

CITY OF FULTON, KENTUCKY
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2008

**CITY OF FULTON, KENTUCKY
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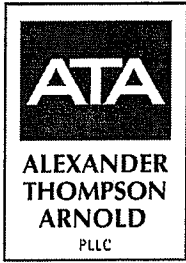
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Center for Public Company Audit Firms
Employee Benefit Plan Audit Quality Center – AICPA

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Independent Auditor's Report

The Honorable Mayor and
Members of the City Commission
City of Fulton, Kentucky 42041

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the statement of budgetary comparison, and the aggregate remaining fund information of the City of Fulton, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City has elected not to present management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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, the statement of budgetary comparison for each major governmental fund, utility, equipment depreciation replacement and municipal aid funds, and the aggregate remaining fund information of the City of Fulton, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for each major governmental fund, and the utility, equipment depreciation replacement fund and municipal aid funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2008, on our consideration of the City of Fulton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Dyersburg, TN
Fulton, KY
Henderson, TN
Jackson, TN
Martin, TN

Milan, TN
McKenzie, TN
Paris, TN
Trenton, TN
Union City, TN

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory schedule and the financial statements and schedules referred to as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on it.

Alexander Thompson Arnold PLLC

Martin, Tennessee
December 5, 2008

CITY OF FULTON, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets:			
Cash on hand	\$ 100	\$ 600	\$ 700
Cash in bank	956,248	585,959	1,542,207
Certificate of deposit	497,493	--	497,493
Taxes receivable	283,662	--	283,662
Grants receivable	25,675	--	25,675
Accounts receivable (net)	57,977	366,413	424,390
Other taxes receivable	208,544	--	208,544
Inventories	867	25,586	26,453
Internal balances	10,936	(7,647)	3,289
Prepaid expenses	206,597	42,101	248,698
Total Current Assets	2,248,099	1,013,012	3,261,111
Capital Assets (net of accumulated depreciation):			
Land and improvements	244,870	--	244,870
Buildings	2,325,435	--	2,325,435
Furniture and equipment	170,344	4,060,985	4,231,329
Vehicles	131,598	--	131,598
Utility plant in service	--	118,418	118,418
Total Capital Assets	2,872,247	4,179,403	7,051,650
Total Assets	5,120,346	5,192,415	10,312,761
Liabilities			
Current Liabilities:			
Accounts payable	32,243	29,436	61,679
Other accrued liabilities	20,181	51,241	71,422
Due to fiduciary funds	11,511	2,303	13,814
Customer deposits	3,275	101,232	104,507
Deferred revenue - property tax	245,652	--	245,652
Due within one year	--	64,000	64,000
Total Current Liabilities	312,862	248,212	561,074
Noncurrent Liabilities:			
Due in more than one year	--	1,173,000	1,173,000
Total Noncurrent Liabilities	--	1,173,000	1,173,000
Total Liabilities	312,862	1,421,212	1,734,074
Net Assets			
Invested in capital assets, net of related debt	2,872,247	2,942,403	5,814,650
Unrestricted	1,935,237	828,800	2,764,037
Total Net Assets	\$ 4,807,484	\$ 3,771,203	\$ 8,578,687

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

CITY OF FULTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Functions/Programs	Program Revenues			Net (Expenses)/Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 301,727	\$ --	\$ --	\$ 500,828	\$ 199,101	\$ --	\$ 199,101
Public safety	1,933,643	--	76,856	--	(1,856,787)	--	(1,856,787)
Welfare	--	--	--	--	--	--	--
Highways and streets	134,630	52,968	--	--	(81,662)	--	(81,662)
Parks and cemetery	93,004	--	--	--	(93,004)	--	(93,004)
Non-departmental	112,420	--	--	51,050	(61,370)	--	(61,370)
Total governmental activities	2,575,424	52,968	76,856	551,878	(1,893,722)	--	(1,893,722)
Business-type activities:							
Water and sewer	2,226,255	2,857,200	--	--	--	630,945	630,945
Total	\$ 4,801,679	\$ 2,910,168	\$ 76,856	\$ 551,878	(1,893,722)	630,945	(1,262,777)

General Revenues:

Property taxes	315,327					315,327
Franchise taxes	18,498					18,498
Payroll taxes	830,773					830,773
Occupational licenses	115,339					115,339
Court fees	34,579					34,579
Ambulance reimbursement	700,724					700,724
Fines	110					110
Cemetery lots	5,190					5,190
Interest	27,448				14,451	41,899
Rental income	22,995				--	22,995
Sale of property	2,232				--	2,232
Miscellaneous	3,993				--	3,993
Transfers	(242,497)				267,497	25,000
Total General Revenues and Transfers	1,834,711				281,948	2,116,659

Change in Net Assets

Net Assets - Beginning	4,866,495	2,858,310	7,724,805
Net Assets - Ending	4,807,484	3,771,203	8,578,687

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

CITY OF FULTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	<u>General</u>	<u>Water & Gas Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Current Assets				
Cash on hand	\$ 100	\$ --	\$ --	\$ 100
Cash in banks	660,942	20,008	275,298	956,248
Certificates of deposit	250,000	247,493	--	497,493
Property taxes receivable	283,662	--	--	283,662
Other taxes receivables	208,544	--	--	208,544
Accounts receivable	57,977	--	--	57,977
Due from other funds	10,331	--	605	10,936
Due from other governments	--	25,675	--	25,675
Prepaid expenses	206,597	--	--	206,597
Inventories	867	--	--	867
Total Assets	<u>\$ 1,679,020</u>	<u>\$ 293,176</u>	<u>\$ 275,903</u>	<u>\$ 2,248,099</u>
Liabilities and Fund Equity				
Current Liabilities				
Accounts payable	\$ 6,568	\$ 25,675	\$ --	\$ 32,243
Due to fiduciary funds	11,511	--	--	11,511
Deferred revenue - property tax	245,652	--	--	245,652
Accrued vacation pay	20,181	--	--	20,181
Customer deposits	3,275	--	--	3,275
Total Current Liabilities	<u>287,187</u>	<u>25,675</u>	<u>--</u>	<u>312,862</u>
Fund Equity				
Fund equity - designated	518	--	--	518
Fund equity - undesignated	1,390,448	267,501	275,903	1,933,852
Reserved for inventory	867	--	--	867
Total Fund Equity	<u>1,391,833</u>	<u>267,501</u>	<u>275,903</u>	<u>1,935,237</u>
Total Liabilities and Fund Equity	<u>\$ 1,679,020</u>	<u>\$ 293,176</u>	<u>\$ 275,903</u>	<u>\$ 2,248,099</u>

CITY OF FULTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2008

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

Total Fund Equity of Governmental Funds	\$ 1,935,237
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	2,872,247
Net Assets of Governmental Activities	<u>\$ 4,807,484</u>

CITY OF FULTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND EQUITY
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	General Fund	Water & Gas Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Local taxes	\$ 1,164,598	\$ --	\$ --	\$ 1,164,598
Intergovernmental revenue	217,849	--	52,968	270,817
Charges for services	728,909	--	--	728,909
Grant revenue	63,300	500,828	--	564,128
Fines, forfeitures and penalties	110	--	--	110
Other revenues	29,023	6,861	4,650	40,534
Total Revenues	2,203,789	507,689	57,618	2,769,096
Expenditures				
Current:				
General government	126,503	5	30,109	156,617
Public safety	1,888,324	--	--	1,888,324
Welfare	--	--	--	--
Highways and streets	134,630	--	--	134,630
Cemetery	93,004	--	--	93,004
Non-departmental	112,420	--	--	112,420
Capital Outlay:				
General government	--	--	53,427	53,427
Public safety	--	--	35,534	35,534
Total Expenditures	2,354,881	5	119,070	2,473,956
Excess (Deficit) of Revenues Over (Under) Expenditures	(151,092)	507,684	(61,452)	295,140
Other Financing Sources				
Operating transfers in (out), net	201,637	(585,634)	116,500	(267,497)
Excess (Deficit) of Revenues and Other Sources Over (Under) Expenditures	50,545	(77,950)	55,048	27,643
Fund Equity - July 1, 2007	1,347,303	345,451	220,855	1,913,609
Increase (decrease) in inventory	(6,015)	--	--	(6,015)
Fund Equity - June 30, 2008	\$ 1,391,833	\$ 267,501	\$ 275,903	\$ 1,935,237

CITY OF FULTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND EQUITY OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

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

Net change in fund equities of governmental funds	\$ 27,643
<p>Capital outlays are reported in the 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.</p>	
Capital Outlay	88,961
Depreciation	(169,600)
<p>The increase (decrease) in inventory is reported as a direct change to beginning fund balance. However, in the statement of activities this increase is reported as an expense based on the consumption method.</p>	
	(6,015)
Change in Net Assets of Governmental Activities	<u>\$ (59,011)</u>

CITY OF FULTON, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND EQUITY - BUDGET AND ACTUAL
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Over (Under)
Revenues				
Local Taxes				
Property taxes	\$ 264,500	\$ 264,500	\$ 298,411	\$ 33,911
Interest and penalties	4,000	4,000	3,806	(194)
Payments in lieu of tax	248,000	248,000	13,110	(234,890)
Franchise taxes	15,000	15,000	18,498	3,498
Payroll taxes	790,000	790,000	830,773	40,773
<i>Total Local Taxes</i>	<u>1,321,500</u>	<u>1,321,500</u>	<u>1,164,598</u>	<u>(156,902)</u>
Intergovernmental Revenues				
Occupational licenses	165,000	165,000	115,339	(49,661)
County court fees	3,000	3,000	5,800	2,800
Federal grant funds	--	--	51,050	51,050
State grant funds	--	--	12,250	12,250
State supplements	--	--	64,606	64,606
Drug fund revenue	--	--	3,325	3,325
Base court revenue	12,000	12,000	28,779	16,779
<i>Total Intergovernmental Revenues</i>	<u>180,000</u>	<u>180,000</u>	<u>281,149</u>	<u>101,149</u>
Charges for Services				
Rent	11,500	11,500	16,745	5,245
Ambulance reimbursement	694,424	694,424	700,724	6,300
Cemetery lots	4,500	4,500	5,190	690
Lease on jail	5,000	5,000	6,250	1,250
<i>Total Charges for Services</i>	<u>715,424</u>	<u>715,424</u>	<u>728,909</u>	<u>13,485</u>
Fines, Forfeitures and Penalties				
Parking violations	100	100	110	10
Other Revenues				
Building permits	1,000	1,000	196	(804)
Sale of property	1,500	1,500	2,232	732
Interest income	25,000	25,000	23,698	(1,302)
Miscellaneous income	500	500	2,897	2,397
<i>Total Other Revenues</i>	<u>28,000</u>	<u>28,000</u>	<u>29,023</u>	<u>1,023</u>
Total Revenues	<u>2,245,024</u>	<u>2,245,024</u>	<u>2,203,789</u>	<u>(41,235)</u>

CITY OF FULTON, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND EQUITY - BUDGET AND ACTUAL
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Over (Under)
Expenditures				
General Government				
Administrative				
Salaries	72,630	80,000	78,768	(1,232)
Retirement/pension	7,669	8,058	8,316	258
Hospitalization	--	--	60	60
Life/dental	150	150	133	(17)
Social security	4,638	4,638	4,880	242
Other benefits	577	577	--	(577)
Maintenance - vehicles/equipment	500	500	1,198	698
Office supplies	1,200	1,200	667	(533)
Technical supplies	1,400	1,400	1,646	246
Dues & subscriptions	1,000	1,000	1,000	--
Motor fuel/oil	900	900	1,417	517
Telephone	1,500	1,500	1,387	(113)
Advertising/printing	3,000	3,000	3,503	503
Travel	3,000	3,000	3,515	515
Insurance	2,200	2,200	2,090	(110)
Professional/technical services	3,000	3,000	3,894	894
Training	1,500	1,500	1,090	(410)
Miscellaneous	500	500	649	149
Duplicate charges	(42,832)	(42,832)	(46,359)	(3,527)
Total Administrative	<u>62,532</u>	<u>70,291</u>	<u>67,854</u>	<u>(2,437)</u>
Finance Department				
Salaries	122,354	124,100	124,062	(38)
Overtime/help	1,000	1,000	194	(806)
Retirement/pension	19,946	19,946	19,943	(3)
Hospitalization	20,458	20,458	16,367	(4,091)
Life/dental insurance	600	600	488	(112)
Social security	9,437	9,437	8,760	(677)
Other benefits	2,042	2,042	--	(2,042)
Maintenance - fixtures	1,500	1,500	1,806	306
Utilities	13,000	14,738	14,968	230
Technical supplies	1,000	1,000	998	(2)
Office supplies	2,500	2,500	1,367	(1,133)
Cleaning supplies	800	800	560	(240)
Postage	2,000	2,000	1,998	(2)
Telephone	1,500	1,500	515	(985)
Advertising/printing	200	200	--	(200)
Travel	800	800	1,244	444
Insurance	2,500	2,500	2,375	(125)
Professional/technical services	500	500	1,266	766
Training/registration	1,000	1,000	205	(795)
Duplicate charges	(140,670)	(140,670)	(138,467)	2,203
Total Finance Department	<u>62,467</u>	<u>65,951</u>	<u>58,649</u>	<u>(7,302)</u>

CITY OF FULTON, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND EQUITY - BUDGET AND ACTUAL
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Over (Under)
Police Department				
Salaries	403,311	403,311	401,668	(1,643)
Overtime/help	35,000	55,500	55,494	(6)
Retirement/pension	78,313	78,313	74,482	(3,831)
Hospitalization	87,615	87,615	71,926	(15,689)
Life/dental insurance	2,100	2,100	1,751	(349)
Social security	37,050	37,050	33,904	(3,146)
Workers' compensation	34,500	34,500	33,624	(876)
Clothing	3,500	3,500	5,714	2,214
Incentive	--	--	22,459	22,459
Other benefits	3,752	3,752	--	(3,752)
Maintenance - fixtures	3,500	3,500	1,529	(1,971)
Maintenance - vehicles/equipment	11,000	11,000	18,498	7,498
Utilities	11,500	11,500	10,923	(577)
Technical supplies	3,000	3,000	3,475	475
Office supplies	4,500	4,500	5,166	666
Cleaning supplies	1,100	1,100	1,176	76
Dues & subscriptions	400	400	485	85
Motor fuel/oil	15,000	28,500	28,369	(131)
Postage	500	500	521	21
Telephone	12,000	13,649	13,820	171
Advertising/printing	400	400	448	48
Travel	5,000	5,000	6,360	1,360
Insurance	29,000	29,000	27,509	(1,491)
Professional/technical services	400	400	389	(11)
Training	1,200	1,200	1,170	(30)
Program implements	300	300	69	(231)
Animal control	7,000	7,000	9,412	2,412
Drug fund expenditures	--	--	6,498	6,498
Jail operation	5,000	5,000	5,592	592
Miscellaneous	200	200	45	(155)
Duplicate charges	(68,514)	(68,514)	(66,900)	1,614
Total Police Department	<u>727,627</u>	<u>763,276</u>	<u>775,576</u>	<u>12,300</u>
Fire Department				
Salaries	520,782	520,782	543,917	23,135
Overtime/help	47,000	47,000	93,823	46,823
Retirement/pension	99,831	99,831	88,393	(11,438)
Hospitalization	98,464	98,464	69,668	(28,796)
Life/dental insurance	2,400	2,400	1,959	(441)
Social security	47,230	47,230	46,555	(675)
Workers' compensation	51,000	51,000	50,450	(550)
Clothing	5,500	5,500	14,182	8,682
Incentive	--	--	24,690	24,690
Other benefits	7,637	7,637	370	(7,267)
Maintenance - fixtures	6,500	6,500	6,259	(241)
Maintenance - vehicles/equipment	22,000	48,122	76,511	28,389
Utilities	11,500	11,500	10,923	(577)

CITY OF FULTON, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND EQUITY - BUDGET AND ACTUAL
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Over (Under)
Fire Department (Continued)				
Volunteer fire expenditures	18,000	18,000	10,440	(7,560)
Technical supplies	4,500	4,500	4,152	(348)
Office supplies	1,200	1,200	2,392	1,192
Cleaning supplies	750	750	1,186	436
Dues & subscriptions	500	500	1,058	558
Motor fuel/oil	7,000	7,000	7,983	983
Postage	250	250	303	53
Telephone	5,500	5,500	5,548	48
Advertising/printing	300	300	245	(55)
Travel	2,000	2,000	3,404	1,404
Insurance	17,200	17,200	17,608	408
Professional/technical services	300	300	458	158
Training	1,800	1,800	1,465	(335)
Code enforcement	30,000	30,000	28,558	(1,442)
Miscellaneous	200	200	248	48
Total Fire Department	1,009,344	1,035,466	1,112,748	77,282
Public Works Department				
Salaries	387,009	387,009	381,964	(5,045)
Overtime/help	25,000	25,917	27,254	1,337
Retirement/pension	64,196	64,196	63,780	(416)
Hospitalization	81,877	81,877	61,729	(20,148)
Life/dental insurance	1,950	1,950	1,678	(272)
Social security	31,519	31,519	29,857	(1,662)
Workers' compensation	34,500	34,500	33,711	(789)
Clothing	9,000	9,000	7,815	(1,185)
Other benefits	3,665	3,665	--	(3,665)
Duplicate charges	(606,780)	(606,780)	(566,934)	39,846
Total Public Works	31,936	32,853	40,854	8,001
Street Department				
Maintenance - buildings/grounds	350	350	2,194	1,844
Maintenance - vehicles/equipment	11,000	11,000	6,127	(4,873)
Utilities	53,000	57,430	58,107	677
Technical supplies	6,000	6,000	6,260	260
Motor fuel/oil	7,000	7,000	3,854	(3,146)
Insurance	4,000	4,000	3,800	(200)
Professional/technical services	700	700	1,192	492
Street markers	1,200	1,200	2,444	1,244
Miscellaneous	7,500	10,000	9,798	(202)
Total Street Department	90,750	97,680	93,776	(3,904)
Parks and Cemeteries Department				
Maintenance - Buildings/Grounds	4,500	4,500	3,611	(889)
Maintenance - Fixtures	300	300	72	(228)
Maintenance - Vehicles/Equipment	8,000	8,000	6,102	(1,898)
Utilities	10,000	10,000	12,040	2,040
Technical supplies	4,500	4,500	9,229	4,729

CITY OF FULTON, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND EQUITY - BUDGET AND ACTUAL
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Over (Under)
<i>Parks and Cemeteries Department (Continued)</i>				--
Women's club expenditures	8,000	8,000	5,787	(2,213)
Community center expenditures	12,500	14,003	15,671	1,668
Motor fuel/oil	1,700	1,700	2,946	1,246
Insurance	4,500	4,500	4,275	(225)
Professional/technical services	25,000	25,000	21,301	(3,699)
Miscellaneous	7,000	7,000	11,970	4,970
Capital expenditures	2,500	2,500	--	(2,500)
Total Parks and Cemeteries	<u>88,500</u>	<u>90,003</u>	<u>93,004</u>	<u>3,001</u>
<i>Non-Departmental</i>				
Maintenance - buildings/grounds	6,500	15,000	4,860	(10,140)
Motor fuel/oil	4,000	4,000	--	(4,000)
Shop expense	16,000	25,000	6,583	(18,417)
Postage	500	500	355	(145)
PVA - tax roll	5,200	5,200	4,965	(235)
Service contracts	4,700	4,700	3,133	(1,567)
Audit	5,500	5,500	4,795	(705)
General liability insurance	53,000	60,225	54,375	(5,850)
Bad debt	200	200	(404)	(604)
Chamber of Commerce	1,200	1,200	1,200	--
Airport	5,000	5,600	5,516	(84)
Library	5,500	5,500	5,500	--
Kentucky Municipal League	750	800	762	(38)
Purchase area development	570	570	568	(2)
Contingency	15,000	35,000	12,712	(22,288)
Economic development	7,500	7,500	7,500	--
Total Non-Departmental	<u>131,120</u>	<u>176,495</u>	<u>112,420</u>	<u>(64,075)</u>
Total Expenditures	<u>2,204,276</u>	<u>2,332,015</u>	<u>2,354,881</u>	<u>22,866</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	40,748	(86,991)	(151,092)	(64,101)
Other financial sources (uses)				
Operating transfers in(out)	(35,000)	(35,000)	201,637	236,637
Total other financial sources (uses)	<u>(35,000)</u>	<u>(35,000)</u>	<u>201,637</u>	<u>236,637</u>
Net Change in Total Fund Balance	5,748	(121,991)	50,545	172,536
Fund Equity - July 1, 2007	1,347,303	1,347,303	1,347,303	--
Increase (decrease) in inventory	--	--	(6,015)	(6,015)
Fund Equity - June 30, 2008	<u>\$ 1,353,051</u>	<u>\$ 1,225,312</u>	<u>\$ 1,391,833</u>	<u>\$ 166,521</u>

CITY OF FULTON, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2008

ASSETS

Current assets:	
Cash on hand	\$ 600
Cash in bank	585,959
Accounts receivable (net)	366,413
Prepaid expenses	25,586
Inventory	42,101
Total Current Assets	<u>1,020,659</u>
Capital assets (net of accumulated depreciation):	
Utility plant in service	4,060,985
Construction in progress	118,418
Total capital assets	<u>4,179,403</u>
Total Assets	<u>5,200,062</u>

LIABILITIES AND NET ASSETS

Liabilities	
Current Liabilities:	
Accounts payable	29,436
Accrued expenses	51,241
Due to other funds	9,950
Customer deposits, net	101,232
Due within one year	126,606
Total current liabilities	<u>318,465</u>
Noncurrent Liabilities:	
Due in more than one year	<u>1,110,394</u>
Total Liabilities	<u>1,428,859</u>
Net assets	
Invested in capital assets, net of related debt	2,942,403
Unrestricted	828,800
Total Net Assets	<u>\$ 3,771,203</u>

CITY OF FULTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2008

Operating Revenues	
Utility sales	\$ 2,857,200
Operating Expenses	
Personnel/administrative costs	817,394
Maintenance - buildings/grounds	3,754
Maintenance - vehicles/equipment	21,807
Utilities	135,484
Maintenance to system	74,867
Technical supplies	23,754
Office and cleaning supplies	9,407
Dues and subscriptions	532
Motor fuel and oil	25,648
Postage	6,756
Gas purchases	756,407
Telephone	12,083
Advertising and printing	946
Travel and registrations	259
Insurance	29,390
Professional services	106,825
Training	2,609
Audit expense	4,500
Depreciation	152,375
Miscellaneous	1,673
Total Operating Expenses	<u>2,186,470</u>
Operating Income (Loss)	<u>670,730</u>
Non-operating revenue (expenses)	
Interest earnings	14,451
Interest expense	(39,785)
Total Non-Operating Revenue (Expense)	<u>(25,334)</u>
Net Change in Net Assets before Operating Transfers	645,396
Operating transfers in (out), net	<u>267,497</u>
Change in Net Assets	912,893
Net Assets - July 1, 2007	<u>2,858,310</u>
Net Assets - June 30, 2008	<u><u>\$ 3,771,203</u></u>

CITY OF FULTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2008

Cash Flows from Operating Activities		
Cash received from customers		\$ 2,852,160
Cash payments to employees for services		(822,572)
Cash payments to suppliers		<u>(1,220,663)</u>
Net Cash Provided (Used) by Operating Activities		808,925
Cash Flows from Non-Capital Financing Activities		
Increase in due to other funds	2,303	
Operating transfers, net	<u>267,497</u>	
Net Cash Provided (Used) by Non-Capital Financing Activities		269,800
Cash Flows from Capital and Related Financing Activities		
Additions to plant utility	(610,633)	
Payments on principal of long-term debt	(79,000)	
Interest payments on long-term debt	<u>(39,785)</u>	
Net Cash Provided (Used) by Capital and Related Financing Activities		(729,418)
Cash Flows from Investing Activities		
Interest received	<u>14,451</u>	
Net Cash Provided (Used) by Investing Activities		<u>14,451</u>
Net Increase (Decrease) in Cash and Cash Equivalents		363,758
Cash and Cash Equivalents - July 1, 2007		<u>222,801</u>
Cash and Cash Equivalents - June 30, 2008		<u>\$ 586,559</u>
Cash Flows from Operating Activities		
Operating income (loss)		\$ 670,730
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</i>		
Depreciation	152,375	
Increase in net accounts receivable	(15,988)	
Decrease in prepaid expenses	4,029	
Decrease in inventories	6,630	
Decrease in accounts payable	(24,977)	
Increase in accrued expenses	5,178	
Increase in customer deposits	<u>10,948</u>	
Total Adjustments		<u>138,195</u>
Net Cash Provided by Operating Activities		<u>\$ 808,925</u>

CITY OF FULTON, KENTUCKY
COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

	Fulton Tourism Commission	Agency Expenditure Revolving Fund	Payroll Fund	Private Cemetery Trust Fund	Pension Cafeteria Trust Fund
Assets:					
Cash	\$ 118,093	\$ 1,511	\$ 9,645	\$ 12,428	\$ 6,720
Investments					
Due from other governments	8,649	--	--	--	--
Due from general fund	--	--	11,511	--	--
Due from utility fund	--	2,303	--	--	--
Due from payroll fund	--	1,500	--	--	--
Total Assets	<u>\$ 126,742</u>	<u>\$ 5,314</u>	<u>\$ 21,156</u>	<u>\$ 12,428</u>	<u>\$ 6,720</u>
Liabilities, Reserves and Fund Balances:					
Liabilities:					
Due to general fund	\$ --	\$ 2,056	\$ --	\$ 628	\$ --
Due to city parks fund	--	605	--	--	--
Due to expenditure revolving fund	--	--	1,500	--	--
Accounts payable	--	--	19,656	--	--
Total Liabilities	<u>--</u>	<u>2,661</u>	<u>21,156</u>	<u>628</u>	<u>--</u>
Assets Held in Trust:	<u>126,742</u>	<u>2,653</u>	<u>--</u>	<u>11,800</u>	<u>6,720</u>
Total Liabilities, Reserves and Assets Held in Trust	<u>\$ 126,742</u>	<u>\$ 5,314</u>	<u>\$ 21,156</u>	<u>\$ 12,428</u>	<u>\$ 6,720</u>

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

CITY OF FULTON, KENTUCKY
COMBINING STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2008

	<u>Private Purpose Trust</u>	<u>Pension Trust</u>
	<u>Cemetery Trust Fund</u>	<u>Cafeteria Trust Fund</u>
Additions:		
Interest	<u>\$ 81</u>	<u>\$ 147</u>
Deductions:		
Maintenance to grounds	<u>4,110</u>	<u>--</u>
Change in Net Assets	(4,029)	147
Net assets - July 1, 2007	<u>15,829</u>	<u>6,573</u>
Net assets - June 30, 2008	<u><u>\$ 11,800</u></u>	<u><u>\$ 6,720</u></u>

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - Summary of Significant Accounting Policies

The City of Fulton, Kentucky, operates under a mayor-city commission form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The City includes, for financial reporting purposes, all funds, agencies, boards, commissions and authorities that are controlled by or dependent on the City. Control by or dependence on the City has been determined on the basis of budget adoption, taxing authority, guarantee of debt, general obligations of the City, ownership of assets, or the City's obligation to fund any deficits that may occur. Based on these criteria, there were no component units applicable for inclusion in the basic financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are 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.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

In general, taxes, licenses, federal and state grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The water and gas improvement fund is also a major fund. It is a capital projects fund whose purpose is to provide improvements for the water and gas utility systems.

The City reports the following major proprietary fund:

The utility fund accounts for the activities associated with the water distribution system and the activities associated with the City's collection, transportation, treatment and disposal of wastewater. In addition, it accounts for the activities associated with the gas distribution system.

The financial statements of the city are prepared in accordance with generally accepted accounting principles. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of tax and other charges between the government's utility divisions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. The principal operating revenues of all of the City's enterprise funds are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. The utility funds recognize income based on cycle billings. This results in recognizing as income the water usage through each respective cycle each month, which may not coincide with the last day of the fiscal year. Non-recognition of income from water sales as a result of cycle billing is a common industry practice. Operating expenses for the proprietary funds 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 nonoperating revenues and expenses. The cost of purchased water is accrued based on the final meter reading of the fiscal year. This may result in unrecognized expenses for the period between the final billing and the end of the fiscal year. This practice is consistent with industry guidelines and does not differ significantly from generally accepted accounting principles.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be all deposits with financial institutions, including restricted deposits, and highly liquid investments with original maturities of three months or less.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

The Water and Sewer Fund uses an allowance for doubtful accounts to allow for potentially uncollectible accounts. Accounts are considered delinquent if due before June 30 and not paid. The allowance account had a balance of \$8,000 at June 30, 2008.

Inventories and Prepaid Items

Inventory records are not maintained on a perpetual basis. The City takes a physical inventory at fiscal year-end, which is recorded at cost using the first-in/first-out (FIFO) method.

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, including property, plant, vehicles, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 for equipment and for infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements that are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For the year under examination, there were no interest costs capitalized.

Capital assets are depreciated over the following useful lives:

Buildings	40 - 70 years
Vehicles and equipment	5 - 30 years
Furniture and fixtures	5 - 10 years
Infrastructure	20 - 50 years

Compensated Absences

The City provides paid vacation annually for employees with at least one year of service. Vacation time may be paid in cash to employees upon approval of the City Manager. Only one half of any accrued leave may be converted to cash and may be done only once in a twelve month period. The City's sick leave policy states that employees may be paid for their accumulated sick leave upon their termination due to retirement or medical disability. In these circumstances the payment shall be for unused sick days at one half the employees hourly rate or \$5.00 per hour, whichever is less.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund equity for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund equity represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund equity – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of the \$2,872,247 difference are as follows:

Governmental funds capital assets	\$ 6,721,637
Less: accumulated depreciation	<u>3,849,390</u>
 Net adjustment to increase fund equity – total governmental funds to arrive at net assets – governmental activities	 <u><u>\$ 2,872,247</u></u>

NOTE 3 – Stewardship, Compliance and Accountability

Budgetary Information

The City utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

1. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Commission.
2. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
3. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Budgetary Information (continued)

The General Fund, a major fund, had expenditures in excess of appropriations of \$22,866 for the year ended.

NOTE 4 – Detailed Notes on All Funds

A. Deposits and Invested Funds

Custodial credit risk of deposits is the risk that in the event of a bank failure the government's deposits may not be returned to it. At year end, the City's carrying amount of deposits and invested funds was \$2,046,420 and the bank balance was \$2,359,594. Interest-bearing deposits are covered by federal depository insurance up to \$100,000, and non-interest bearing accounts are covered by an additional \$100,000. Deposits over the insured amounts are covered by collateral held by the City's agent in the City's name. At June 30, 2008, all bank balances were covered by insurance or adequately collateralized. All funds are classified as public funds.

Cash and cash equivalents and investments as reflected in the accompanying financial statements are allocated as follows under the *Governmental Accounting Standards Board Statement No. 3*:

	<u>Cash on Hand</u>	<u>Deposits</u>	<u>Total</u>
Cash and cash equivalents			
General fund	\$ 100	\$ 910,942	\$ 911,042
Special revenue funds	--	349,566	349,566
Capital project funds	--	193,233	193,233
Fiduciary funds	--	6,720	6,720
Proprietary funds	600	585,959	586,559
Total cash and cash equivalents	<u>\$ 700</u>	<u>\$ 2,046,420</u>	<u>\$ 2,047,120</u>

B. Receivables

Receivables as of June 30, 2008 for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Utility Fund</u>	<u>Water & Gas Improv. Fund</u>	<u>Non-major Funds</u>	<u>Total</u>
Receivables:					
Property taxes	\$ 283,662	\$ --	\$ --	\$ --	\$ 283,662
Other taxes	208,544	--	--	--	208,544
Accounts	57,977	374,413	--	--	432,390
Grants	--	--	25,675	--	25,675
Uncollectible	--	(8,000)	--	--	(8,000)
Gross receivables	<u>\$ 550,183</u>	<u>\$ 366,413</u>	<u>\$ 25,675</u>	<u>\$ --</u>	<u>\$ 942,271</u>

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

C. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 244,870	\$ --	\$ --	\$ 244,870
Capital assets, being depreciated				
Buildings	3,822,490	-	--	3,822,490
Vehicles and equipment	2,565,316	88,960	-	2,654,276
Total capital assets, being depreciated	<u>6,387,806</u>	<u>88,960</u>	<u>-</u>	<u>6,476,766</u>
Less accumulated depreciation for:				
General infrastructure	--	--	--	--
Buildings	1,433,555	63,500	--	1,497,055
Vehicles and equipment	2,246,234	106,100	-	2,352,334
Total accumulated depreciation	<u>3,679,789</u>	<u>169,600</u>	<u>-</u>	<u>3,849,389</u>
Total capital assets being depreciated, net	<u>2,708,017</u>	<u>(80,640)</u>	<u>--</u>	<u>2,627,377</u>
Governmental activities capital assets, net	<u>\$ 2,952,887</u>	<u>\$ (80,640)</u>	<u>\$ --</u>	<u>\$ 2,872,247</u>

	Balance	Increases	Decreases	Balance
Business-type activities:				
Capital assets, being depreciated				
Utility plant in operation	\$ 7,606,570	\$ 492,215	\$ --	\$ 8,098,785
Total capital assets, being depreciated	<u>7,606,570</u>	<u>492,215</u>	<u>--</u>	<u>8,098,785</u>
Less accumulated depreciation for:				
Utility plant in operation	3,885,425	152,375	--	4,037,800
Total accumulated depreciation	<u>3,885,425</u>	<u>152,375</u>	<u>--</u>	<u>4,037,800</u>
Total capital assets, being depreciated, net	<u>3,721,145</u>	<u>339,840</u>	<u>--</u>	<u>4,060,985</u>
Capital assets, not being depreciated				
Construction in progress	--	118,418	--	118,418
Business-type activities capital assets, net	<u>\$ 3,721,145</u>	<u>\$ 458,258</u>	<u>\$ --</u>	<u>\$ 4,179,403</u>

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

C. Capital Assets (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General	\$ 124,283
Public Safety	45,317
Total depreciation expense - governmental activities	<u>\$ 169,600</u>
Business -type activities:	
Water and sewer	<u>\$ 152,375</u>

D. Interfund receivables, payables, and transfers

The composition of interfund balances as June 30, 2008, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount
General Fund (major)	Utility Fund (major)	\$ 7,647
General Fund (major)	Fiduciary funds (nonmajor)	2,684
Fiduciary funds (nonmajor)	General Fund (major)	11,511
Fiduciary funds (nonmajor)	Utility Fund (major)	2,303
City Park Fund (nonmajor)	Fiduciary funds (nonmajor)	605
Total		<u>\$ 24,750</u>

The purpose of the first two interfund balance was primarily for reimbursement of general expenditures incurred that are to be reimbursed within the next fiscal year.

The purpose of the last three interfund balances was for expenses paid out of the payroll or expenditure revolving funds. These expenses are expected to be paid back within the next fiscal year.

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	Amount
General (major)	Utility Fund (major)	\$ 236,637
Utility Fund (major)	Water & Gas Improvement Fund (major fund)	610,634
Equipment Depreciation Fund (nonmajor)	General (major)	35,000
Equipment Depreciation Fund (nonmajor)	Utility Fund (major)	106,500
Water & Gas Improvement Fund (major fund)	Equipment Depreciation Fund (nonmajor)	25,000
Total		<u>\$ 1,013,771</u>

\$236,637 was transferred to General Fund for payment of in-lieu of taxes.

Water and Gas Improvement fund transferred finished water, sewer and gas projects and construction in process to the Utility fund at year end which totaled \$610,634.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

General Fund and Utility Fund transferred \$35,000 and \$106,500, respectively, to the Equipment Depreciation Fund to replace and repair fixed assets.

\$25,000 was transferred from Equipment Depreciation fund to Water & Gas Improvement fund for major Water and Gas projects that occurred this fiscal year.

E. Long-Term Debt

Governmental Activities:

Business Activities:

Water and Sewer Fund - The following long-term liabilities were outstanding at June 30, 2008:

Note Payable – Kentucky Infrastructure Authority	\$ 125,000
Note Payable – Kentucky Rural Water Finance Corporation	<u>1,112,000</u>
	<u>\$ 1,237,000</u>

The note with Kentucky Infrastructure Authority totaled \$125,000 at year end. This note was for infrastructure improvements and was re-written in 2004 for a lower interest rate. This note with Kentucky Infrastructure Authority matures June 1, 2013. This note has an interest rate that varies and payment amounts that vary.

The Kentucky Rural Water Finance Corporation note payable is for major water system improvements completed in 2006. The interest rate on this note is 5.09% and it matures January 1, 2027. Payments vary on this note as well.

The following is a summary of total future debt service requirements for the City:

Year ending June 30,	Business-type Activities	
	Principal	Interest
2009	64,000	62,609
2010	64,000	59,536
2011	66,000	56,399
2012	70,000	53,102
2013	70,000	49,550
2014-2018	253,000	205,126
2019-2023	325,000	133,868
2024-2027	325,000	42,243
	\$ 1,237,000	\$ 662,433

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
KY Infrastructure Authority	\$ 165,000	\$ --	\$ 40,000	\$ 125,000	\$ 25,000
KY Rural Water Fin. Corp.	1,151,000	--	39,000	1,112,000	39,000
Totals	\$ 1,316,000	\$ --	\$ 79,000	\$ 1,237,000	\$ 64,000

Other Supplementary Information

CITY OF FULTON, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

	<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>		
	<u>Municipal Aid Fund</u>	<u>Equipment Depreciation Fund</u>	<u>City Parks Improvement Fund</u>	<u>Totals</u>	
ASSETS					
Cash in banks	\$ 82,065	\$ 182,524	\$ 10,709	\$ 275,298	
Due from general fund	--	--	605	605	
Total Assets	\$ 82,065	\$ 182,524	\$ 11,314	\$ 275,903	
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ --	\$ --	\$ --	\$ --	
Fund equity	82,065	182,523	11,315	275,903	
Total Liabilities and Fund Equity	\$ 82,065	\$ 182,523	\$ 11,315	\$ 275,903	

See independent auditor's report.

CITY OF FULTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND EQUITY - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	Special Revenue Funds				Totals
	Municipal Aid Fund	Equipment Depreciation Fund	Capital Projects Funds		
			City Parks Improvement Fund		
Revenues					
Intergovernmental revenue	\$ 50,468	\$ --	\$ 2,500	\$ 52,968	
Interest income	1,461	2,102	187	3,750	
Miscellaneous	--	--	900	900	
Total Revenues	51,929	2,102	3,587	57,618	
Expenditures					
Maintenance - streets & sidewalks	10,637	9,003	--	19,640	
Professional services	10,469	--	--	10,469	
Capital outlay	--	88,961	--	88,961	
Total Expenditures	21,106	97,964	--	119,070	
Excess (Deficit) Revenues Over (Under) Expenditures	30,823	(95,862)	3,587	(61,452)	
Other Financing Sources					
Operating transfers In	--	116,500	--	116,500	
Total Other Financing Sources	--	116,500	--	116,500	
Excess (Deficit) Revenues and Other Sources over (under) Expenditures	30,823	20,638	3,587	55,048	
Fund Equity - July 1, 2007	51,242	161,885	7,728	220,855	
Fund Equity - June 30, 2008	\$ 82,065	\$ 182,523	\$ 11,315	\$ 275,903	

CITY OF FULTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND ASSETS
PROPRIETARY FUND - BUDGET AND ACTUAL
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Over (Under)
<u>Operating Revenues</u>				
Utility sales	\$ 2,794,500	\$ 2,794,500	\$ 2,857,200	\$ 62,700
Other revenue	100	100	--	(100)
Total Operating Revenues	<u>2,794,600</u>	<u>2,794,600</u>	<u>2,857,200</u>	<u>62,600</u>
<u>Operating Expenses</u>				
Personnel/administrative costs	858,796	900,000	817,394	(82,606)
Maintenance - buildings/grounds	5,500	10,000	3,754	(6,246)
Maintenance - fixtures	300	300	--	(300)
Maintenance - vehicles/equipment	19,000	30,000	21,807	(8,193)
Utilities	118,000	150,000	135,484	(14,516)
Maintenance to system	83,000	100,000	74,867	(25,133)
Technical supplies	24,300	30,000	23,754	(6,246)
Office and cleaning supplies	6,850	10,000	9,407	(593)
Dues and subscriptions	570	570	532	(38)
Motor fuel and oil	20,000	30,000	25,648	(4,352)
Postage	6,000	8,000	6,756	(1,244)
Gas purchases	995,000	1,140,754	756,407	(384,347)
Telephone	10,400	13,000	12,083	(917)
Advertising and printing	1,850	1,850	946	(904)
Travel and registrations	1,100	1,100	259	(841)
Insurance	32,200	32,200	29,390	(2,810)
Professional services	88,000	110,000	106,825	(3,175)
Training	2,500	3,000	2,609	(391)
Audit expense	4,500	4,500	4,500	--
Depreciation	160,000	160,000	152,375	(7,625)
Miscellaneous	2,550	2,550	1,673	(877)
Total Operating Expenses	<u>2,440,416</u>	<u>2,737,824</u>	<u>2,186,470</u>	<u>(551,354)</u>
Net Operating Income (Loss)	<u>354,184</u>	<u>56,776</u>	<u>670,730</u>	<u>613,954</u>
<u>Non-Operating Revenue (Expenses)</u>				
Interest earnings	7,500	750	14,451	13,701
Interest expense	(87,624)	(87,624)	(39,785)	47,839
Total Non-Operating Revenue (Expense)	<u>(80,124)</u>	<u>(86,874)</u>	<u>(25,334)</u>	<u>61,540</u>
Net Income (Loss) Before Operating Transfers	274,060	(30,098)	645,396	675,494
<u>Operating Transfers In (Out)</u>				
Transfer in - plant additions from other funds	--	--	610,634	610,634
Transfer out - payment in lieu of taxes	(197,720)	(250,000)	(236,637)	13,363
Transfer out - Equipment Depreciation Fund	(106,500)	(106,500)	(106,500)	--
Total Operating Transfers	<u>(304,220)</u>	<u>(356,500)</u>	<u>267,497</u>	<u>623,997</u>
Net Income (Loss)	(30,160)	(386,598)	912,893	1,299,491
Fund Equity - July 1, 2007	<u>2,858,310</u>	<u>2,858,310</u>	<u>2,858,310</u>	<u>--</u>
Fund Equity - June 30, 2008	<u>\$ 2,828,150</u>	<u>\$ 2,471,712</u>	<u>\$ 3,771,203</u>	<u>\$ 1,299,491</u>

CITY OF FULTON, KENTUCKY
EQUIPMENT DEPRECIATION REPLACEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN EQUITY - BUDGET AND ACTUAL
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<u>Revenues</u>				
Interest	\$ 2,000	\$ 2,000	\$ 2,102	\$ 102
<u>Expenditures</u>				
Maintenance and repairs	--	--	9,003	9,003
Capital outlay	97,535	160,000	88,961	(71,039)
Total Expenditures	<u>97,535</u>	<u>160,000</u>	<u>97,964</u>	<u>(62,036)</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	(95,535)	(158,000)	(95,862)	62,138
Other Financing Sources:				
Operating transfers in	<u>141,500</u>	<u>141,500</u>	<u>116,500</u>	<u>(25,000)</u>
Total Other Financing Sources	<u>141,500</u>	<u>141,500</u>	<u>116,500</u>	<u>(25,000)</u>
Excess (Deficit) of Revenues and Other Sources Over (Under) Expenditures	45,965	(16,500)	20,638	37,138
Fund Equity - July 1, 2007	<u>161,885</u>	<u>161,885</u>	<u>161,885</u>	<u>--</u>
Fund Equity - June 30, 2008	<u>\$ 207,850</u>	<u>\$ 145,385</u>	<u>\$ 182,523</u>	<u>\$ 37,138</u>

CITY OF FULTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN EQUITY - BUDGET AND ACTUAL
MUNICIPAL AID FUND
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<u>Revenues</u>				
State municipal aid	\$ 47,000	\$ 47,000	\$ 50,468	\$ 3,468
Interest	1,000	1,000	1,461	461
Total Revenues	<u>48,000</u>	<u>48,000</u>	<u>51,929</u>	<u>3,929</u>
<u>Expenditures</u>				
Maintenance - streets	10,000	10,000	10,637	637
Professional/street repairs	36,000	35,000	10,469	(24,531)
Sidewalk repair	2,000	2,000	--	(2,000)
Total Expenditures	<u>48,000</u>	<u>47,000</u>	<u>21,106</u>	<u>(25,894)</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	--	1,000	30,823	29,823
Fund Equity - July 1, 2007	<u>51,242</u>	<u>51,242</u>	<u>51,242</u>	--
Fund Equity - June 30, 2008	<u><u>\$ 51,242</u></u>	<u><u>\$ 52,242</u></u>	<u><u>\$ 82,065</u></u>	<u><u>\$ 29,823</u></u>

CITY OF FULTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
TOURISM FUND
For the Year Ended June 30, 2008

	Original & Final Budget	Actual	Variance With Final Budget
<u>Revenues</u>			
Hotel tax - City of Fulton	\$ 7,000	\$ 4,721	\$ (2,279)
Restaurant tax	58,600	60,429	1,829
Interest	800	2,445	1,645
Grant revenue	--	37,553	37,553
Miscellaneous	100	--	(100)
Total Revenues	66,500	105,148	38,648
<u>Expenditures</u>			
Clerical services	15,000	15,000	--
Special projects	1,000	35,423	34,423
Office supplies	100	716	616
Fourth of July	5,000	3,866	(1,134)
Telephone	800	642	(158)
Advertising/printing	700	532	(168)
Pontotoc Park/Christmas	45,000	6,546	(38,454)
Horse Show	10,000	--	(10,000)
Postage	350	175	(175)
Total Expenditures	77,950	62,900	(15,050)
Excess (Deficit) of Revenues Over (Under) Expenditures	(11,450)	42,248	53,698
Fund Equity - July 1, 2007	84,494	84,494	--
Fund Equity - June 30, 2008	\$ 73,044	\$ 126,742	\$ 53,698

CITY OF FULTON, KENTUCKY
SCHEDULE OF EXPENDITURES OF STATE ASSISTANCE
For the Year Ended June 30, 2008

Grantor Agency/ Pass-through Entity/ Program Name	CFDA #	Grant Number	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008	Grant Accounts Payable June 30, 2008
Kentucky Infrastructure Authority	n/a	WX21075012	\$ --	\$ 334,150	\$ 348,544	\$ (14,394)	\$ 14,394
Water Improvement Grant	n/a	WX210075009	--	92,239	97,093	(4,854)	4,854
Water Improvement Grant	n/a	SX21075006	--	48,765	55,192	(6,427)	6,427
Governor's Office for Local Development							
City Park Upgrade Grant	n/a	H102	--	28,904	37,553	(8,649)	8,649
Kentucky State Fire Commission							
Fire Rescue Training	n/a	n/a	--	8,250	8,250	--	--
Justice and Public Safety Cabinet							
Justice Assistance Grant	n/a	5174-R-3/07	--	4,000	4,000	--	--
Totals			\$ --	\$ 516,308	\$ 550,632	\$ (34,324)	\$ 34,324

NOTE: This schedule is prepared on the modified accrual basis of accounting.

CITY OF FULTON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

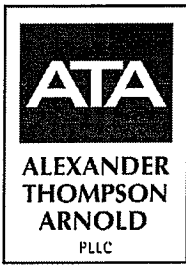
Grantor Agency/ Pass-through Entity/ Program Name	CFDA #	Grant Number	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008	Grant Accounts Payable June 30, 2008
U.S. Department of Homeland Security: FEMA - Assistance to Firefighters	97.044	EMW-2006-FG-06780	\$ -	\$ 51,050	\$ 51,050	\$ -	\$ -

NOTE: This schedule is prepared on the modified accrual basis of accounting.

CITY OF FULTON, KENTUCKY
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
BY INDIVIDUAL ISSUE - ALL FUNDS
June 30, 2008

Year Ended	WATER AND SEWER FUND				TOTAL DEBT SERVICE
	Note Payable Kentucky Rural Water Finance Corporation		Note Payable - Kentucky Infrastructure Authority		
	Principal	Interest	Principal	Interest	
	Principal	Interest	Principal	Interest	
2009	39,000	56,601	25,000	6,005	126,606
2010	39,000	54,616	25,000	4,920	123,536
2011	41,000	52,631	25,000	3,768	122,399
2012	45,000	50,544	25,000	2,558	123,102
2013	45,000	48,253	25,000	1,297	119,550
2014	47,000	45,963			92,963
2015	49,000	43,570			92,570
2016	49,000	41,076			90,076
2017	52,000	38,582			90,582
2018	56,000	35,935			91,935
2019	60,000	33,085			93,085
2020	60,000	30,031			90,031
2021	65,000	26,977			91,977
2022	70,000	23,669			93,669
2023	70,000	20,106			90,106
2024	75,000	16,542			91,542
2025	80,000	12,725			92,725
2026	85,000	8,653			93,653
2027	85,000	4,326			89,326
Totals	\$ 1,112,000	\$ 643,885	\$ 125,000	\$ 18,548	\$ 1,899,433

Internal Control and Compliance



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Tennessee Society of Certified Public Accountants
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**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**

The Honorable Mayor and Members of the City Commission
City of Fulton, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the statement of budgetary comparison, and aggregate remaining fund information for the City of Fulton, Kentucky, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 5, 2008. 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.

(City)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fulton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fulton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fulton's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. They are items 05-2 and 08-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Dyersburg, TN
Fulton, KY
Henderson, TN
Henderson, TN
Martin, TN

Milan, TN
McKenzie, TN
Paris, TN
Trenton, TN
Union City, TN

*The Honorable Mayor and Members of the City Commission
City of Fulton, Kentucky*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

The City of Fulton's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on them.

We noted certain matters we reported to management of the City in a separate letter dated December 5, 2008.

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

Alexander Thompson Arnold PLLC

Martin, Tennessee
December 5, 2008

CITY OF FULTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Significant Deficiencies

05-2 Expenditures in Excess of Appropriations

Condition: The City of Fulton has total expenditures in excess of appropriations in the General Fund for the year ended June 30, 2008.

Criteria: Kentucky Revised Statute 91A.030(8)(b) states "No budget ordinance shall be adopted which provides for appropriations to exceed revenues in any one fiscal year". Kentucky Revised Statute 91A.030(1) states "No city shall expend any moneys from any governmental or proprietary fund, except in accordance with a budget ordinance".

Effect: The City has made expenditures in excess of appropriations which are not legally allowed by the state of Kentucky.

Recommendation: We recommend the City carefully monitor its budget each month and make amendments as appropriate in order to authorize all expenditures. Also, include grant, loan, direct appropriation and bond expenditures for restricted accounts and special projects. All final budget amendments for a current fiscal year must be approved prior to June 30.

Response: City will carefully monitor budget and make amendments as appropriate.

08-1 Controls Over Receipts

Condition: Several instances were noted of poor controls over receipts such as untimely deposit of cash receipts, more than one clerk was noted using a receipt book, a receipt was issued out of sequence and one receipt did not denote reason for receipt.

Criteria: For stronger internal controls the City should deposit funds in a more timely fashion (general preference is three business days). Also to strengthen controls each clerk should use their own receipt books, receipts should be issued in sequence and all information necessary to record receipts should be documented on the face of the receipts.

Effect: The City has an increased risk of errors, irregularities and fraud due to weak internal controls over receipts.

Recommendation: We recommend the City focus on strengthening the above mentioned controls over receipts to safeguard against errors, irregularities or fraud.

Response: Clerks have been assigned their own receipt books. Rarely there will be use by an individual "covering" their desk. Deposits are being made on a timely basis now.

CITY OF FULTON, KENTUCKY
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2008

**PRIOR FINDINGS RELATIVE TO THE AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Reportable Conditions

05-1 Expenditures in Excess of Revenues

This finding was corrected.

05-2 Expenditures in Excess of Appropriations

This finding was repeated.

07-1 Under-collateralization of Bank Deposits

This finding was corrected.