

FULTON INDEPENDENT SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2019

**FULTON INDEPENDENT SCHOOL DISTRICT
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INTRODUCTORY SECTION

FULTON INDEPENDENT SCHOOL DISTRICT

June 30, 2019

BOARD OF EDUCATION

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

ADMINISTRATIVE STAFF

Deanna Miller, Superintendent
Becky Fiset, Finance Officer

FINANCIAL SECTION



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, 2019, 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, 2019, 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 management's discussion and analysis on pages 4–9, the schedules related to pensions and postemployment benefits on pages 50–57, and the budgetary comparison information on pages 58–60 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 statement of revenues and expenditures – agency funds 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining statement of revenues and expenditures – agency funds 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 statement of revenues and expenditures – agency funds and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2019, 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 solely 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 the effectiveness of the District's 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

Union City, Tennessee
November 15, 2019

Fulton Independent School District

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

FULTON INDEPENDENT SCHOOL DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS FISCAL YEAR ENDING JUNE 30, 2019

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, 2019. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The District was able to replace a boiler with carryover money due to the careful planning of monies.
- The District has received two competitive federal grants that have relieved General Fund.
- The District refinanced a bond, saving the district \$41,035 over the next ten years.

USING THIS ANNUAL REPORT

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

OVERVIEW OF FINANCIAL STATEMENTS

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

The Fulton Independent School System does not discriminate on the basis of race, color, religion, sex, national or ethnic origin, political status, age, or disabling condition, in employment or in the provision of services.

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

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

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

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

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

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

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

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

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$438,390 as of June 30, 2019.

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 2018 and 2019.

Table 1
Net position

Assets	2018	2019
Current Assets	\$ 1,454,785	\$ 1,563,428
Noncurrent Assets	3,366,558	3,107,938
Total Assets	4,821,343	4,671,366
Deferred outflows of resources	594,172	438,723
Liabilities		
Current Liabilities	3,331,426	2,987,816
Noncurrent Liabilities	1,356,922	1,418,468
Total Liabilities	4,688,348	4,406,284
Deferred inflows of resources	160,101	265,415
Net position		
Net Investment in Capital Assets	2,034,580	1,979,018
Restricted	123,033	129,905
Unrestricted	(1,590,547)	(1,670,533)
Total Net position	\$ 567,066	\$ 438,390

Table 2 shows changes in net position for fiscal year 2018 as compared to 2019.

Table 2
Changes in Net position

	2018	2019
Revenues		
Program Revenues:		
Charges for Services	\$ 9,133	\$ 21,458
Operating Grants and Contributions	1,209,695	1,234,558
General Revenues:		
Local Taxes	1,124,339	1,053,583
Investment Earnings	22,167	24,462
Other Local Revenue	88,549	78,878
State Aid- Formula Grants	3,550,298	3,171,498
Indirect Federal Reimbursements	33,158	28,893
Total Revenues	6,037,339	5,613,330
Program Expenses		
Instruction	3,644,528	3,423,785
Support Services		
Student	171,682	174,757
Instructional Staff	104,631	103,051
District Administration	385,854	384,128
School Administration	210,679	345,096
Business	161,290	230,648
Plant Operations and Management	463,132	491,522
Student Transportation	70,828	42,234
Non-instructional Services/Other	100,284	87,491
Facilities acquisition and construction	0	14,295
Bond issuance costs	0	21,727
Interest on long-term debt	55,040	52,560
Food Service	402,048	370,712
Total Expenses	5,769,996	5,742,006
Change in Net position	\$ 267,343	\$ (128,676)

Governmental Activities

Total revenues for governmental activities for 2019 were \$5,613,330. Taxes decreased, by 6%, from the previous year for revenues for governmental activities for the District. State aid and state and federal grants accounted for 79% of governmental revenue. The total cost of all programs and services for governmental activities was \$5,742,006. Instruction comprises 60% of expenses. Governmental expenditures for the District for 2019 exceeded governmental revenues by \$128,676.

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**

	Total Cost of Services 2019	Net Cost of Services 2019
Instruction	\$3,423,785	\$2,561,589
Support Services		
Student	174,757	145,864
Instructional Staff	103,051	103,051
District Administration	384,128	384,128
School Administration	345,096	345,096
Business	230,648	230,648
Plant Operations and Management	491,522	491,522
Student Transportation	42,234	42,234
Non-instructional Services/Other	87,491	87,491
Facilities Acquisition/Construction	14,295	14,295
Bond Issuance Costs	21,727	21,727
Interest on L/T debt	52,560	52,560
Total Expenses	\$5,371,294	\$4,480,205

Proprietary (Business-Type) Activities

The only proprietary (business-type) activity of the school district is the food service operation. The following table represents a summary of revenues and expenses for the fiscal year ended June 30, 2019.

	<u>Amount</u>
Revenues:	
Local revenue sources	\$ 21,458
State on-behalf payments	51,696
Federal revenue	295,963
Interest Income	3,671
Donated commodities	22,403
State matching	<u>2,300</u>
Total revenue	<u>376,033</u>
Expenses:	
Food Service	370,712
Indirect costs transfer	<u>11,000</u>
Total expenses	<u>381,712</u>
Change in Net position	<u>\$ 15,779</u>

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 2018-19 budget with a \$350,000 contingency (12%). 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 Dr. DeAnna Miller, Superintendent, or to Becky Fisette, 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, 2019

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,075,413	\$ 197,789	\$ 1,273,202
Receivables			
Accounts	177,967	-	177,967
Intergovernmental - State	-	6,206	6,206
Inventories	-	12,453	12,453
Capital assets not being depreciated			
Land	93,600	-	93,600
Capital assets, net of accumulated depreciation			
Land improvements	2,143	-	2,143
Buildings and improvements	2,861,306	85,798	2,947,104
Technology equipment	38,187	11,463	49,650
Vehicles	3,643	-	3,643
General equipment	41,861	63,537	105,398
Total assets	<u>4,294,120</u>	<u>377,246</u>	<u>4,671,366</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	221,316	39,669	260,985
Deferred outflows related to other postemployment benefits	155,336	17,457	172,793
Deferred amount on refunding	4,945	-	4,945
Total deferred outflows of resources	<u>381,597</u>	<u>57,126</u>	<u>438,723</u>
Liabilities			
Accounts payable	14,815	43	14,858
Unearned revenue	88,057	-	88,057
Accrued interest	8,793	-	8,793
Net pension liability	1,240,377	222,332	1,462,709
Net other postemployment benefits liability	1,348,586	64,813	1,413,399
Noncurrent liabilities due within one year:			
Insurance assessment	6,321	-	6,321
Bonds	153,384	-	153,384
Accrued sick leave	22,646	-	22,646
Noncurrent liabilities due after one year:			
Bonds	1,074,081	-	1,074,081
Accrued sick leave	149,513	12,523	162,036
Total liabilities	<u>4,106,573</u>	<u>299,711</u>	<u>4,406,284</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	110,021	19,720	129,741
Deferred inflows related to other postemployment benefits	119,764	15,910	135,674
Total deferred inflows of resources	<u>229,785</u>	<u>35,630</u>	<u>265,415</u>
Net Position			
Net investment in capital assets	1,818,220	160,798	1,979,018
Restricted for:			
Capital outlay fund	34,971	-	34,971
Building fund	61,346	-	61,346
Construction	31,460	-	31,460
SFCC escrow	2,128	-	2,128
Unrestricted	(1,608,766)	(61,767)	(1,670,533)
Total net position	<u>\$ 339,359</u>	<u>\$ 99,031</u>	<u>\$ 438,390</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, 2019

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Position</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	\$ 3,423,785	\$ -	\$ 862,196	\$ (2,561,589)	\$ -	\$ (2,561,589)
Support services						
Student	174,757	-	28,893	(145,864)	-	(145,864)
Instructional staff	103,051	-	-	(103,051)	-	(103,051)
District administration	384,128	-	-	(384,128)	-	(384,128)
School administration	345,096	-	-	(345,096)	-	(345,096)
Business	230,648	-	-	(230,648)	-	(230,648)
Plant operations and management	491,522	-	-	(491,522)	-	(491,522)
Student transportation	42,234	-	-	(42,234)	-	(42,234)
Non-instructional services	87,491	-	-	(87,491)	-	(87,491)
Facilities acquisition and construction	14,295	-	-	(14,295)	-	(14,295)
Bond issuance costs	21,727	-	-	(21,727)	-	(21,727)
Interest on long-term debt	52,560	-	-	(52,560)	-	(52,560)
Total governmental activities	<u>5,371,294</u>	<u>-</u>	<u>891,089</u>	<u>(4,480,205)</u>	<u>-</u>	<u>(4,480,205)</u>
Business-Type Activities						
Food service	<u>370,712</u>	<u>21,458</u>	<u>372,362</u>	<u>-</u>	<u>23,108</u>	<u>23,108</u>
Total business-type activities	<u>370,712</u>	<u>21,458</u>	<u>372,362</u>	<u>-</u>	<u>23,108</u>	<u>23,108</u>
Total primary government	<u>\$ 5,742,006</u>	<u>\$ 21,458</u>	<u>\$ 1,263,451</u>	<u>(4,480,205)</u>	<u>23,108</u>	<u>(4,457,097)</u>
General Revenues:						
Taxes						
Property				706,728	-	706,728
Motor vehicle				69,703	-	69,703
Utilities				223,063	-	223,063
Other				54,089	-	54,089
Investment earnings				20,791	3,671	24,462
Other local revenue				78,878	-	78,878
State aid - formula grants				<u>3,171,498</u>	<u>-</u>	<u>3,171,498</u>
Total general revenues				4,324,750	3,671	4,328,421
Transfers				<u>11,000</u>	<u>(11,000)</u>	<u>-</u>
Change in net position				(144,455)	15,779	(128,676)
Net position, beginning of year				<u>483,814</u>	<u>83,252</u>	<u>567,066</u>
Net position, end of year				<u>\$ 339,359</u>	<u>\$ 99,031</u>	<u>\$ 438,390</u>

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

FULTON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	<u>MAJOR FUNDS</u>		<u>NONMAJOR</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	
Assets				
Cash and cash equivalents	\$ 860,959	\$ 85,082	\$ 129,372	\$ 1,075,413
Receivables			-	
Accounts	25,356	152,078	533	177,967
Due from other funds	<u>148,935</u>	<u>-</u>	<u>-</u>	<u>148,935</u>
Total assets	<u>\$ 1,035,250</u>	<u>\$ 237,160</u>	<u>\$ 129,905</u>	<u>\$ 1,402,315</u>
Liabilities				
Accounts payable	\$ 14,647	\$ 168	\$ -	\$ 14,815
Due to other funds	-	148,935	-	148,935
Unearned revenue	<u>-</u>	<u>88,057</u>	<u>-</u>	<u>88,057</u>
Total liabilities	<u>14,647</u>	<u>237,160</u>	<u>-</u>	<u>251,807</u>
Fund Balances				
Restricted	25,000	-	129,905	154,905
Committed	50,000	-	-	50,000
Assigned	52,509	-	-	52,509
Unassigned	<u>893,094</u>	<u>-</u>	<u>-</u>	<u>893,094</u>
Total fund balances	<u>1,020,603</u>	<u>-</u>	<u>129,905</u>	<u>1,150,508</u>
Total liabilities and fund balances	<u>\$ 1,035,250</u>	<u>\$ 237,160</u>	<u>\$ 129,905</u>	<u>\$ 1,402,315</u>

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, 2019

Total fund balances - governmental funds		\$ 1,150,508
<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 in the governmental funds. The cost of the assets is \$7,259,589 and the accumulated depreciation is \$4,218,849.</p>		3,040,740
<p>Deferred outflows reported in the statement of net position related to refunding bonds are not reported in the governmental funds because they are not available to pay current period expenditures.</p>		4,945
<p>Net pension liability and deferred inflows and outflows related to pensions are not due and payable in the current period and, therefore, are not reported in the governmental funds. Amounts related to pensions reported in the statement of net position are as follows:</p>		
Net pension liability	(1,240,377)	
Deferred inflows of resources related to pensions	(110,021)	
Deferred outflows of resources related to pensions	221,316	(1,129,082)
<p>Net other postemployment benefits liability and deferred inflows and outflows related to OPEB are not due and payable in the current period and, therefore, are not reported in the governmental funds. Amounts related to OPEB reported in the statement of net position are as follows:</p>		
Net OPEB liability	(1,348,586)	
Deferred inflows of resources related to OPEB	(119,764)	
Deferred outflows of resources related to OPEB	155,336	(1,313,014)
<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	(1,227,465)	
Accrued interest on bonds	(8,793)	
Accrued sick leave	(172,159)	
Insurance assessment	(6,321)	(1,414,738)
Total net position - governmental activities		\$ <u>339,359</u>

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, 2019

	<u>MAJOR FUNDS</u>		<u>NONMAJOR</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	
Revenues				
From local sources				
Taxes				
Property	\$ 657,219	\$ -	\$ 49,509	\$ 706,728
Motor vehicle	64,945	-	4,758	69,703
Utilities	223,063	-	-	223,063
Other	51,450	-	2,639	54,089
Earnings on investments	18,224	-	2,567	20,791
Donations	38,440	19,515	-	57,955
Other local revenues	20,092	-	-	20,092
Intergovernmental - State	2,664,924	230,969	139,749	3,035,642
Intergovernmental - Federal	28,893	-	-	28,893
Intergovernmental - Indirect Federal	-	631,227	-	631,227
Total revenues	<u>3,767,250</u>	<u>881,711</u>	<u>199,222</u>	<u>4,848,183</u>
Expenditures				
Current				
Instruction	2,100,381	805,953	-	2,906,334
Support Services				
Student	156,944	-	-	156,944
Instructional staff	95,258	107	-	95,365
District administration	378,881	-	-	378,881
School administration	318,460	-	-	318,460
Business	217,982	-	-	217,982
Plant operation and management	469,540	-	-	469,540
Student transportation	29,720	-	-	29,720
Non-instructional services	3,652	76,484	-	80,136
Facilities Acquisition and Construction	-	-	14,295	14,295
Debt Service				
Principal	8,107	-	819,987	828,094
Interest	576	-	50,422	50,998
Bond issuance costs	-	-	21,727	21,727
Total expenditures	<u>3,779,501</u>	<u>882,544</u>	<u>906,431</u>	<u>5,568,476</u>
Revenues over (under) expenditures	<u>(12,251)</u>	<u>(833)</u>	<u>(707,209)</u>	<u>(720,293)</u>
Other Financing Sources (Uses)				
Bond proceeds	-	-	705,000	705,000
Premium on bond issuance	-	-	9,081	9,081
Insurance proceeds	830	-	-	830
Transfers in	19,280	9,113	148,703	177,096
Transfers out	(9,113)	(8,280)	(148,703)	(166,096)
Total other financing sources (uses)	<u>10,997</u>	<u>833</u>	<u>714,081</u>	<u>725,911</u>
Net change in fund balances	(1,254)	-	6,872	5,618
Fund balances, beginning of year	<u>1,021,857</u>	<u>-</u>	<u>123,033</u>	<u>1,144,890</u>
Fund balances, end of year	<u>\$ 1,020,603</u>	<u>\$ -</u>	<u>\$ 129,905</u>	<u>\$ 1,150,508</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, 2019

Total net change in fund balances - governmental funds	\$ 5,618
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay during the year.	(145,768)
Proceeds from bonds issued is an other financing source in the governmental funds but is recorded as a liability in the statement of net position.	(705,000)
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the bond premium associated with the above bond issuance.	(9,081)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	828,107
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds only when it is payable and requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid.	2,993
Amortization of the deferred loss on refunded bonds does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.	(4,568)
In the statement of activities, expenses related to pensions are a function of the changes in the net pension liability. In the governmental funds, only actual expenditures for pension contributions are reported. This is the difference between actual contributions made and pension expense recognized in the statement of activities.	(106,720)
In the statement of activities, expenses related to OPEB are a function of the changes in the net OPEB liability. In the governmental funds, only actual expenditures for OPEB contributions are reported. This is the difference between actual contributions made and OPEB expense recognized in the statement of activities.	(13,096)
In the governmental funds, the KSBIT insurance assessment amount repaid during the year is recorded as an expenditure. However, in the government-wide statement of net position, the amount repaid during the current year reduces long-term liabilities.	6,321
In the statement of activities, expenses for accumulated sick leave are recognized when the liability is incurred. In the governmental funds, however, expenditures for these items are limited to only those that use current financial resources.	<u>(3,261)</u>
Change in net position of governmental activities	<u>\$ (144,455)</u>

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

FULTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2019

	<u>Food Service Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 197,789
Due from grantor	6,206
Inventories	12,453
Total current assets	<u>216,448</u>
Noncurrent Assets	
Buildings and improvements	296,786
Technology equipment	25,687
General equipment	235,537
Accumulated depreciation	<u>(397,212)</u>
Total noncurrent assets	<u>160,798</u>
Total assets	<u>377,246</u>
Deferred Outflows of Resources	
Deferred outflows related to other postemployment benefits	17,457
Deferred outflows related to pensions	<u>39,669</u>
Total deferred outflows	<u>57,126</u>
Liabilities	
Noncurrent Liabilities	
Accounts payable	43
Accrued sick leave	12,523
Net other postemployment benefits liability	64,813
Net pension liability	<u>222,332</u>
Total noncurrent liabilities	<u>299,711</u>
Deferred Inflows of Resources	
Deferred inflows related to other postemployment benefits	15,910
Deferred inflows related to pensions	<u>19,720</u>
Total deferred inflows of resources	<u>35,630</u>
Net Position	
Investment in capital assets	160,798
Unrestricted	<u>(61,767)</u>
Total net position	<u>\$ 99,031</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, 2019

	<u>Food Service Fund</u>
Operating Revenues	
Lunchroom sales	\$ 21,458
Operating Expenses	
Salaries, wages and benefits	146,029
Contract services	21,816
Materials and supplies	183,543
Depreciation	19,253
Other	71
Total operating expenses	<u>370,712</u>
Operating loss	<u>(349,254)</u>
Non-Operating Revenues (Expenses)	
Interest income	3,671
Donated commodities	22,403
Grants - child nutrition program	295,963
State funding - on-behalf payments	51,696
State matching	2,300
Total non-operating revenues (expenses)	<u>376,033</u>
Income before transfers	26,779
Transfer out - indirect costs	<u>(11,000)</u>
Change in net position	15,779
Net position, beginning of year	<u>83,252</u>
Net position, end of year	<u>\$ 99,031</u>

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, 2019

	<u>Food Service</u>
Cash Flows from Operating Activities	
Cash received from lunchroom sales	\$ 21,458
Cash paid for salaries and benefits	(120,970)
Cash paid for services and supplies	(184,640)
Cash paid for other expenses	(71)
Net cash used by operating activities	<u>(284,223)</u>
Cash Flows from Noncapital Financing Activities	
Interfund transfer	(11,000)
Noncapital federal grants received	<u>289,757</u>
Net cash provided by noncapital financing activities	<u>281,057</u>
Cash Flows from Investing Activities	
Interest income	<u>3,671</u>
Net increase in cash and cash equivalents	505
Cash and cash equivalents, beginning of year	<u>197,284</u>
Cash and cash equivalents, end of year	<u>\$ 197,789</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating loss	\$ (349,254)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	19,253
Commodities used	22,403
State funding - on-behalf payments	51,696
Deferred outflows	35,202
Deferred inflows	9,176
Changes in operating assets and liabilities:	
Inventories	(1,727)
Accounts payable	43
Accrued sick leave	(10,602)
Net OPEB liability	(24,040)
Net pension liability	<u>(36,373)</u>
Net cash used by operating activities	<u>\$ (284,223)</u>
Noncash Activities	
Donated food commodities received from the U.S. Department of Agriculture	<u>\$ 22,403</u>
State funding - on-behalf payments	<u>\$ 51,696</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, 2019

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 939,664	\$ 13,798
Liabilities		
Due to student groups	-	13,798
Net Position		
Net position held in trust	\$ 939,664	\$ -

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, 2019

	Private Purpose Trust Funds
Additions	
Interest	\$ 17,769
Deductions	
Supplies	3,200
Change in net position	14,569
Net position, beginning of year	925,095
Net position, end of year	\$ 939,664

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

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

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

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

B. Basis of Presentation

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the governmental and business-type activities. Direct expenses are those that are specifically associated with a particular function. Program revenues include charges paid for goods or services offered by the program and grants and contributions that are restricted to

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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 – The fund financial statements provide information about the District's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. A fund is considered major if it meets the following criteria:

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

The District reported the following major governmental funds for the year ended June 30, 2019:

The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use.

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

The 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.

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.

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

The District reports the following major proprietary fund:

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

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

The District's report also includes the following fiduciary fund types (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 Kentucky *Uniform Program of Accounting for School Activity Funds*.

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

Additionally, the District reports the following nonmajor fund:

The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

C. Measurement Focus and Basis of Accounting

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes levied to finance fiscal year 2019 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and matching requirements, in which the District must provide local resources to be used for a specified purpose. Under the modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

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

Expenses/Expenditures – Under the accrual basis of accounting, expenses are recognized at the time the obligation is incurred, regardless of the actual timing of the related cash disbursements. Expenditures under the modified accrual basis are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The measurement focus of governmental fund accounting is on decreases in net

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances.

Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

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, 2019, to finance the General Fund operations were \$.754 per \$100 valuation for real property, \$.754 per \$100 valuation for business tangible personal property, and \$.78 per \$100 valuation for motor vehicles.

E. Capital Assets

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

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

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

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

F. Interfund Activity

Interfund loans are reported as receivables and payables as appropriate and are referred to as either "due to/from other funds". These loans are subject to elimination upon consolidation. Any residual

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

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

G. Cash and Cash Equivalents

The Board considers demand deposits, money market accounts, and non-negotiable time deposits to be cash and cash equivalents for reporting purposes.

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.

H. Accounts Receivable

The majority of accounts receivable consist of amounts due from state and federal sources; therefore, an allowance for uncollectible accounts is not deemed necessary.

I. Inventories

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

J. 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. 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.

Kentucky Revised Statute 157.420(3) allows the District to restrict up to 50% of accumulated benefits for all employees eligible to retire as of September 15th of each year. The District has restricted \$25,000 at June 30, 2019, in the General Fund for this purpose.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS) and the Kentucky Retirement Systems (KRS) County Employees Retirement System (CERS) and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by TRS and KRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the plans. Investments are reported at fair value.

L. Other Postemployment Benefits (OPEB)

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS) and Kentucky Retirement Systems'

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Insurance Fund (KRS Insurance Fund), as well as additions to/deductions from the plans' fiduciary net position, have been determined on the same basis as they are reported by TRS and KRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and short-term investments, which are reported at cost.

M. Accrued and Long-Term Liabilities

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

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

N. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The deferred charge on refunding reported in the government-wide statement of net position results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also has deferred outflows related to pensions and other postemployment benefits.

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

O. Fund Balances

Governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

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

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

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).

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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 has the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

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

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

P. Net Position

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

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

NOTE 2 – DETAILED NOTES ON ACCOUNTS

A. Cash and Deposits

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

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. As stipulated by KRS 41.240(4), all deposits are required to be 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 June 30, 2019, all deposits were adequately insured or collateralized.

B. Interfund Transactions

The General Fund extends short-term cash flow loans to other funds that receive funding on a reimbursement basis. Repayment is expected when available cash is in excess of that needed for operations. The balance of \$161,956 due to the General fund from Special Revenue is a short-term cash flow loan.

The following interfund transfers were made during the year:

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

<u>Transfer From</u>	<u>Transfer To</u>	<u>Purpose</u>	<u>Amount</u>
Building	Debt Service	Debt service	\$ 148,703
General	Special Revenue	Equipment	9,113
Special Revenue	General	Indirect costs	8,280
Total governmental funds			<u>166,096</u>
Food Service	General	Indirect costs	11,000
Total all funds			<u>\$ 177,096</u>

C. Capital Assets

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

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>
Capital assets not being depreciated				
Land	\$ 93,600	\$ -	\$ -	\$ 93,600
Capital assets being depreciated				
Land improvements	324,165	-	-	324,165
Buildings and improvements	6,045,778	-	-	6,045,778
Technology equipment	554,584	-	17,547	537,037
Vehicles	160,476	-	-	160,476
General equipment	<u>73,725</u>	<u>30,385</u>	<u>5,577</u>	<u>98,533</u>
Total	<u>7,158,728</u>	<u>30,385</u>	<u>23,124</u>	<u>7,165,989</u>
Less accumulated depreciation				
Land improvements	321,215	806	-	322,021
Buildings and improvements	3,032,261	152,212	-	3,184,473
Technology equipment	503,679	12,720	17,547	498,852
Vehicles	148,085	8,748	-	156,833
General equipment	<u>60,580</u>	<u>1,667</u>	<u>5,577</u>	<u>56,670</u>
Total	<u>4,065,820</u>	<u>176,153</u>	<u>23,124</u>	<u>4,218,849</u>
Net capital assets being depreciated	<u>3,092,908</u>	<u>(145,768)</u>	<u>-</u>	<u>2,947,140</u>
Total governmental capital assets, net	<u>\$ 3,186,508</u>	<u>\$ (145,768)</u>	<u>\$ -</u>	<u>\$ 3,040,740</u>

Depreciation has been recorded as a direct expense in the following governmental functions:

Instruction	\$141,691
Support services:	
Instructional staff	215
District administration	3,166
School administration	605
Business support	36
Plant operations and management	21,472
Student transportation	8,748
Non-instructional services	220
Total	<u>\$176,153</u>

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Changes in business-type capital assets during the current year are summarized below.

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets being depreciated				
Buildings and improvements	\$ 296,786	\$ -	\$ -	\$ 296,786
Technology equipment	25,687	-	-	25,687
General equipment	235,537	-	-	235,537
Total	<u>558,010</u>	<u>-</u>	<u>-</u>	<u>558,010</u>
Less accumulated depreciation				
Buildings and improvements	205,983	5,004	-	210,987
Technology equipment	9,922	4,302	-	14,224
General equipment	162,054	9,947	-	172,001
Total	<u>377,959</u>	<u>19,253</u>	<u>-</u>	<u>397,212</u>
Net capital assets being depreciated	<u>180,051</u>	<u>(19,253)</u>	<u>-</u>	<u>160,798</u>
 Total business-type capital assets, net	 <u>\$ 180,051</u>	 <u>\$ (19,253)</u>	 <u>\$ -</u>	 <u>\$ 160,798</u>

D. Long-Term Liabilities

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

Issue	Original Amount	Interest Rate	Maturity Date
2009 School Building Revenue Bonds	\$855,000	3.50% – 4.25%	2029
2009 Refunding Bonds	900,000	3.50% – 4.25%	2029
2009 KISTA Bus Lease	87,480	2.00% – 3.60%	2020
2017 School Building Revenue Bonds	370,000	3.00% – 4.00%	2037
2019 Refunding Bonds	705,000	2.50% – 3.00%	2029

During the current year, the District issued \$705,000 in School Building Refunding Revenue Bonds, Series 2019, to currently refund the 2009 School Building Revenue Bonds outstanding of \$675,000. This refunding was undertaken to reduce total debt service payments over the next 10 years by \$41,042 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$33,045. The premium associated with the new debt was \$9,081. This amount is being amortized over the life of the new debt and is included with bonds payable in the statement of net position. Principal payments are due annually on May 1, with interest payments due semi-annually on May 1 and November 1. The balance outstanding at June 30, 2019, was \$670,000.

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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 amortized over the life of the new debt issued, which is shorter than the life of the refunded debt.

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

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

As of June 30, 2019, estimated future debt service on these obligations, including amounts to be paid by the Commission, are as follows:

Year	Fulton Independent School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2020	\$ 137,050	\$ 23,011	\$ 16,334	\$ 12,551	\$ 188,946
2021	128,632	18,618	16,368	12,067	175,685
2022	68,598	15,653	16,402	11,582	112,235
2023	68,563	13,938	16,437	11,097	110,035
2024	73,527	12,162	16,473	10,610	112,772
2025-2029	387,016	29,429	96,984	45,269	558,698
2030-2034	-	-	101,000	27,200	128,200
2035-2037	-	-	75,000	6,000	81,000
	<u>\$ 863,386</u>	<u>\$ 112,811</u>	<u>\$ 354,998</u>	<u>\$ 136,376</u>	<u>\$ 1,467,571</u>

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

	Balance at July 1, 2018	Issues	Retirements	Balance at June 30, 2019	Due Within One Year
<u>Governmental activities:</u>					
2009 Bonds	\$ 675,000	\$ -	\$ 675,000	\$ -	\$ -
2009 Refunding Bonds	295,000	-	95,000	200,000	100,000
2009 KISTA Bonds	16,491	-	8,107	8,384	8,384
2017 Revenue Bonds	355,000	-	15,000	340,000	15,000
2019 Refunding Bonds	-	705,000	35,000	670,000	30,000
Premium on 2019 bond	-	9,081	-	9,081	908
Insurance assessment	12,642	-	6,321	6,321	6,321
Compensated absences	168,898	3,261	-	172,159	22,646
	<u>\$ 1,523,031</u>	<u>\$ 717,342</u>	<u>\$ 834,428</u>	<u>\$ 1,405,945</u>	<u>\$ 183,259</u>

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	<u>Balance at July 1, 2018</u>	<u>Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2019</u>	<u>Due Within One Year</u>
<u>Business-type activities:</u>					
Compensated absences	\$ 23,125	\$ -	\$ 10,602	\$ 12,523	\$ -

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

E. Fund Balances

Spendable fund balance in governmental funds has been reported in the following categories as of June 30, 2019:

	<u>General</u>	<u>Capital Outlay</u>	<u>Building</u>	<u>Construction</u>
Restricted for:				
Sick leave	\$ 25,000	\$ -	\$ -	\$ -
SFCC escrow	-	-	2,128	-
Building fund	-	-	61,346	-
Future construction	-	34,971	-	31,460
Committed for future construction	50,000	-	-	-
Assigned for:				
Purchase obligations	2,509	-	-	-
Other	50,000	-	-	-

F. 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, 2019:

Contributions to Kentucky Teachers' Retirement System	\$ 573,896
Health insurance, life insurance, flexible spending accounts (including administrative fee)	460,014
Technology	41,828
Debt service	29,352
	<u>\$1,105,090</u>

These payments have been included in revenues and expenditures in the financial statements as follows:

Governmental funds	
General Fund	\$1,024,042
Debt Service Fund	29,352
Proprietary fund	51,696
	<u>\$1,105,090</u>

At the government-wide level, additional on-behalf revenue and expense of \$370,360 has been reported for the District's portion of pension and OPEB expense attributable to its employees.

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NOTE 3 – OTHER INFORMATION

A. Pension Plans

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

Teachers' Retirement System

Plan Description. Teaching-certified employees of the District are provided pensions through the Teachers' Retirement System of the State of Kentucky (TRS). TRS is a cost-sharing multiple-employer defined benefit plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS 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). It is a blended component unit of the Commonwealth of Kentucky and, therefore, is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

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

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

Benefits provided.

For Members before July 1, 2008:

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

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002, receive monthly payments equal to two percent (2%) (service prior to July 1, 1983) and two and one-half percent (2.5%) (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) who became members on or after July 1, 2002, will receive monthly benefits equal to two percent (2%) of their final average salary for each year of service if, upon retirement, their total service is less than ten (10) years. New members after July 1, 2002, who retire with ten (10) or more years of total service will receive monthly benefits equal to two and one-half percent (2.5%) of their final average salary for each year of service, including the first ten (10) years. In addition, new members who retire July 1, 2004, and later with more than thirty (30) years of service will have their multiplier increased for all years over thirty (30) from two and one-half percent (2.5%) to three percent (3%) to be used in their benefit calculation.

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The annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance is \$440 multiplied by credited service.

For Members on or after July 1, 2008:

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

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

The annual retirement allowance for members is equal to: (a) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is 10 years or less; (b) two percent (2.0%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) two and three tenths percent (2.3%) of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) two and one half percent (2.5%) of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) three percent (3.0%) of final average salary for years of credited service greater than 30 years. The annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

Final average salary is the member's five highest annual salaries except members at least age fifty-five with twenty-seven or more years of service may use their three highest annual salaries.

TRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

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

Contributions. Contribution rates are established by Kentucky Revised Statutes. Non-university members are required to contribute 12.855 percent of their salaries to the System. For members employed by local school districts, the State, as a non-employer contributing entity, contributes 13.105 percent of salary for those who joined before July 1, 2008, and 14.105 percent for those who joined thereafter. For salaries that are federally funded, the District contributes 16.105 percent of salaries. The District's contributions for the year ended June 30, 2019, were \$106,726. If a member leaves covered employment before accumulating five (5) years of credited service, accumulated member contributions to the retirement annuity plan plus interest are refunded upon the member's request.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions.

Fulton Independent School District does not report a liability for its proportionate share of the net pension liability because the State of Kentucky provides the pension support directly to TRS on behalf of the District.

The State's proportionate share of the net pension liability associated with Fulton Independent School District was \$7,310,856 as of June 30, 2018. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by the June 30, 2017, actuarial valuation that was used to calculate an expected total pension liability as of

FULTON INDEPENDENT SCHOOL DISTRICT
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June 30, 2018, using standard roll forward techniques. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the District's proportion was 0.0588 percent. At June 30, 2017, the District's proportion was 0.0545 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$883,256 and revenue of \$883,256 for support provided by the State.

Actuarial Assumptions. The June 30, 2017, actuarial valuation used to calculate the June 30, 2018, total pension liability was determined using the following actuarial assumptions:

Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Projected salary increases	3.50 - 7.30%, including inflation
Inflation rate	3.00%
Post-retirement benefit increases	1.50% annually
Municipal bond index rate	3.56% prior measurement date 3.89% measurement date
Single equivalent interest rate	4.49% prior measurement date 7.50% measurement date

June 30, 2017 is the actuarial valuation date upon which the total pension liability (TPL) is based. An expected TPL is determined as of June 30, 2018, using standard roll forward techniques for the TPL based on the assumptions from the June 30, 2015 experience study using a discount rate of 4.49%, which was based on a municipal bond index rate as of that date equal to 3.56%. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the assumed interest rate for the year.

Mortality rates were based on the RP-2000 Combined Mortality Table, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward 1 year for females and 2 years for males.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2010 – June 30, 2015 and adopted by the Board on November 19, 2016.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS' investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
U.S. equity	40%	4.2%
Non-U.S. equity	22%	5.2%

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Asset Class	Target Allocation	Long- term Expected Real Rate of Return
Fixed income	15%	1.2%
Private equity	7%	6.3%
Real estate	6%	3.8%
Other	8%	3.3%
Cash	2%	0.9%
Total	100%	

Discount Rate. The discount rate used to measure the total pension liability as of the measurement date was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates, and the additional amount appropriated for fiscal year 2018. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The change in the discount rate to 7.50% from the 4.49% used in 2017 is considered a change in actuarial assumptions or other inputs.

Sensitivity of the District's Proportionate Share of the State's Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the State's net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the State's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% decrease (6.50%)	Current discount rate (7.50%)	1% increase (8.50%)
State's proportionate share of net pension liability associated with the District	\$9,371,206	\$7,310,856	\$5,577,347

Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued Teachers' Retirement Systems financial report.

County Employees Retirement System

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

Benefits provided. CERS provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

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Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years' service or 65 years old At least 5 years' service and 55 years old At least 25 years' service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age equals 87 At least 10 years' service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age equals 87 Not available

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, COLA for retirees are set by statute at 1.5% each July 1. The Kentucky General Assembly may increase this percentage at any time, but only if appropriate funding is allocated. The General Assembly may also suspend or reduce the annual COLA.

Contributions. The contribution requirements of CERS members and the District are established by state statute. Employee contributions for nonhazardous employees who began participating with KRS prior to September 1, 2008, contribute 5% of all their creditable compensation to KRS. Those beginning on or after that date contribute a total of 6%, with one percent of each employee's contribution deposited to the KRS Pension Fund 401(h) account for the payment of health insurance benefits. If a member terminates his/her employment and applies to take a refund, the member is entitled to a full refund of contributions and interest in his/her account; however, the 1% contributed to the 401(h) account is non-refundable and is forfeited. Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan, known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

Employer contribution rates for fiscal year 2019 were adopted by the Board of KRS based on actuarially recommended rates. The required pension contribution rate for the year ended June 30, 2019, was 16.22% for nonhazardous employees. The District's pension contributions to CERS for the year ended June 30, 2019, were \$70,328.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions. At June 30, 2019, the District reported a liability of \$1,462,709 for its proportionate share of the CERS net pension liability. The net pension liability was measured as of June 30, 2018, based on an expected total pension liability calculated as of that date using standard roll forward techniques applied to the total pension liability determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the District's proportion was 0.024017 percent. At June 30, 2017, the District's proportion was 0.02558 percent.

For the year ended June 30, 2019, the District recognized CERS pension expense of \$163,886. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to CERS pension from the following sources:

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	Deferred Outflows	Deferred Inflows
Net difference between projected and actual earnings on plan investments	\$ -	\$ 17,539
Changes in assumptions	142,949	-
Differences between expected and actual experience	47,709	21,411
Changes in proportion and differences between District contributions and proportionate share of contributions	-	90,791
Contributions subsequent to the measurement date of June 30, 2018	70,328	<i>(not applicable)</i>
Total	\$ 260,986	\$ 129,741

The deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the measurement period ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources for CERS will be recognized in pension expense in the following measurement periods:

Year Ending June 30:	
2019	\$66,327
2020	29,455
2021	(27,014)
2022	(7,851)
2023	-

Actuarial Assumptions. The total pension liability as of June 30, 2018, was determined using the following actuarial assumptions:

Inflation	2.30 percent
Salary increases	3.05 percent
Investment rate of return	6.25 percent

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by the June 30, 2017, actuarial valuation that was rolled forward to June 30, 2018, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2017. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The total pension liability as of June 30, 2018, is determined using these updated benefit provisions.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

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The actuarial assumptions are based on the regular experience studies prepared every five years. The most recent analysis, performed for the period July 1, 2008 – June 30, 2013, is outlined in a report dated April 30, 2014.

The long-term expected rate of return on OPEB plan investments for the June 30, 2017, valuation was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
U.S. equity	17.50%	4.50–5.50%
International equity	17.50%	6.50–7.25%
Global bonds	4.00%	3.00%
Global credit	2.00%	3.75%
High yield	7.00%	5.50%
Emerging market debt	5.00%	6.00%
Private credit	10.00%	8.50%
Real estate	5.00%	9.00%
Absolute return	10.00%	5.00%
Real return	10.00%	7.00%
Private equity	10.00%	6.50%
Cash	<u>2.00%</u>	1.50%
Total	100.00%	6.09%

Discount Rate. The projection of cash flows used to determine the 2018 discount rate of 6.25% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the CERS net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% decrease (5.25%)	Current discount rate (6.25%)	1% increase (7.25%)
District's proportionate share of the CERS net pension liability	\$1,841,399	\$1,462,709	\$1,145,433

Plan Fiduciary Net Position. Detailed information about the CERS's fiduciary net position is available in the separately issued Kentucky Retirement Systems comprehensive annual financial report for the fiscal year ended June 30, 2018.

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

B. Other Postemployment Benefits

Teaching-certified employees of the Kentucky School District are provided other post-employment benefits (OPEB) through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS 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). TRS is a blended component unit of the Commonwealth of Kentucky and, therefore, is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

The State reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information provides details about these plans.

Medical Insurance Plan

Plan description – Kentucky Revised Statute 161.675 requires TRS to provide postemployment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing, multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance, and the General Assembly.

Benefits provided – To be eligible for medical benefits, the member must have retired either for service or disability. The TRS 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. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions – In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three and three-quarters percent (3.75%) is paid by member contributions, three quarters percent (.75%) from the state appropriation, and three percent (3.00%) from the employer. The State contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the Fulton Independent School District reported a liability of \$987,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability is based on the June 30, 2017, actuarial valuation rolled forward using standard actuarial techniques to the measurement date.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

At June 30, 2018, the District's proportion of the collective net OPEB liability was .028445% and at June 30, 2017, it was .028511 percent.

The amount recognized by the District as its proportionate share of the medical plan OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 987,000
State's proportionate share of the net OPEB liability associated with the District	<u>851,000</u>
Total	<u>\$ 1,838,000</u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$110,000 and revenue of \$59,000 for support provided by the State. At June 30, 2019, the District reported deferred outflows and deferred inflows of resources related to the medical plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 2,000
Changes in assumptions	8,000	-
Differences between expected and actual experience	-	27,000
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	2,000
Contributions subsequent to the measurement date	<u>49,645</u>	<u>-</u>
Total	<u>\$ 57,645</u>	<u>\$ 31,000</u>

The amount reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be included as a reduction of the collective net OPEB liability in the measurement period ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense in the following measurement periods:

Year ended June 30:	
2019	\$(4,000)
2020	(4,000)
2021	(4,000)
2022	(3,000)
2023	(4,000)
Thereafter	(4,000)

Changes to benefit terms – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010, is restored, but the State will only finance, via its KEHP “shared responsibility” contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Actuarial assumptions – The total OPEB liability as of June 30, 2018, was determined based on an actuarial valuation prepared as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and Older	5.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B Premiums	0.00% for FY 2018 with an ultimate rate of 5.00% by 2030
Municipal bond index rate	3.89%
Discount rate	8.00%
Single equivalent interest rate	8.00%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 actuarial valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS’s investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
Global equity	58.0%	4.6%
Fixed income	9.0%	1.2%
Real estate	5.5%	3.8%
Private equity	6.5%	6.3%
Other additional categories	20.0%	3.3%
Cash	1.0%	0.9%
Total	100.0%	

Changes in assumptions – Updated healthcare trend rates were implemented.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the District, calculated using the discount rate of 8.00%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net OPEB liability	\$ 1,157,000	\$ 987,000	\$ 845,000

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Lower	Current Healthcare Trend Rate	1% Higher
Net OPEB liability	\$ 818,000	\$ 987,000	\$ 1,195,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

Life Insurance Plan

Plan description – TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

Benefits provided – TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the State.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2019, Fulton Independent School District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The total portion of the net OPEB liability for life insurance that was associated with the District at June 30, 2019, was \$15,000.

For the year ended June 30, 2018, the District recognized OPEB expense for life insurance of \$2,000 and revenue of \$2,000 for support provided by the State. At June 30, 2019, there were no deferred outflows of resources or deferred inflows of resources associated with the District related to OPEB for life insurance.

Actuarial assumptions – The total OPEB liability for life insurance as of June 30, 2018, was determined based on an actuarial valuation prepared as of June 30, 2017, using the following actuarial assumptions:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.56%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS’s investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
U.S. equity	40.0%	4.2%
International equity	23.0%	5.2%

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
Fixed income	18.0%	1.2%
Real estate	6.0%	3.8%
Private equity	5.0%	6.3%
Other additional categories*	6.0%	3.3%
Cash	2.0%	0.9%
Total	100%	

As the life insurance fund investment policy is to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return.

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

CERS Non-hazardous Insurance Fund

District employees not eligible for the Teachers' Retirement System are covered under the County Employees Retirement System, which also contains an OPEB plan. Employees covered under this plan are provided with other postemployment benefits through the CERS Non-hazardous Insurance Fund, a cost-sharing, multiple-employer defined benefit OPEB plan that covers all regular full-time members employed in non-hazardous duty positions of any state department, county, city, and any additional eligible local agencies electing to participate. Participation in the insurance program is optional and requires the completion of the proper forms at the time of retirement and each year during open enrollment in order to obtain insurance coverage. KRS provides access to group health insurance coverage through the Kentucky Employees Health Plan for recipients until they reach age 65 and/or become Medicare eligible. After a retired or disabled retired member becomes eligible for Medicare, coverage is available through a Medicare eligible plan offered by KRS. OPEB may be extended to beneficiaries of plan members under certain circumstances. The Insurance Fund is administered by the County Employees Retirement System. Kentucky Revised Statute Section 61.645 grants the authority to establish and amend the benefit terms to the CERS Board of Trustees. Section 61.701 provides for the administration of the Kentucky Retirement Systems Insurance Fund.

CERS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Benefits provided. The Insurance Fund provides healthcare benefits through payment of insurance premiums for retirees. The percentage of premiums paid is determined by a retiree's date of participation in the plan.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance

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

June 30, 2019

	Benefit	Percentage of premium paid by KRS <u>Years of Service</u> Less than 4 years..... 0% 4 – 9 years 25% 10 – 14 years 50% 15 – 19 years 75% 20 or more years..... 100%
Tier 2	Participation date Benefit eligibility	After 7/1/2003 but before September 1, 2008 Recipient of a retirement allowance with at least 120 months of service at retirement
	Benefit	Monthly contribution of \$10 for each year of earned service increased by 1.5% each July 1.
Tier 3	Participation date Benefit eligibility	After September 1, 2008 Recipient of a retirement allowance with at least 180 months of service at retirement
	Benefit	Monthly contribution of \$10 for each year of earned service increased by 1.5% each July 1.

Upon retiree’s death, the surviving spouse of Tier 2 and Tier 3 members may continue coverage but will be responsible for 100% of premiums. Tier 1 surviving spouses will continue to receive retiree’s benefits. There are also benefits for disability and death while in service.

Contributions. OPEB contributions are actuarially determined and set by the KRS Board. The District’s actuarially determined contribution rate for the year ended June 30, 2019, was 5.26 percent of covered payroll. Contributions paid to the OPEB plan were \$22,819 for the year ended June 30, 2019. However, the fully-insured premiums KRS pays for the Kentucky Employees’ Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to all participants, there is an implicit employer subsidy for the non-Medicare eligible retirees. In order to account for the employer provided OPEB benefit in accordance with GASB 75, employer contributions need to be adjusted to reflect the cost of the implicit subsidy. For the year ended June 30, 2019, the implicit subsidy on current year contributions was \$6,879.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the District reported a liability of \$426,399 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to the measurement date. The District’s proportion of the net OPEB liability was based on employers’ actual contributions for FY 2018. This method is expected to be reflective of the employers’ long-term contribution effort. At June 30, 2018, the District’s proportion was 0.024016 percent and at June 30, 2017, it was 0.025580

For the year ended June 30, 2019, the District recognized CERS OPEB expense of \$49,709.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 29,371
Changes in assumptions	85,158	985
Differences between expected and actual experience	-	49,691
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	24,627
Implicit subsidy	6,867	-
Contributions subsequent to the measurement date	22,819	-
Total	\$ 114,844	\$ 104,674

The amount reported above as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date and the implicit subsidy will be recognized as a reduction of the net OPEB liability in the measurement period ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in the following measurement periods:

Year ended June 30:		
2019	\$	(3,172)
2020		(3,172)
2021		(3,172)
2022		2,532
2023		(8,383)
Thereafter		(4,149)

Actuarial assumptions. There have been no changes in actuarial assumptions since June 30, 2017. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. KRS will now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions. The actuarial assumptions are:

Inflation	2.30 percent
Salary increases	3.05 percent
Investment rate of return	6.25 percent, net of OPEB plan investment expense
Healthcare cost trend rates	
Pre-65	7.0 percent at January 1, 2020, decreasing gradually to an ultimate trend rate of 4.5 percent over a period of 12 years
Post-65	5.0 percent at January 1, 2020, decreasing gradually to an Ultimate trend rate of 4.5 percent over a period of 10 years

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013, set back 1 year for females for healthy retired members and beneficiaries, and multiplied by 50% for males and 30% for females for active members. For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
U.S. equity	17.50%	4.50–5.50%
International equity	17.50%	6.50–7.25%
Global bonds	4.00%	3.00%
Global credit	2.00%	3.75%
High yield	7.00%	5.50%
Emerging market debt	5.00%	6.00%
Private credit	10.00%	8.50%
Real estate	5.00%	9.00%
Absolute return	10.00%	5.00%
Real return	10.00%	7.00%
Private equity	10.00%	6.50%
Cash	<u>2.00%</u>	1.50%
Total	100.00%	6.09%

Discount rate. The discount rate used to measure the total OPEB liability was 5.85 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25% and a municipal bond rate of 3.62% as reported in Fidelity's *20-Year Municipal GO AA Index* as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of KRS' actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85 percent) or 1-percentage-point higher (6.85 percent) than the current discount rate:

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

	<u>1% Decrease (4.85%)</u>	<u>Current Discount Rate (5.85%)</u>	<u>1% Increase (6.85%)</u>
Net OPEB liability	<u>\$ 553,824</u>	<u>\$ 426,399</u>	<u>\$ 317,856</u>

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Lower</u>	<u>Current Healthcare Trend Rate</u>	<u>1% Higher</u>
Net OPEB liability	<u>\$ 317,459</u>	<u>\$ 426,399</u>	<u>\$ 554,809</u>

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems comprehensive annual financial report for the fiscal year ended June 30, 2018.

C. Contingencies and Commitments

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

D. 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

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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.

REQUIRED SUPPLEMENTARY INFORMATION

**FULTON INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2019

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Fulton Independent School District's (FISD) proportion of the collective net pension liability	0.0680%	0.0567%	0.0564%	0.0545%
FISD's proportionate share of the net pension liability	\$ 0	\$ 0	\$ 0	\$ 0
State's proportionate share of the collective net pension liability associated with FISD	<u>13,977,416</u>	<u>13,198,217</u>	<u>16,630,686</u>	<u>14,715,040</u>
Total proportionate share of the collective net pension liability	<u>\$ 13,977,416</u>	<u>\$ 13,198,217</u>	<u>\$ 16,630,686</u>	<u>\$ 14,715,040</u>
FISD's covered payroll	\$ 1,824,449	\$ 1,625,134	\$ 1,659,348	\$ 1,641,789
FISD's proportionate share of the net pension liability as a percentage of its covered payroll	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	42.49%	35.22%	39.83%
	<u>2018</u>			
Fulton Independent School District's (FISD) proportion of the collective net pension liability	0.0588%			
FISD's proportionate share of the net pension liability	\$ 0			
State's proportionate share of the collective net pension liability associated with FISD	<u>7,310,856</u>			
Total proportionate share of the collective net pension liability	<u>\$ 7,310,856</u>			
FISD's covered payroll	\$ 1,674,041			
FISD's proportionate share of the net pension liability as a percentage of its covered payroll	0.00%			
Plan fiduciary net position as a percentage of the total pension liability	59.30%			

This schedule is required to present ten years of data. However, information measured in accordance with the requirements of GASB Statement No. 68 is not available for years prior to those presented above. During the transition period, this information will be presented for as many years as are available.

FULTON INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2019

Notes to Schedule – Kentucky Teachers’ Retirement System

Changes of assumptions. In 2018, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 4.49% to 7.50% discount rate.

In 2017, there was a change in the discount rate from the prior measurement date (June 30, 2016) of 4.20% to 4.49%.

In the 2016 valuation, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience. The assumed salary scale, price inflation, and wage inflation were adjusted to reflect a decrease. In addition, the SEIR resulted in an assumption change from 4.88% to 4.20%.

In 2015, there was a change in the discount rate from the prior measurement date of 5.23% to 4.88%.

In 2014, there was a change in the discount rate from the prior measurement date of 5.16% to 5.23%.

**FULTON INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2019

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the collective net pension liability	.029602%	.030116%	.026860%	.025580%	.024017%
District's proportionate share of the net pension liability	\$ 960,000	\$ 1,294,829	\$ 1,322,614	\$ 1,497,276	\$ 1,462,709
District's covered payroll	\$ 659,420	\$ 672,793	\$ 642,185	\$ 622,922	\$ 602,257
District's proportionate share of net pension liability as a percent of its covered payroll	145.58%	192.46%	205.95%	240.36%	242.87%
Plan fiduciary net position as a percent of total pension liability	66.80%	59.97%	55.50%	53.30%	53.54%

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Statutorily determined contributions	\$ 90,604	\$ 85,790	\$ 79,759	\$ 87,263	\$ 86,195	\$ 70,328
Contributions in relation to the statutorily determined contribution	90,604	85,790	79,759	87,263	86,195	70,328
Contribution deficiency (excess)	<u>\$ -</u>					
District's covered payroll	\$659,420	\$672,793	\$642,185	\$622,922	\$602,257	\$433,588
District's contributions as a percentage of covered payroll	13.74%	12.75%	12.42%	13.95%	14.48%	16.22%

These schedules are required to present ten years of data. However, information measured in accordance with the requirements of GASB Statement No. 68 is not available for years prior to those presented above. During the transition period, this information will be presented for as many years as are available.

See independent auditor's report.

**FULTON INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2019

Notes to Schedules – County Employees Retirement System

There were no changes in actuarial assumptions since June 30, 2017. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If there is no surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% for two children, or 75% for three children. The total pension liability as of June 30, 2018, is determined using these updated benefit provisions.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions. However, subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted the following updated actuarial assumptions reflected in the actuarial valuation as of June 30, 2018:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of salary increases was reduced from 4.0% to 2.0%
- The assumed rate of inflation was reduced from 3.25% to 2.30%.

Method and assumptions used in calculations of actuarially determined contributions. The following actuarial methods and assumptions were used to determine contribution rates for fiscal year ended June 30, 2019, determined by the actuarial valuation as of June 30, 2017:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	26 years, closed
Asset valuation method	20% of the difference between market value of assets and the expected actuarial value of assets recognized
Inflation	2.30 percent
Salary increase	2.0 percent, average
Investment rate of return	6.25 percent, net of investment expense, including inflation

**FULTON INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2019

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

	2017	2018
District's proportion of the collective net OPEB liability	.02558%	.02401%
District's proportionate share of the net OPEB liability	\$ 514,245	\$ 426,399
District's covered-employee payroll	\$ 622,922	\$ 602,257
District's proportionate share of net OPEB liability as a percent of its covered-employee payroll	82.55%	70.80%
Plan fiduciary net position as a percent of total OPEB liability	52.40%	57.62%

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

	2017	2018	2019
Statutorily determined contributions	\$ 29,459	\$ 28,626	\$ 22,819
Contributions in relation to the statutorily determined contribution	29,459	28,626	22,819
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 622,922	\$ 602,257	\$ 429,564
District's contributions as a percentage of covered-employee payroll	4.73%	4.75%	5.26%

These schedules are required to present ten years of data. However, information measured in accordance with the requirements of GASB Statement No. 68 is not available for years prior to those presented above. During the transition period, this information will be presented for as many years as are available.

Notes to CERS Other Postemployment Benefits Schedules

Changes of assumptions. There have been no changes in actuarial assumptions since June 30, 2017. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. KRS will not pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

See independent auditor's report.

**FULTON INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2019

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions. However, subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted the following updated actuarial assumptions reflected in the actuarial valuation as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The salary increase assumption was changed from 4.0% to zero.
- The single discount rate changed from 6.90% to 5.83%.

Method and assumptions used in calculations of statutorily determined contributions. The statutorily determined contribution rates effective for fiscal year ending 2019 were calculated as of June 30, 2017. The following actuarial methods and assumptions were used:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Salary increase	4.0 percent, average
Investment rate of return	7.5 percent, net of plan investment expense
Mortality rates	RP-2000 Combined Mortality Table projected to 2013, with Scale BB (set back 1 year for females).
Healthcare cost trend rates	
Pre-65	7.5 percent, decreasing gradually to an ultimate rate of 5.0 percent over a period of 5 years
Post-65	5.5 percent, decreasing gradually to an ultimate rate of 5.0 percent over a period of 2 years

**FULTON INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2019

**Schedule of Fulton Independent School District's Proportionate Share of the
Medical Insurance Plan Net OPEB Liability – Special Funding Situation
Kentucky Teachers' Retirement System**
Fiscal Years Ending June 30,

	<u>2017</u>	<u>2018</u>
Fulton Independent School District's (FISD) proportion of the collective net OPEB liability	0.028511%	0.028445%
FISD's proportionate share of the net OPEB liability	\$ 1,017,000	\$ 987,000
State's proportionate share of the collective net OPEB liability associated with FISD	<u>830,000</u>	<u>851,000</u>
Total proportionate share of the collective net OPEB liability	<u>\$ 1,847,000</u>	<u>\$ 1,838,000</u>
FISD's covered payroll	\$ 1,641,789	\$ 1,674,041
FISD's proportionate share of the net OPEB liability as a percentage of its covered payroll	61.94%	59.64%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%	25.50%

**Schedule of Fulton Independent School District's OPEB Contributions
Medical Insurance Plan – Kentucky Teachers' Retirement System**
Fiscal Years Ending June 30,

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contributions	\$ 49,254	\$ 50,304	\$ 49,645
Contributions in relation to the actuarially determined contribution	<u>49,254</u>	<u>50,304</u>	<u>49,645</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$1,641,789	\$1,674,041	\$1,654,895
District's contributions as a percentage of covered-employee payroll	3.00%	3.00%	3.00%

These schedules are required to present ten years of data. However, information measured in accordance with the requirements of GASB Statement No. 68 is not available for years prior to those presented above. During the transition period, this information will be presented for as many years as are available.

See independent auditor's report.

**FULTON INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2019

Notes to Medical Insurance Plan Schedules

Changes of benefit terms – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP “Shared Responsibility” contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2018:

Valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	23 years, Open
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 7.20%
Discount rate	8.00%
Health care cost trends	
Under 65	7.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and older	5.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2024
Medicare Part B premiums	0.00% for FY 2018 with an ultimate rate of 5.00% by 2030
Under age 65 claims	the current premium charged by KEHP is used as the base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized).

Changes in assumptions – Updated healthcare trend rates were implemented.

**FULTON INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2019

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

	2017	2018
Fulton Independent School District's (FISD) proportion of the collective net pension liability	0.0%	0.0%
FISD's proportionate share of the net pension liability	\$ 0	\$ 0
State's proportionate share of the collective net pension liability associated with FISD	11,000	15,000
Total proportionate share of the collective net pension liability	\$ 11,000	\$ 15,000
FISD's covered payroll	\$ 1,641,789	\$ 1,674,041
FISD's proportionate share of the net pension liability as a percentage of its covered payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	79.99%	75.00%

This schedule is required to present ten years of data. However, information measured in accordance with the requirements of GASB Statement No. 68 is not available for years prior to those presented above. During the transition period, this information will be presented for as many years as are available.

Notes to Life Insurance Fund Schedule

Changes of benefit terms – None.

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2018:

Valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Five-year smoothed value
Inflation	3.50%
Real wage growth	0.50%
Wage inflation	4.00%
Salary increases, including wage inflation	4.00% - 8.10%
Discount rate	7.50%

See independent auditor's report.

FULTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues				
Local Taxes				
Property	\$ 598,000	\$ 583,697	\$ 657,219	\$ 73,522
Motor vehicle	60,000	60,000	64,945	4,945
Utilities	210,000	210,000	223,063	13,063
Other	35,000	35,000	51,450	16,450
Earnings on investments	12,000	12,000	18,224	6,224
Donations	-	-	38,440	38,440
Other local revenues	9,297	44,297	20,092	(24,205)
Intergovernmental - State	1,646,073	1,652,073	2,664,924	1,012,851
Intergovernmental - Federal reimbursements	13,000	13,000	28,893	15,893
Total revenues	<u>2,583,370</u>	<u>2,610,067</u>	<u>3,767,250</u>	<u>1,157,183</u>
Expenditures				
Current				
Instruction	1,471,379	1,527,493	2,100,381	(572,888)
Support Services				
Student	116,314	116,314	156,944	(40,630)
Instructional staff	83,050	83,050	95,258	(12,208)
District administration	772,918	772,918	378,881	394,037
School administration	158,118	158,118	318,460	(160,342)
Business	122,431	122,431	217,982	(95,551)
Plant operations and management	604,112	583,813	469,540	114,273
Student transportation	118,961	118,961	29,720	89,241
Non-instructional services	6,000	6,000	3,652	2,348
Debt service				
Principal	8,017	8,107	8,107	-
Interest	575	576	576	-
Total expenditures	<u>3,461,875</u>	<u>3,497,781</u>	<u>3,779,501</u>	<u>(281,720)</u>
Revenues over (under) expenditures	<u>(878,505)</u>	<u>(887,714)</u>	<u>(12,251)</u>	<u>875,463</u>
Other Financing Sources (Uses)				
Compensation for loss of assets	-	-	830	830
Transfers in	12,000	12,000	19,280	7,280
Transfers out	(10,000)	(15,000)	(9,113)	5,887
Total other financing sources (uses)	<u>2,000</u>	<u>(3,000)</u>	<u>10,997</u>	<u>13,997</u>
Net change in fund balance	(876,505)	(890,714)	(1,254)	889,460
Fund balance, beginning of year	<u>550,000</u>	<u>890,714</u>	<u>1,021,857</u>	<u>131,143</u>
Fund balance, end of year	<u>\$ (326,505)</u>	<u>\$ -</u>	<u>\$ 1,020,603</u>	<u>\$ 1,020,603</u>

See independent auditor's report.

FULTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - SPECIAL REVENUE FUND
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues				
From local sources				
Donations	\$ -	\$ -	\$ 19,515	\$ 19,515
Intergovernmental - State	228,818	236,135	230,969	(5,166)
Federal revenue through intermediary	24,813	-	-	-
Intergovernmental - Indirect Federal	<u>772,449</u>	<u>1,085,027</u>	<u>631,227</u>	<u>(453,800)</u>
Total revenues	<u>1,026,080</u>	<u>1,321,162</u>	<u>881,711</u>	<u>(439,451)</u>
Expenditures				
Current				
Instruction	1,145,962	1,005,397	805,953	199,444
Support Services				
Instructional staff	-	-	107	(107)
Non-instructional services	<u>67,385</u>	<u>74,878</u>	<u>76,484</u>	<u>(1,606)</u>
Total expenditures	<u>1,213,347</u>	<u>1,080,275</u>	<u>882,544</u>	<u>197,731</u>
Revenues under expenses	<u>(187,267)</u>	<u>240,887</u>	<u>(833)</u>	<u>(241,720)</u>
Other Financing Sources (Uses)				
Transfers in	15,000	9,113	9,113	-
Transfers out	<u>-</u>	<u>-</u>	<u>(8,280)</u>	<u>(8,280)</u>
Total other financing sources (uses)	<u>15,000</u>	<u>9,113</u>	<u>833</u>	<u>(8,280)</u>
Net change in fund balance	(172,267)	250,000	-	(250,000)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ (172,267)</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ (250,000)</u>

See independent auditor's report.

SUPPLEMENTARY INFORMATION SECTION

FULTON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2019

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 34,971	\$ 62,941	\$ 31,460	\$ -	\$ 129,372
Accounts receivable	<u>-</u>	<u>533</u>	<u>-</u>	<u>-</u>	<u>533</u>
Total assets	<u>\$ 34,971</u>	<u>\$ 63,474</u>	<u>\$ 31,460</u>	<u>\$ -</u>	<u>\$ 129,905</u>
Liabilities and Fund Balances					
Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balances					
Restricted	<u>34,971</u>	<u>63,474</u>	<u>31,460</u>	<u>-</u>	<u>129,905</u>
Total liabilities and fund balances	<u>\$ 34,971</u>	<u>\$ 63,474</u>	<u>\$ 31,460</u>	<u>\$ -</u>	<u>\$ 129,905</u>

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, 2019

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues					
From local sources					
Taxes					
Property	\$ -	\$ 49,509	\$ -	\$ -	\$ 49,509
Motor vehicle	-	4,758	-	-	4,758
Other	-	2,639	-	-	2,639
Earnings on investments	-	2,567	-	-	2,567
Intergovernmental - State	<u>31,010</u>	<u>79,387</u>	<u>-</u>	<u>29,352</u>	<u>139,749</u>
Total revenues	<u>31,010</u>	<u>138,860</u>	<u>-</u>	<u>29,352</u>	<u>199,222</u>
Expenditures					
Facilities acquisition and construction	14,295	-	-	-	14,295
Debt service					
Principal	-	-	-	819,987	819,987
Interest	-	-	-	50,422	50,422
Bond issuance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,727</u>	<u>21,727</u>
Total expenditures	<u>14,295</u>	<u>-</u>	<u>-</u>	<u>892,136</u>	<u>906,431</u>
Revenues over (under) expenditures	<u>16,715</u>	<u>138,860</u>	<u>-</u>	<u>(862,784)</u>	<u>(707,209)</u>
Other Financing Sources (Uses)					
Bond proceeds	-	-	-	705,000	705,000
Premium on bond issuance	-	-	-	9,081	9,081
Transfers in	-	-	-	148,703	148,703
Transfers out	<u>-</u>	<u>(148,703)</u>	<u>-</u>	<u>-</u>	<u>(148,703)</u>
Total other financing sources (uses)	<u>-</u>	<u>(148,703)</u>	<u>-</u>	<u>862,784</u>	<u>714,081</u>
Net change in fund balances	16,715	(9,843)	-	-	6,872
Fund balances, beginning of year	<u>18,256</u>	<u>73,317</u>	<u>31,460</u>	<u>-</u>	<u>123,033</u>
Fund balances, end of year	<u>\$ 34,971</u>	<u>\$ 63,474</u>	<u>\$ 31,460</u>	<u>\$ -</u>	<u>\$ 129,905</u>

See independent auditor's report.

FULTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - CAPITAL OUTLAY FUND
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues				
Intergovernmental - State	\$ 32,490	\$ 32,490	\$ 31,010	\$ (1,480)
Expenditures				
Land/site acquisitions	-	-	14,295	(14,295)
Revenues over (under) expenditures	32,490	32,490	16,715	(15,775)
Other Financing Sources (Uses)				
Transfers out	(32,490)	(32,490)	-	32,490
Net change in fund balance	-	-	16,715	16,715
Fund balance, beginning of year	-	-	18,256	18,256
Fund balance, end of year	\$ -	\$ -	\$ 34,971	\$ 34,971

See independent auditor's report.

FULTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - BUILDING FUND
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues				
From local sources				
Property taxes	\$ 45,619	\$ 45,619	\$ 49,509	\$ 3,890
Motor vehicle taxes	4,827	4,827	4,758	(69)
Other taxes	-	-	2,639	2,639
Earnings on investments	1,700	1,700	2,567	867
Intergovernmental - State	<u>70,321</u>	<u>84,973</u>	<u>79,387</u>	<u>(5,586)</u>
Total revenues	122,467	137,119	138,860	1,741
Expenditures				
Current				
Non-instructional services	<u>12,000</u>	<u>12,000</u>	<u>-</u>	<u>12,000</u>
Revenues over expenditures	110,467	125,119	138,860	(10,259)
Other Financing Sources (Uses)				
Transfers out	<u>(110,467)</u>	<u>(125,119)</u>	<u>(148,703)</u>	<u>(23,584)</u>
Net change in fund balance	-	-	(9,843)	(33,843)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>73,317</u>	<u>73,317</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,474</u>	<u>\$ 39,474</u>

Notes to budgetary comparisons

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

The approved budget can be amended by the Board and all budget appropriations lapse at year-end. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, outstanding encumbrances at year-end are re-appropriated in the next year.

See independent auditor's report.

**FULTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS**

For the Year Ended June 30, 2019

<u>Fund</u>	<u>June 30, 2018</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2019</u>
Fulton Independent School District				
Activity Funds:				
House Account	\$ -	\$ 220	\$ 200	\$ 20
Elementary Student Council	395	176	246	325
Middle School Football	-	1,627	1,627	-
Middle School Boys' Basketball	99	8,064	8,163	-
Middle School Cheerleaders	416	278	694	-
Middle School Girls' Basketball	115	3,987	3,455	647
Middle School Beta Club	268	-	-	268
Middle School Academic Team	3	-	-	3
Bulldog All-stars	121	451	532	40
Middle School Softball	185	1,730	772	1,143
General Fund	6,788	868	7,595	61
Girls' Basketball	633	12,135	12,768	-
Football	-	7,990	7,990	-
Boys' Basketball	-	12,646	12,646	-
Baseball	273	2,395	1,877	791
Softball	1,444	2,384	3,327	501
Track	550	4,998	5,548	-
Crosscountry	70	-	-	70
Cheerleaders	658	5,832	6,490	-
Play	-	4,615	4,604	11
Math/Science Club	243	75	60	258
Beta Club	477	-	-	477
FCA	470	-	150	320
Y-Club	845	-	845	-
Yearbook	3,707	3,716	6,650	773
Volleyball	273	5,114	4,436	951
Concessions	1,380	22,811	23,757	434
Student Vending	1,258	75	1,258	75
FEA	1,100	-	205	895
High School Student Council	54	-	-	54
Bulldog Academy	216	-	-	216
Student Rewards	184	-	184	-
Wrestling	472	-	330	142
Athletics - Contingency	48	690	738	-
Tournament revenue	-	1,954	1,954	-
Project Graduation	3,312	-	2,302	1,010
Lounge Fund (Carr)	1,397	84	611	870
HS Lounge Fund	1,823	35	-	1,858
Flower Fund	130	-	-	130
6th Grade	84	-	84	-
7th Grade	276	-	276	-
8th Grade	427	7	427	7
Beda's Bills	-	554	554	-
Class of 2018	1,387	-	1,387	-
Senior Class	1,068	519	1,587	-
Junior Class	758	70	-	828
Sophomore Class	84	140	-	224
Freshmen Class	-	383	-	383
Relay (Relay for Life)	567	-	554	13
	<u>34,058</u>	<u>106,623</u>	<u>126,883</u>	<u>13,798</u>
Less interfund transfers	-	29,138	29,138	-
Total agency funds	<u>\$ 34,058</u>	<u>\$ 77,485</u>	<u>\$ 97,745</u>	<u>\$ 13,798</u>

See independent auditor's report.

FULTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2019

Federal Grantor/ Pass-Through Grantor/ CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Expenditures
U.S. Department of Education			
Passed Through State Department of Education			
Title I Cluster:			
Title I Grants to Local Educational Agencies	84.010	220-4500-310D	\$ 59,625
Title I Grants to Local Educational Agencies	84.010	220-4500-310E	<u>245,062</u>
Total Title I Cluster			304,687
Special Education Cluster:			
Special Education Grants to States	84.027	220-4500-337E	<u>111,483</u>
Special Education Preschool Grants	84.173	220-4500-343B	724
Special Education Preschool Grants	84.173	220-4500-343C	376
Special Education Preschool Grants	84.173	220-4500-343E	<u>13,620</u>
		Sub-total	<u>14,720</u>
Total Special Education Cluster			126,203
Career and Technical Education Basic Grants to States	84.048	220-4500-348D	811
Career and Technical Education Basic Grants to States	84.048	220-4500-348E	<u>2,798</u>
			3,609
Rural and Low Income Education	84.358	220-4500-350D	5,586
21st Century Community Learning Centers	84.287	220-4500-5504	4,625
21st Century Community Learning Centers	84.287	220-4500-550A	3,582
21st Century Community Learning Centers	84.287	220-4500-550AU	<u>72</u>
			8,279
Supporting Effective Instruction State Grants	84.367	220-4500-401D	13,256
Supporting Effective Instruction State Grants	84.367	220-4500-401E	<u>32,668</u>
			45,924
Striving Readers Comprehensive Literacy Grant	84.371	220-4500-466E	121,680
Title IV - Part A Student Support and Academic Enrichment Grants	84.424	220-4500-552D	2,007
Title IV - Part A Student Support and Academic Enrichment Grants	84.424	220-4500-552E	<u>118</u>
			<u>2,125</u>
Total U.S. Department of Education			<u>618,093</u>
U.S. Department of Agriculture			
Passed Through State Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	510-4500	101,924
National School Lunch Program	10.555	510-4500	173,321
State Match	10.555	510-4500	1,538
Summer Food Service Program for Children	10.559	510-4500	<u>6,206</u>
Total Child Nutrition Cluster			282,989

See independent auditor's report.

FULTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

Federal Grantor/ Pass-Through Grantor/ CFDA Program Title	Federal CFDA Number	MUNIS Account Number	<u>Expenditures</u>
Food Distribution Cluster			
Commodity Supplement Food Program	10.565	510-4500	22,403
Fresh Fruit and Vegetable Program	10.582	510-4500	<u>12,974</u>
Total U.S. Department of Agriculture			<u>318,366</u>
 U.S. Department of Health and Human Resources			
Passed through Murray Independent School District			
Head Start	93.600	220-4700-655C	<u>13,134</u>
Total U.S. Department of Health and Human Resources			<u>13,134</u>
Total federal awards			<u>\$ 949,593</u>
 Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures			
Total expenditures of federal awards			\$ 949,593
Total expenditures of state and local awards			251,317
Expenditure of federal awards in the food service fund			<u>(318,366)</u>
 Total expenditures as reported in the special revenue fund on the statement of revenues, expenditures and changes in fund balance - governmental funds			 <u>\$ 882,544</u>

See accompanying notes to schedule

See independent auditor's report.

FULTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

NOTES TO SCHEDULE

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Fulton Independent School District under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, 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.

Note 3 - Food Distribution

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

Note 4 - Indirect Cost Rate

Fulton Independent School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

INTERNAL CONTROL AND COMPLIANCE SECTION



**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, 2019, and the related notes to the financial statements, which collectively comprise the Fulton Independent School District's basic financial statements and have issued our report thereon dated November 15, 2019.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Item 2019-001, that we consider to be material weaknesses.

Compliance and Other Matters

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

Fulton Independent School District's Response to 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

Union City, Tennessee
November 15, 2019



**Independent Auditor's Report on Compliance for Each Major Federal Program and
on Internal Control over Compliance Required by the Uniform Guidance**

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 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, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2019.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Union City, Tennessee
November 15, 2019

FULTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2019

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unmodified

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

Noncompliance material to financial statements? yes x no

Federal Awards

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

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

Any audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) yes x no

Programs tested as major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education Cluster:
84.173	Special Education Grants to States
84.010	Special Education Preschool Grants
	Title I Grants to Local Education Agencies

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

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

June 30, 2019

FINANCIAL STATEMENT FINDINGS

FINDING 2019-001

Condition: The District's accounting department does not have a system of internal control over financial reporting that would allow it to prevent, or detect and correct in a timely manner, 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, or detect and correct in a timely manner, potential misstatements in its financial statements, as prescribed by *Understanding the Entity and Its Environment* and *Assessing the Risks of Material Misstatement AU-C 315*. A system of internal control over financial reporting does not consist solely of controls over the proper recording of accounting transactions. Rather, it includes controls over financial statement preparation, including the footnote disclosures.

Context: During our review of Fulton Independent School District's internal control system, we noted that there was not a system in place for preventing, or detecting and correcting in a timely manner, possible significant misstatements in its financial statements, including 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, or detect and correct in a timely manner, 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 control over financial reporting is not effective.

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

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

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

FULTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
June 30, 2019

FINANCIAL STATEMENT FINDINGS

FINDING 2018-001 – Material Weakness

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

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

Current Status: This circumstance continues to exist. See finding 2019-001.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported