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

Certified and classified employees of the District are entitled to payment of 30% of the value of accumulated sick and personal days upon retirement. Kentucky Revised Statutes allow the District to restrict up to 50% of accumulated benefits for all employees eligible to retire as of September 15, 2012. The total amount of accumulated benefits for all employees eligible to retire at this date is \$50,117. The District has a General Fund Balance restriction of \$25,000 at the balance sheet date. The District recognizes the expense of these benefits when payment is made by the governmental fund to a retiring employee.

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

**E. Fund Balances**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay</u>	<u>Building</u>	<u>Construction</u>	<u>Debt Service</u>
Restricted for:						
Sick leave	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ -
SFCC escrow	<u>-</u>	<u>-</u>	<u>18,134</u>	<u>44,522</u>	<u>-</u>	<u>-</u>
	<u>25,000</u>	<u>-</u>	<u>18,134</u>	<u>44,522</u>	<u>-</u>	<u>-</u>
Committed for:						
Future construction	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Assigned for:						
Other	<u>201,109</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>201,109</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned	<u>572,772</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>\$ 848,881</u>	<u>\$ -</u>	<u>\$ 18,134</u>	<u>\$ 44,522</u>	<u>\$ -</u>	<u>\$ -</u>

**F. Interfund Transactions**

**Interfund Receivables/Payables (Short-Term)**

The General Fund extends short-term cashflow loans to funds outside the General Fund that receive funding on a reimbursement basis. Repayment is expected when available cash is in excess of that needed for operations. The balance of \$306,774 due to the General fund from Special Revenue is a short-term cash flow loan.

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**Transfers**

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	KETS Match	\$ 4,755
Capital Outlay	Debt Service	Debt Service	16,148
Building	Debt Service	Debt Service	136,622

**G. Deficit Operating/Fund Balances**

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

General Fund	\$ 58,136
Building Fund	8,068
Private Purpose Trust Funds	225

**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	\$ 243,800
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	491,643
Technology	35,609
Debt Service	<u>1,742</u>
	<u>\$ 772,794</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	\$ 738,500
Debt Service Fund	1,742
Business-type activities	<u>32,552</u>
	<u>\$ 772,794</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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

plans. KTRS administers retirement and disability annuities, and death and survivor benefits to certified employees and beneficiaries of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). CERS administers similar programs for its employees and beneficiaries of county governmental entities, which includes classified employees of the District.

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

Contribution rates for both plans are determined by the legislature. KTRS members are required to contribute 10.855% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.105% of salaries. The Commonwealth of Kentucky is required to contribute 15.160% of salaries for KTRS members hired as critical shortage employees. The federal program for any salaries paid by that program pays 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 an additional 1% their salaries to CERS. The District is required to contribute 18.96% of all CERS salaries.

The District's total payroll for the year was \$2,718,148. The payroll for employees covered under KTRS was \$1,827,723 and for CERS was \$539,997.

The contribution requirement for CERS for the year ended June 30, 2013 was \$133,812 which consisted of \$105,569 from the District and \$28,243 from the employees. The Commonwealth contributed \$243,800 to KTRS for the benefit of participating employees. The District contributions to KTRS were \$61,993, which represents \$43,725 for those employees covered by federal programs and \$18,268 for all KTRS employees.

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

<u>Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>
6/30/13	\$ 167,562	100%
6/30/12	155,501	100%
6/30/11	152,936	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):

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

June 30, 2013

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL	Funded Ratio	Covered Payroll	Underfunded Actuarial Liability as Percentage of Covered Payroll
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 practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets. The District also offers employees the option to participate in a defined contribution plan under Internal Revenue Code Sections 403(b) and 457. The District does not contribute to these plans.

**Medical insurance plan**

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

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

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

**B. Contingencies and Commitments**

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

**FULTON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

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 \$39,642 and \$50,073. 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.

**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.

## **REQUIRED SUPPLEMENTARY INFORMATION SECTION**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>Final Budget</u>
			<u>Basis)</u>	<u>Positive</u>
				<u>(Negative)</u>
<b>Revenues</b>				
From local sources				
Taxes				
Property	\$ 599,000	\$ 619,000	\$ 668,103	\$ 49,103
Motor vehicle	55,000	55,000	65,415	10,415
Utilities	230,000	230,000	271,300	41,300
Other	47,000	47,000	25,705	(21,295)
Earnings on investments	8,000	8,000	12,160	4,160
Other local revenues	1,220	1,220	8,405	7,185
Intergovernmental - State	1,800,000	1,766,138	1,613,549	(152,589)
Intergovernmental - Indirect Federal	<u>5,000</u>	<u>5,000</u>	<u>10,342</u>	<u>5,342</u>
Total revenues	<u>2,745,220</u>	<u>2,731,358</u>	<u>2,674,979</u>	<u>(56,379)</u>
<b>Expenditures</b>				
Current				
Instruction	1,350,264	1,417,244	1,377,716	39,528
Support Services				
Student	152,305	149,221	145,241	3,980
Instructional staff	146,393	155,324	141,025	14,299
District administration	667,228	721,039	283,953	437,086
School administration	181,516	227,015	200,343	26,672
Business	126,385	122,663	127,477	(4,814)
Plant operation and management	465,190	489,524	418,410	71,114
Student transportation	55,939	44,741	27,489	17,252
Debt service				
Principal	-	8,186	8,186	-
Interest	-	1,978	1,978	-
	<u>3,145,220</u>	<u>3,336,935</u>	<u>2,731,818</u>	<u>605,117</u>
Excess (deficit) of revenues over expenditures	<u>(400,000)</u>	<u>(605,577)</u>	<u>(56,839)</u>	<u>548,738</u>
<b>Other Financing Sources (Uses)</b>				
Sale of assets	-	-	3,458	3,458
Transfers out	-	-	(4,755)	(4,755)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,297)</u>	<u>(1,297)</u>
<b>Net change in fund balances</b>	<b>(400,000)</b>	<b>(605,577)</b>	<b>(58,136)</b>	<b>547,441</b>
Fund balances, beginning of year	<u>400,000</u>	<u>605,577</u>	<u>907,017</u>	<u>301,440</u>
<b>Fund balances, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 848,881</b>	<b>\$ 848,881</b>
<b>Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures</b>				
Inflows/revenues:				
Actual amounts (budgetary basis)				\$ 2,674,979
Differences - budget to GAAP:				
On-behalf payments recorded under GAAP basis not included in budget amounts				<u>738,500</u>
<b>Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds</b>				<b>\$ 3,413,479</b>
Outflows/expenditures:				
Actual amounts (budgetary basis)				\$ 2,731,818
Differences - budget to GAAP:				
On-behalf payments recorded under GAAP basis not included in budget amounts				<u>738,500</u>
<b>Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds</b>				<b>\$ 3,470,318</b>

See independent auditor's report

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

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 18,134	\$ 44,003	\$ -	\$ 62,137
Accounts receivable	-	519	-	519
<b>Total assets</b>	<u><b>\$ 18,134</b></u>	<u><b>\$ 44,522</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 62,656</b></u>
<b>Liabilities and Fund Balances</b>				
Liabilities				
Total liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances				
Restricted	18,134	44,522	-	62,656
Total fund balances	<u>18,134</u>	<u>44,522</u>	<u>-</u>	<u>62,656</u>
<b>Total liabilities and fund balances</b>	<u><b>\$ 18,134</b></u>	<u><b>\$ 44,522</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 62,656</b></u>

*See independent auditor's report*

## **OTHER SUPPLEMENTARY INFORMATION SECTION**

**FULTON INDEPENDENT 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>		
<b>Revenues</b>				
From local sources				
Donations	\$ -	\$ 6,350	\$ 21,491	\$ 15,141
Other local revenues	-	-	1,640	1,640
Intergovernmental - State	153,530	293,545	298,066	4,521
Intergovernmental - Indirect Federal	<u>471,921</u>	<u>747,830</u>	<u>671,541</u>	<u>(76,289)</u>
Total revenues	<u>625,451</u>	<u>1,047,725</u>	<u>992,738</u>	<u>(54,987)</u>
<b>Expenditures</b>				
Current				
Instruction	546,481	973,992	915,729	58,263
Support Services				
Instructional staff	1,620	1,498	3,369	(1,871)
Non-instructional services	<u>77,350</u>	<u>74,522</u>	<u>78,395</u>	<u>(3,873)</u>
Total expenditures	<u>625,451</u>	<u>1,050,012</u>	<u>997,493</u>	<u>52,519</u>
(Deficit) of revenues over expenditures	<u>-</u>	<u>(2,287)</u>	<u>(4,755)</u>	<u>(2,468)</u>
<b>Other Financing Sources</b>				
Transfers in	<u>-</u>	<u>-</u>	<u>4,755</u>	<u>4,755</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>4,755</u>	<u>4,755</u>
<b>Net change in fund balances</b>	<b>-</b>	<b>(2,287)</b>	<b>-</b>	<b>2,287</b>
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balances, end of year</b>	<b><u>\$ -</u></b>	<b><u>\$ (2,287)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,287</u></b>

See independent auditor's report

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

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Revenues</b>				
From local sources				
Taxes				
Property	\$ -	\$ 53,254	\$ -	\$ 53,254
Motor vehicle	-	4,596	-	4,596
Earnings on investments	-	391	-	391
Intergovernmental - State	<u>34,282</u>	<u>70,313</u>	<u>1,742</u>	<u>106,337</u>
Total revenues	<u>34,282</u>	<u>128,554</u>	<u>1,742</u>	<u>164,578</u>
<b>Expenditures</b>				
Debt service				
Principal	-	-	100,000	100,000
Interest	-	-	<u>54,512</u>	<u>54,512</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>154,512</u>	<u>154,512</u>
Excess (deficit) of revenues over expenditures	<u>34,282</u>	<u>128,554</u>	<u>(152,770)</u>	<u>10,066</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	152,770	152,770
Transfers out	<u>(16,148)</u>	<u>(136,622)</u>	<u>-</u>	<u>(152,770)</u>
Total other financing sources (uses)	<u>(16,148)</u>	<u>(136,622)</u>	<u>152,770</u>	<u>-</u>
<b>Net change in fund balances</b>	<b>18,134</b>	<b>(8,068)</b>	<b>-</b>	<b>10,066</b>
Fund balances, beginning of year	<u>-</u>	<u>52,590</u>	<u>-</u>	<u>52,590</u>
Fund balances, end of year	<u>\$ 18,134</u>	<u>\$ 44,522</u>	<u>\$ -</u>	<u>\$ 62,656</u>

See independent auditor's report

**FULTON INDEPENDENT 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
<b>Activity Funds</b>				
Fulton Independent				
Middle School Boys' Basketball	\$ -	\$ 4,597	\$ 3,576	\$ 1,021
Middle School Cheerleaders	975	1,305	2,280	-
Middle School Girls' Basketball	2,568	4,916	3,786	3,698
Middle School Beta Club	1,496	430	1,671	255
Middle School Y-Club	437	-	437	-
Middle School Academic Team	405	146	69	482
General Fund	3,363	5,380	5,695	3,048
Girls' Basketball	2,672	3,490	3,994	2,168
Football	-	6,634	6,634	-
Boys' Basketball	3,448	9,801	7,261	5,988
Baseball	522	5,009	3,799	1,732
Softball	-	3,889	3,889	-
Cheerleaders	75	1,095	1,170	-
Play	1,136	18,768	17,717	2,187
Math/Science Club	1,917	543	457	2,003
Beta Club	555	412	515	452
FCA	145	-	-	145
Y-Club	647	2,953	2,436	1,164
Yearbook	2,372	5,225	7,071	526
Kennel	104	-	-	104
Volleyball	1,211	9,679	9,332	1,558
Concessions	2,188	22,158	22,821	1,525
Lounge Fund	2,143	1,002	875	2,270
FEA	466	2,078	1,096	1,448
High School Student Council	-	349	236	113
Bulldog Academy	-	216	-	216
WMLib Library Grant (Carr)	411	-	23	388
Supplies (Carr)	110	-	-	110
Lounge Fund (Carr)	784	869	416	1,237
7th Grade	291	128	231	188
8th Grade	639	260	243	656
Class of 2009	43	-	-	43
Senior Class	3,225	792	4,017	-
Junior Class	901	1,074	-	1,975
Sophomore Class	92	126	-	218
Freshmen Class	-	119	-	119
Relay (Relay for Life)	-	1,633	1,358	275
Middle School District Tournaments	-	4,047	4,047	-
	35,341	119,123	117,152	37,312
Less: inter-fund transfers	-	9,295	9,295	-
<b>Total agency funds</b>	<b>\$ 35,341</b>	<b>\$ 109,828</b>	<b>\$ 107,857</b>	<b>\$ 37,312</b>

See independent auditor's report

**FULTON INDEPENDENT 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
<b>U.S. Department of Education</b>				
Passed Through State Department of Education:				
Title I Cluster:				
Title I Grants to Local Educational Agencies	84.010	220-4500-3102	\$ 296,898	\$ 5,135
Title I Grants to Local Educational Agencies	84.010	220-4500-3103	294,000	299,676
Title I Grants to Local Educational Agencies	84.010A	220-4500-3202	28,873	4,939
		Sub-total	619,771	309,750
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389A	220-4500-3919	259,666	5
Total Title I Cluster			879,437	309,755
Special Education Cluster:				
Special Education Grants to States	84.027	220-4500-3373	118,980	118,128
Special Education Grants to States	84.027	220-4500-3371	126,512	(3,294)
Special Education Grants to States	84.027	220-4500-3372	115,481	7,037
		Sub-total	360,973	121,871
Special Education Preschool Grants	84.173	220-4500-3431	19,026	(3)
Special Education Preschool Grants	84.173	220-4500-3432	19,013	2,604
Special Education Preschool Grants	84.173	220-4500-3433	18,993	17,050
		Sub-total	57,032	19,651
ARRA - Special Education Grants to States, Recovery Act	84.391A	220-4500-4249	110,063	330
Total Special Education Cluster			528,068	141,852
Career and Technical Education Basic Grants to States	84.048	220-4500-3482	5,793	(1,401)
Career and Technical Education Basic Grants to States	84.048	220-4500-3483	5,817	6,281
			11,610	4,880
Safe and Drug-Free Schools and Communities State Grants	84.186	220-4500-4060	3,504	427
Passed Through the West Kentucky Community and Technical College:				
Education Technology State Grants	84.318	220-4500-4251	1,000	628
Rural Education	84.358	220-4500-3501	10,497	(53)
Rural Education	84.358	220-4500-3503	-	5,162
			10,497	5,109
Passed Through State Department of Education:				
Improving Teacher Quality State Grants	84.367	220-4500-4013	40,454	40,454
Improving Teacher Quality State Grants	84.367	220-4500-4012	40,881	3
			81,335	40,457
ARRA - Education Jobs Fund, Recovery Act	84.410	220-4500-4411	117,804	829
Title II Perkins Reserve Fund Grant	84.243	220-4500-3631	31,080	862
Title II Perkins Reserve Fund Grant	84.243	220-4500-3633	93,000	94,025
			124,080	94,887
It's a Rap		220-4500-3874Z	30,795	(2,939)
Race to the Top	84.413A	220-4500-4521	11,973	1,047
21st Century Community Learning Centers	84.287C	220-4500-5503	150,000	31,663

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

Total U.S. Department of Education

1,950,103

628,595

**FULTON INDEPENDENT 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
<b>U.S. Department of Agriculture</b>				
Passed Through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	510-4500	65,612	65,612
National School Lunch Program	10.555	510-4500	178,945	178,945
Summer Feeding Program	10.559	510-4500	432	432
Total Child Nutrition Cluster			<u>244,989</u>	<u>244,989</u>
Fresh Fruit and Vegetable Program	10.582	510-4500	12,961	12,961
Total U.S. Department of Agriculture			<u>257,950</u>	<u>257,950</u>
<b>U.S. Department of Health &amp; Human Services</b>				
Passed Through Murray Independent School District:				
Head Start	93.600	220-4700-6553	45,000	40,500
Total U.S. Department of Health & Human Services			<u>40,500</u>	<u>40,500</u>
<b>U.S. Corporation for National and Community Service</b>				
Passed Through State Department of Education				
Learn and Serve America_School and Community Based Programs	94.004	220-4700-6752	-	2,447
Total U.S. Corporation for National and Community Service			<u>-</u>	<u>2,447</u>
<b>Total federal awards</b>			<u>\$ 2,248,553</u>	<u>\$ 929,492</u>
<b>Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures</b>				
Total expenditures of federal awards				\$ 929,492
Total expenditures of state and local awards				325,951
Expenditure of federal awards in the food service fund				<u>(257,950)</u>
<b>Total expenditures as reported in the special revenue fund on statement revenues, expenditures and changes in fund balances - governmental funds</b>				<u>\$ 997,493</u>

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

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

**NOTE 1 - BASIS OF PRESENTATION**

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

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

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

**NOTE 3 - FOOD DISTRIBUTION**

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

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton Independent School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fulton Independent School District's basic financial statements and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 07-01 to be a material weakness.

## **Compliance and Other Matters**

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

We noted a certain other matter that we reported to management of Fulton Independent School District in a separate letter dated October 21, 2013, as required by the auditor's contract with the Kentucky Department of Education.

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

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

## **Purpose of this Report**

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

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
October 21, 2013

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**Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

**Independent Auditor's Report**

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

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

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

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

## Opinion on Each Major Federal Program

In our opinion, Fulton Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

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

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

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

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

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
October 21, 2013

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

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

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: unqualified

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

Noncompliance material to financial statements noted?        yes   x   no

**Federal Awards**

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

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

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

Identification of major programs: Title I (CFDA #84.010 and 84.389A)  
Child Nutrition (CFDA #10.553, 10.555 and 10.559)

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

Auditee qualified as low-risk auditee?        yes   x   no

**FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

**FINDING 07-01**

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

**Criteria:** Internal controls should be in place in order for the District to be able to prevent, detect, and correct potential misstatements in its financial statements, as prescribed by Statement of Auditing Standards No. 115, AU Section 325.05. A system of internal control

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

June 30, 2013

over financial reporting does not consist solely of controls over the proper recording of accounting transactions. Rather, it includes controls over financial statement preparation, including the footnote disclosures.

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

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

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

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

**SIGNIFICANT DEFICIENCY**

**None reported**

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**None reported**

## **MANAGEMENT LETTER POINTS**

**Members of:**

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



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October 21, 2013

Tammy Smith, Superintendent  
Fulton Independent Board of Education  
Fulton, Kentucky

In planning and performing our audit of the financial statements of Fulton Independent School District for the year ended June 30, 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.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. A separate report dated October 21, 2013, contains our report on material weaknesses in the District's internal control over financial reporting. This letter does not affect our report dated October 21, 2013, on the financial statements of Fulton Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
October 21, 2013

**FULTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS**

June 30, 2013

**MANAGEMENT LETTER POINTS**

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

**Criteria:** The District is required by KRS 160.470(5) to forward tax rates to the Kentucky Board of Education within 30 days of receipt of assessment data.

**Cause:** The District originally approved incorrect rates and the new rates had to be approved by the Board.

**Effect:** Noncompliance with state statute.

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

**Response:** Management agrees with the recommendation.

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

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

**FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESSES**

**FINDING 07-01**

**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 07-01.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported

**MANAGEMENT LETTER POINTS**

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

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

***Current Status:*** This circumstance continues to exist. See management letter point I.