

**CITY OF FULTON, KENTUCKY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**June 30, 2015**

**CITY OF FULTON, KENTUCKY  
TABLE OF CONTENTS**

**Financial Section**

Independent Auditor's Report .....	1
Management's Discussion and Analysis .....	4
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position .....	11
Statement of Activities .....	12
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet .....	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position .....	14
Statement of Revenues, Expenditures and Changes in Fund Balances .....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund .....	17
Proprietary Fund Financial Statements	
Statement of Net Position .....	23
Statement of Revenues, Expenses and Changes in Net Position .....	24
Statement of Cash Flows.....	25
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Position.....	26
Statement of Changes in Fiduciary Net Position.....	27
Notes to Financial Statements .....	28
Required Supplementary Information.....	40

**Supplementary and Other Information Section**

Combining and Individual Nonmajor Fund Statements and Schedules	
Combining Balance Sheet – Nonmajor Governmental Funds .....	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds .....	43
Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
Municipal Aid Fund .....	44
Tourism Fund .....	45
Schedule of State Assistance .....	46
Schedule of Expenditures of Federal Awards .....	47
Schedule of Debt Service Requirements to Maturity by Individual Issue .....	48

**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 <i>Government Auditing Standards</i> .....	49
Schedule of Findings .....	51

## **FINANCIAL SECTION**

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## Independent Auditor's Report

To the Mayor and  
Members of the City Commission  
City of 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 the City of Fulton, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City'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 City of Fulton, Kentucky, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2015 the City of Fulton adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 and the schedules related to pensions on pages 40 and 41 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 City of Fulton's basic financial statements. The Combining and Individual Nonmajor Fund Statements and Schedules, the Schedule of Expenditures of Federal Awards, Schedule of State Assistance and Schedule of Debt Service Requirements to Maturity by Individual Issue are presented for purposes of additional analysis and are not a required part of the financial statements.

The Combining and Individual Nonmajor Fund Statements and Schedules, the Schedule of Expenditures of Federal Awards, Schedule of State Assistance and Schedule of Debt Service Requirements to Maturity by Individual Issue are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 other supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2016, on our consideration of the City of Fulton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fulton's internal control over financial reporting and compliance.

*Alexander Thompson Arnold PLLC*

Martin, Tennessee  
January 6, 2016

# City of Fulton

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Fulton, Kentucky, we offer readers of the City of Fulton's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of this year by \$8.6 million (*net position*). This represents a decrease of \$1.9 million over the prior year. Of this decrease, \$1.5 million was the result of adopting new pension standards that called for reporting a beginning net pension liability. The remaining \$403,321 decrease was from current year operations. Of the total net position, \$1.2 million (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's general fund reported an ending fund balance of \$1.26 million, a decrease of \$133 thousand in comparison with the prior year. Of the total fund balance, \$1.23 million is available for spending at the City's discretion (*unassigned fund balance*).
- The City's governmental activities had a net decrease of \$405 thousand, while net income from business-type activities was \$1.3 thousand, for a total decrease of \$403 thousand from operations of the current fiscal year.
- The City's capital assets increased by \$438 thousand, less depreciation of \$472 thousand, for a net decrease of \$34 thousand.

In the last twelve months through weekly meetings and monthly budget meetings with the Department heads and the City Attorney, we identified many ways to increase efficiencies and decrease costs. Changes made in the way we do business this year are:

- Continued to review, correct and update of all City ordinances
- Purchased property on 4<sup>th</sup> Street to relocate our Public Works department
- Continued to implement systems in order to maintain consistencies in day to day operations of the City
- Sold our retired Fire Engine to the Shriners Club for them to use in their parades and activities
- Condemned and demolished 6 blighted properties
- Implemented a plan to bring our Wastewater Treatment Plant up to EPA standard

- Applied for and was awarded a \$1,139,000 loan from KIA to bring the City's Waste Water Treatment Plant up to the Department of Water standards and meet our Agreed Order letter requirement..
- A new mayor and two new commissioners were elected
- Applied again for a TIGER Grant that would upgrade the local AMTRAK station in Fulton
- Collected over \$9,000 in delinquent taxes
- Placed liens on multiple properties in regards to absentee owners neglecting to maintain their properties or pay taxes.
- Purchased a new patrol car for the Police department with surplus funds in the general fund
- Started our 5 year comprehensive plan with the assistance from the PADD
- Was recognized by the Governor as one of ten communities in the state for our economic growth and reduction in our unemployment rate.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City of Fulton's basic financial statements. The City's basic financial statements are comprised of the following components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City of Fulton's finances, in a manner similar to a private-sector business.

- The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows 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 City is improving or deteriorating.
- The Statement of Activities presents information showing how the City'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 (e.g., uncollected taxes, compensated absences, etc.).

Both of the government-wide financial statements distinguish functions of the City of Fulton that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Most of the City's basic services are included in governmental activities, such as police, fire, public works, highways and streets, parks, cemeteries and general administration. Property taxes, payroll taxes, and state and federal grants finance most of these activities. The business-type activities are those for which the City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system and natural gas system are included here.



## **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. The City of Fulton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of the City are categorized as either governmental funds, proprietary funds, or fiduciary funds.

**Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City of Fulton's near-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental fund financial statements and reconciliations can be found on pages 11 to 22 of this report.

Information is presented separately in the Balance Sheet – Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the General Fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation.

**Proprietary funds** – The City of Fulton uses one type of proprietary fund, known as an enterprise fund, to account for its utility operations. Enterprise funds are used to report the same functions that are presented as business-type activities in the government-wide financial statements.

The proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 23 to 25 of this report.

**Fiduciary funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City of Fulton's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains two different types of fiduciary funds. The Cemetery Trust Fund is a private-purpose trust used to report resources held in trust for maintenance of the cemetery. The Agency funds report resources held by the City in a custodial capacity. The fiduciary fund financial statements can be found on pages 26 to 27 of this report.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 to 39 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Position** – As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Fulton, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8.6 million at the close of the most recent fiscal year. The largest portion of the City's net position (82%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment), less any related debt used to

acquire those assets that is still outstanding. The City of Fulton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Fulton'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.

An additional portion of the City of Fulton's net position (4%) represents resources that are subject to external restriction on how they may be used. The remaining balance of net position representing unrestricted net position (\$1.2 million) may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City of Fulton is able to report positive balances in all three categories on net position, both for the City of Fulton as a whole, as well as for its total governmental and total business-type activities.

**CONDENSED STATEMENT OF NET POSITION**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 1,865,582	\$ 2,078,579	\$ 1,600,228	\$ 1,910,371	\$ 3,465,810	\$ 3,988,950
Capital assets	<u>3,207,042</u>	<u>3,482,673</u>	<u>4,947,656</u>	<u>4,705,711</u>	<u>8,154,698</u>	<u>8,188,384</u>
Total assets	<u>5,072,624</u>	<u>5,561,252</u>	<u>6,547,884</u>	<u>6,616,082</u>	<u>11,620,508</u>	<u>12,177,334</u>
Deferred outflows of resources	<u>103,044</u>	<u>-</u>	<u>102,316</u>	<u>-</u>	<u>205,360</u>	<u>-</u>
Long-term liabilities	996,681	258,183	1,545,584	820,769	2,542,265	1,078,952
Other liabilities	<u>43,282</u>	<u>94,508</u>	<u>213,028</u>	<u>251,139</u>	<u>256,310</u>	<u>345,647</u>
Total liabilities	<u>1,039,963</u>	<u>352,691</u>	<u>1,758,612</u>	<u>1,071,908</u>	<u>2,798,575</u>	<u>1,424,599</u>
Deferred inflows of resources	<u>336,555</u>	<u>267,902</u>	<u>82,500</u>	<u>-</u>	<u>419,055</u>	<u>267,902</u>
Net investment in capital assets	2,948,861	3,482,673	4,148,683	3,851,407	7,097,544	7,334,080
Restricted net position	338,968	408,981	-	-	338,968	408,981
Unrestricted net position	<u>511,321</u>	<u>1,049,005</u>	<u>660,405</u>	<u>1,692,767</u>	<u>1,171,726</u>	<u>2,741,772</u>
Total net position	<u>\$ 3,799,150</u>	<u>\$ 4,940,659</u>	<u>\$ 4,809,088</u>	<u>\$ 5,544,174</u>	<u>\$ 8,608,238</u>	<u>\$ 10,484,833</u>

**Statement of Activities** – Expenditures from governmental activities exceeded revenues by \$405 thousand during the current year. The main difference in revenue from the prior year was a \$380 thousand decrease in grants and contributions. Expenditures increased by \$226 thousand, with all functions increasing with the exception of non-departmental expenditures. Most departments increased by 6 to 16% with the exception of the Code Compliance department, which increased 43%, mainly in salaries and related expenditures. The Fire department decreased, due to capital grant expenditures decreasing significantly from the prior year.

In the business-type activities, revenues exceeded expenses by \$1,301. Service revenues decreased by 7.5%, while expenditures decreased by 5% from the prior year, mainly attributable to a decrease in the cost of gas purchases. Other revenue decreased by \$252 thousand attributable to the gain on sale of property during the prior year. A condensed statement of activities for the years ended June 30, 2015 and 2014, is presented on the next page.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets** – As of June 30, 2015, the City had invested approximately \$8.15 million, net of accumulated depreciation, in a variety of capital assets. Additional information on the City's capital assets can be found in Note 3D beginning on page 33 of this report.

**Long-term debt** – At the end of the current fiscal year, the City of Fulton had bonds payable of \$735 thousand and a note payable for a new fire truck with an outstanding balance of \$222 thousand. Additional information on the City's long-term debt can be found in Note 3E beginning on page 34 of this report.

### CONDENSED STATEMENT OF ACTIVITIES

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues						
Charges for services	\$ 37,474	\$ 58,720	\$ 2,277,351	\$ 2,436,044	\$ 2,314,825	\$ 2,494,764
Operating grants/contributions	118,711	472,536	-	28,080	118,711	500,616
Capital grants/contributions	1,007	27,712	-	-	1,007	27,712
	<u>157,192</u>	<u>558,968</u>	<u>2,277,351</u>	<u>2,464,124</u>	<u>2,434,543</u>	<u>3,023,092</u>
Expenses						
General government	277,808	252,387	-	-	277,808	252,387
Public safety	1,239,029	1,171,359	-	-	1,239,029	1,171,359
Public works - general	31,154	27,273	-	-	31,154	27,273
Highways and streets	271,957	127,837	-	-	271,957	127,837
Parks and cemeteries	58,931	50,989	-	-	58,931	50,989
Utilities	-	-	2,077,755	2,191,018	2,077,755	2,191,018
Non-departmental	135,654	158,805	-	-	135,654	158,805
Total expenses	<u>2,014,533</u>	<u>1,788,650</u>	<u>2,077,755</u>	<u>2,191,018</u>	<u>4,092,288</u>	<u>3,979,668</u>
Net program revenue (expense)	(1,857,341)	(1,229,682)	199,596	273,106	(1,657,745)	(956,576)
General revenues						
Taxes	1,114,006	1,177,138	-	-	1,114,006	1,177,138
Other	128,687	92,778	11,731	264,332	140,418	357,110
Transfers	210,026	172,987	(210,026)	(172,987)	-	-
Change in net assets	<u>(404,622)</u>	<u>213,221</u>	<u>1,301</u>	<u>364,451</u>	<u>(403,321)</u>	<u>577,672</u>
Beginning net assets	4,940,659	4,729,430	5,544,174	5,179,723	10,484,833	9,909,153
Prior period adjustment	(736,887)	(1,992)	(736,387)	-	(1,473,274)	(1,992)
Beginning net assets as restated	<u>4,203,772</u>	<u>4,727,438</u>	<u>4,807,787</u>	<u>5,179,723</u>	<u>9,011,559</u>	<u>9,907,161</u>
Ending net assets	<u>\$ 3,799,150</u>	<u>\$ 4,940,659</u>	<u>\$ 4,809,088</u>	<u>\$ 5,544,174</u>	<u>\$ 8,608,238</u>	<u>\$ 10,484,833</u>

### COMMENTS ON FUND FINANCIAL STATEMENTS

**Governmental funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund accounts for 93% of governmental fund revenues. Accordingly, this discussion will focus on the General Fund. General fund balance was \$1.26 million at the end of the current fiscal year. Of that balance, \$1.23 million is available to meet the day-to-day needs of the City.

Revenues in the General Fund were approximately \$427 thousand less than last year due mainly to \$395 thousand more in grant revenue received in the prior year, with a corresponding decrease in general fund expenditures. In total, General Fund expenditures decreased by \$502 thousand. Local tax revenue decreased by \$65 thousand. The other significant changes in expenditures were an increase in code enforcement expenditures from \$53 thousand to \$75 thousand and decreased capital outlay expenditures in the Fire Department from \$343 thousand to \$33 thousand.

A budget comparison statement has been provided to demonstrate compliance with the budget.

**Proprietary funds** – Unrestricted net position in the proprietary fund at the end of the year was \$660 thousand. The City's utility department operated at a profit of approximately \$211 thousand before the in-lieu-of-tax transfer to the General Fund of \$210 thousand. The main decrease in net position was caused by the adoption of new pension standards, which resulted in a decrease in beginning net position of \$736 thousand to recognize the beginning net pension liability. There was a decrease in utility expenses from the prior year in natural gas purchases of \$86 thousand.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

### **Final Budgeted and Actual Amounts**

Actual revenues were \$63 thousand less than budgeted amounts. This was mainly attributable to decreased payroll tax revenue. Total expenditures were \$71 thousand more than budgeted amounts, with the majority in fire truck payments which were not budgeted. Significant variances were as follows:

- Payroll tax revenue was \$76 thousand less than budgeted.
- Parks and Cemeteries department expenditures were \$6 thousand more than budgeted.
- Fire department expenditures were \$62 thousand more than budgeted amounts.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Adopted Budget addresses Department Heads and Commission goals and priorities. The budget also contains cost savings measures designed to keep the City whole during this period of economic recovery. However, it does not include any expenditures for capital improvements.

Some of the 2015/16 goals and priorities include in no particular order:

1. Finalize and adopt our 5 year comprehensive plan.
2. Continue to beautify and enhance our entryways to the City.
3. Concentrated effort to eliminate blighted and abandoned properties
4. Expand code enforcement efforts
5. Continue to boost employee morale in all departments of the City
6. Continue weekly meeting with department heads and City attorney
7. Analyze budget monthly
8. Eliminate mowing of vacant properties that are not owned by the City and hold the owners accountable to the Property Code.

9. Redefine the City boundaries and zoning areas
10. Develop a capital project list for future expenditures
11. Complete and become compliant with our Agreed Order with the Department of Water concerning our WWTP.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City of Fulton's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the City of Fulton's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, City of Fulton, P.O. Box 1350, Fulton, TN 42041.

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF NET POSITION**  
June 30, 2015

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ 1,414,526	\$ 1,262,376	\$ 2,676,902
Taxes receivable, net of allowance	254,055	-	254,055
Grants receivable	24,134	-	24,134
Accounts receivable, net of allowance	-	308,911	308,911
Other taxes receivable	143,947	-	143,947
Due from fiduciary funds	-	2,689	2,689
Prepaid expense	202	-	202
Inventory	-	26,252	26,252
Restricted assets:			
Cash and cash equivalents	28,718	-	28,718
Capital assets not being depreciated			
Land and improvements	269,920	-	269,920
Capital assets, net of accumulated depreciation			
Buildings	1,897,006	-	1,897,006
Vehicles and equipment	1,040,116	-	1,040,116
Utility plant in service	-	4,947,656	4,947,656
Total assets	5,072,624	6,547,884	11,620,508
<b>Deferred Outflows of Resources</b>			
Deferred outflows related to pensions	103,044	102,316	205,360
<b>Liabilities</b>			
Accounts payable	5,797	80,612	86,409
Payroll-related liabilities	2,641	-	2,641
Other accrued liabilities	-	1,467	1,467
Due to fiduciary funds	16,080	-	16,080
Customer deposits	9,350	130,949	140,299
Unearned revenue - grants	9,414	-	9,414
Noncurrent liabilities:			
Net pension liability	738,500	738,000	1,476,500
Long-term liabilities due within one year	58,725	50,000	108,725
Long-term liabilities due in more than one year	199,456	757,584	957,040
Total liabilities	1,039,963	1,758,612	2,798,575
<b>Deferred Inflows of Resources</b>			
Deferred revenue - property taxes	254,055	-	254,055
Deferred inflows related to pensions	82,500	82,500	165,000
Total deferred inflows	336,555	82,500	419,055
<b>Net Position</b>			
Net investment in capital assets	2,948,861	4,148,683	7,097,544
Restricted for:			
Drug and Police Evidence Funds	28,718	-	28,718
Ambulance Fund	144,043	-	144,043
Municipal Aid	166,207	-	166,207
Unrestricted	511,321	660,405	1,171,726
<b>Total net position</b>	<b>\$ 3,799,150</b>	<b>\$ 4,809,088</b>	<b>\$ 8,608,238</b>

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)/Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental activities:</b>							
General government	\$ 277,808	\$ -	\$ -	\$ -	\$ (277,808)	\$ -	\$ (277,808)
Public safety	1,239,029	33,549	60,352	-	(1,145,128)	-	(1,145,128)
Public works - general	31,154	475	-	-	(30,679)	-	(30,679)
Highways and streets	271,957	-	58,359	-	(213,598)	-	(213,598)
Parks and cemeteries	58,931	3,450	-	-	(55,481)	-	(55,481)
Non-departmental	135,654	-	-	1,007	(134,647)	-	(134,647)
Total governmental activities	2,014,533	37,474	118,711	1,007	(1,857,341)	-	(1,857,341)
<b>Business-type activities:</b>							
Public utilities	2,077,755	2,277,351	-	-	-	199,596	199,596
<b>Total</b>	<b>\$ 4,092,288</b>	<b>\$ 2,314,825</b>	<b>\$ 118,711</b>	<b>\$ 1,007</b>	<b>(1,857,341)</b>	<b>199,596</b>	<b>(1,657,745)</b>
<b>General revenues:</b>							
Property taxes					331,079	-	331,079
Franchise taxes					18,531	-	18,531
Payroll taxes					764,396	-	764,396
Business and occupational licenses					33,050	-	33,050
Court fees					4,042	-	4,042
Fines					15	-	15
Interest					14,027	11,731	25,758
Rental income					18,000	-	18,000
Miscellaneous					59,553	-	59,553
Transfers					210,026	(210,026)	-
Total general revenues and transfers					1,452,719	(198,295)	1,254,424
<b>Change in net position</b>					<b>(404,622)</b>	<b>1,301</b>	<b>(403,321)</b>
Net position - beginning					4,940,659	5,544,174	10,484,833
Restatement - new pension standards					(736,887)	(736,387)	(1,473,274)
Net position - beginning, as restated					4,203,772	4,807,787	9,011,559
Net position - ending					<u>\$ 3,799,150</u>	<u>\$ 4,809,088</u>	<u>\$ 8,608,238</u>

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

**CITY OF FULTON, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2015

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash	\$ 1,118,996	\$ 295,530	\$ 1,414,526
Property taxes receivable, net	254,055	-	254,055
Grants receivable	-	24,134	24,134
Other taxes receivable	143,947	-	143,947
Prepaid expense	202	-	202
Restricted cash	28,718	-	28,718
<b>Total assets</b>	<b><u>\$1,545,918</u></b>	<b><u>\$ 319,664</u></b>	<b><u>\$ 1,865,582</u></b>
<b>Liabilities</b>			
Accounts payable	\$ 5,797	\$ -	\$ 5,797
Payroll-related liabilities	2,641	-	2,641
Due to fiduciary funds	16,080	-	16,080
Unearned revenue	-	9,414	9,414
Customer deposits	9,350	-	9,350
Total liabilities	<u>33,868</u>	<u>9,414</u>	<u>43,282</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - property taxes	<u>254,055</u>	<u>-</u>	<u>254,055</u>
<b>Fund Balances</b>			
Restricted	28,718	310,250	338,968
Unassigned	<u>1,229,277</u>	<u>-</u>	<u>1,229,277</u>
Total fund balances	<u>1,257,995</u>	<u>310,250</u>	<u>1,568,245</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b><u>\$ 1,545,918</u></b>	<b><u>\$ 319,664</u></b>	<b><u>\$ 1,865,582</u></b>

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



**CITY OF FULTON, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
June 30, 2015

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances of governmental funds		\$ 1,568,245
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,207,042
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Deferred inflows/outflows of resources related to long-term pension liabilities are not recognized as inflows or outflows of resources until a future period and, therefore, are not reported in the current fund financial statements.		
	Note payable	222,379
	Compensated absences	35,802
	Net pension liability	738,500
	Deferred inflows related to pensions	82,500
	Deferred outflows related to pensions	<u>(103,044)</u>
	Total	<u>(976,137)</u>
Net position of governmental activities		<u>\$ 3,799,150</u>

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2015

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Local taxes	\$ 1,114,006	\$ -	\$ 1,114,006
Intergovernmental revenue	90,007	91,908	181,915
Charges for services	21,925	-	21,925
Grant revenue	12,257	-	12,257
Fines, forfeitures and penalties	15	-	15
Interest	11,607	2,420	14,027
Other revenues	55,740	-	55,740
Total revenues	<u>1,305,557</u>	<u>94,328</u>	<u>1,399,885</u>
<b>Expenditures</b>			
Current:			
General government	135,934	-	135,934
Public safety	1,081,485	-	1,081,485
Public works - general	31,658	-	31,658
Highways and streets	97,853	166,312	264,165
Parks and cemeteries	58,931	-	58,931
Non-departmental	135,654	-	135,654
Debt service:			
Principal	57,326	-	57,326
Interest	6,170	-	6,170
Capital outlay:			
Public safety	38,394	-	38,394
Highways and streets	5,442	-	5,442
Total expenditures	<u>1,648,847</u>	<u>166,312</u>	<u>1,815,159</u>
<b>Revenues over (under) expenditures</b>	<b>(343,290)</b>	<b>(71,984)</b>	<b>(415,274)</b>
<b>Other financing sources (uses)</b>			
Transfers in	<u>210,026</u>	<u>-</u>	<u>210,026</u>
<b>Net change in fund balances</b>	<b>(133,264)</b>	<b>(71,984)</b>	<b>(205,248)</b>
Fund balances - July 1, 2014	<u>1,391,259</u>	<u>382,234</u>	<u>1,773,493</u>
Fund balances - June 30, 2015	<u>\$ 1,257,995</u>	<u>\$ 310,250</u>	<u>\$ 1,568,245</u>

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

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

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

Net change in fund balances of governmental funds \$(205,248)

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.

Capital outlay expenditures	43,836	
Depreciation expense	<u>(319,467)</u>	
Net effect		(275,631)

Pension contributions are reported as expenditures in the governmental funds. However, pension expense in the statement of activities is primarily the result of changes in the components of the net pension liability over the current and future periods.

Pension contributions	103,044	
Pension expense	<u>(84,113)</u>	
Net effect		18,931

The repayment of long-term debt consumes current financial resources in governmental funds. However, these repayments have no effect on net position. This is the amount repaid during the current year.

57,326

Change in net position of governmental activities \$(404,622)

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended June 30, 2015

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Over (Under)</b>
<b>Revenues</b>				
Local taxes				
Property taxes	\$ 300,000	\$ 305,600	\$ 309,038	\$ 3,438
Interest and penalties	4,000	3,450	3,759	309
Payments in lieu of tax	16,000	19,000	18,282	(718)
Franchise taxes	18,000	16,500	18,531	2,031
Payroll taxes	825,000	840,000	764,396	(75,604)
Total local taxes	1,163,000	1,184,550	1,114,006	(70,544)
Intergovernmental revenues				
Business licenses	33,000	33,000	33,050	50
County court fees	2,500	3,500	4,042	542
Fire department revenue	500	3,000	2,916	(84)
Federal grant funds	-	1,007	1,007	-
State grant funds	8,250	11,250	11,250	-
State incentive revenue	44,300	36,000	36,899	899
Law enforcement fees	13,000	9,400	9,287	(113)
Code enforcement revenue	4,500	3,694	3,813	119
Total intergovernmental revenues	106,050	100,851	102,264	1,413
Charges for services				
Rent	10,000	8,500	8,750	250
Building permits	500	510	475	(35)
Cemetery lots	4,500	3,540	3,450	(90)
Cemetery openings and upkeep	11,500	9,300	9,250	(50)
Total charges for services	26,500	21,850	21,925	75
Fines, forfeitures and penalties				
Parking violations	-	15	15	-
Other revenues				
Sale of property	7,000	1	1	-
Interest income	12,000	10,000	11,607	1,607
Damage awards	-	43,249	43,249	-
Miscellaneous income	9,500	8,150	12,490	4,340
Total other revenues	28,500	61,400	67,347	5,947
<b>Total revenues</b>	<b>1,324,050</b>	<b>1,368,666</b>	<b>1,305,557</b>	<b>(63,109)</b>

(continued)

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>Expenditures</b>				
Administrative				
Salaries	102,800	107,350	108,153	803
Retirement/pension	13,288	14,065	14,173	108
Life/dental	150	185	182	(3)
Social security	6,763	6,735	6,778	43
Other benefits	150	127	121	(6)
Maintenance - vehicles/equipment	500	-	-	-
Office supplies	1,000	920	866	(54)
Technical supplies	700	115	175	60
Dues and subscriptions	500	300	467	167
Motor fuel/oil	-	676	563	(113)
Telephone	1,200	1,025	1,055	30
Advertising/printing	2,000	2,350	2,389	39
Travel	3,000	3,500	3,570	70
Professional/technical services	1,000	240	200	(40)
Training	1,250	784	653	(131)
Miscellaneous	750	-	-	-
Duplicate charges	(61,576)	(64,231)	(64,705)	(474)
Total administrative	<u>73,475</u>	<u>74,141</u>	<u>74,640</u>	<u>499</u>
Finance Department				
Salaries	153,785	156,000	155,528	(472)
Overtime/help	1,620	1,799	1,620	(179)
Retirement/pension	27,460	27,150	27,155	5
Hospitalization	26,343	26,500	27,842	1,342
Life/dental insurance	600	703	693	(10)
Social security	10,837	10,500	10,455	(45)
Other benefits	1,335	568	499	(69)
Maintenance - fixtures	1,200	4,037	3,533	(504)
Utilities	8,500	8,326	7,669	(657)
Technical supplies	1,000	499	478	(21)
Office supplies	900	1,129	1,051	(78)
Cleaning supplies	500	400	326	(74)
Dues/subscriptions	150	-	-	-
Postage	2,000	1,775	1,675	(100)
Telephone	1,100	1,030	1,055	25
Travel	900	140	124	(16)
Professional/technical services	500	-	-	-
Training/registration	1,000	744	620	(124)
Miscellaneous	200	-	-	-
Duplicate charges	(177,584)	(178,576)	(179,029)	(453)
Total finance department	<u>62,346</u>	<u>62,724</u>	<u>61,294</u>	<u>(1,430)</u>

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Code Compliance				
Salaries	30,000	24,870	24,888	18
Retirement/pension	5,667	3,860	3,857	(3)
Hospitalization	10,893	6,000	8,794	2,794
Life/dental	150	119	127	8
Social security	1,863	1,600	1,618	18
Other benefits	67	31	31	-
Clothing	450	160	133	(27)
Maintenance - vehicles/equipment	250	140	117	(23)
Office supplies	1,000	1,800	1,780	(20)
Technical supplies	3,000	1,900	2,719	819
Dues and subscriptions	1,400	1,400	1,434	34
Motor fuel/oil	1,000	500	573	73
Postage	1,800	1,300	1,000	(300)
Advertising/printing	500	125	104	(21)
Travel	500	750	605	(145)
Professional/technical services	6,500	5,000	5,330	330
Training	1,500	200	74	(126)
Code enforcement	25,000	25,000	22,016	(2,984)
Total code compliance	<u>91,540</u>	<u>74,755</u>	<u>75,200</u>	<u>445</u>
Police Department				
Salaries	301,631	306,800	306,308	(492)
Overtime/help	36,000	37,782	38,990	1,208
Retirement/pension	61,515	63,600	63,997	397
Hospitalization	49,718	38,948	43,166	4,218
Life/dental insurance	1,350	1,559	1,542	(17)
Social security	26,118	25,600	25,700	100
Workers' compensation	12,500	11,685	11,685	-
Clothing	3,150	3,317	3,011	(306)
Incentive	27,900	27,900	25,471	(2,429)
Other benefits	888	410	410	-
Maintenance - fixtures	5,000	2,100	1,841	(259)
Maintenance - vehicles/equipment	11,000	14,000	13,447	(553)
Utilities	8,500	8,300	7,928	(372)
Technical supplies	4,000	4,100	4,039	(61)
Office supplies	5,000	2,800	3,052	252
Cleaning supplies	1,200	550	537	(13)
Dues and subscriptions	600	200	120	(80)
Motor fuel/oil	25,000	24,200	25,980	1,780
Postage	700	700	769	69
Telephone	7,000	7,200	7,296	96
Advertising/printing	500	100	-	(100)
Travel	5,000	6,293	7,059	766

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Insurance	31,854	31,854	31,854	-
Professional/technical services	400	721	681	(40)
Training	500	650	553	(97)
Program implements	600	272	227	(45)
Animal control	7,000	3,500	2,435	(1,065)
Dispatch expense	20,000	20,000	20,000	-
Drug fund expenditures	6,000	4,700	6,406	1,706
Miscellaneous	400	400	1,177	777
Capital expenditures	-	30,000	29,920	(80)
Total Police Department	<u>661,024</u>	<u>680,241</u>	<u>685,601</u>	<u>5,360</u>
Fire Department				
Salaries	105,114	104,800	104,946	146
Retirement/pension	18,715	18,900	18,804	(96)
Hospitalization	16,892	16,782	19,061	2,279
Life/dental insurance	300	370	364	(6)
Social security	7,826	7,600	7,517	(83)
Workers' compensation	4,500	4,500	4,500	-
Clothing	1,800	2,605	2,171	(434)
Incentive	6,200	6,200	6,200	-
Other benefits	3,500	623	538	(85)
Maintenance - fixtures	1,500	4,600	4,233	(367)
Maintenance - vehicles/equipment	11,000	18,000	19,647	1,647
Utilities	8,500	8,100	7,929	(171)
State Aid expense	8,250	8,250	8,250	-
Volunteer fire expenditures	50,000	50,000	50,000	-
Technical supplies	11,000	6,000	8,159	2,159
Office supplies	1,000	650	613	(37)
Cleaning supplies	500	425	496	71
Dues and subscriptions	1,500	899	949	50
Motor fuel/oil	5,000	4,000	4,146	146
Postage	450	376	374	(2)
Telephone	2,700	3,250	3,494	244
Advertising/printing	600	-	-	-
Travel	2,500	2,496	2,235	(261)
Insurance	20,740	20,740	20,740	-
Professional/technical services	7,000	5,800	6,096	296
Training	5,000	5,200	4,854	(346)
Dispatch expense	20,000	20,000	20,000	-
Fire truck loan payments	6,175	6,287	63,496	57,209
Miscellaneous	200	240	200	(40)
Capital expenditures	-	32,562	32,562	-
Total Fire Department	<u>328,462</u>	<u>360,255</u>	<u>422,574</u>	<u>62,319</u>

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Public Works Department				
Salaries	399,682	406,300	406,583	283
Overtime/help	22,500	32,700	31,910	(790)
Retirement/pension	74,600	77,500	77,373	(127)
Hospitalization	78,028	67,483	66,081	(1,402)
Life/dental insurance	1,950	2,294	2,263	(31)
Social security	29,409	30,200	30,122	(78)
Workers' compensation	17,000	17,203	17,203	-
Clothing	6,300	5,300	5,060	(240)
Other benefits	1,256	690	652	(38)
Duplicate charges	(599,189)	(607,687)	(605,589)	2,098
Total Public Works	<u>31,536</u>	<u>31,983</u>	<u>31,658</u>	<u>(325)</u>
Street Department				
Maintenance - buildings/grounds	980	521	447	(74)
Maintenance - fixtures	1,470	1,750	1,616	(134)
Maintenance - vehicles/equipment	8,820	10,000	10,201	201
Utilities	59,780	62,000	61,025	(975)
Technical supplies	3,430	4,000	3,696	(304)
Office supplies	-	590	493	(97)
Motor fuel/oil	13,230	12,100	12,966	866
Insurance	2,943	2,943	2,943	-
Professional/technical services	1,470	2,400	2,164	(236)
Street markers	3,920	2,100	1,840	(260)
Miscellaneous	490	492	462	(30)
Capital expenditures	-	7,500	5,442	(2,058)
Total Street Department	<u>96,533</u>	<u>106,396</u>	<u>103,295</u>	<u>(3,101)</u>
Parks and Cemeteries Department				
Maintenance - Buildings/Grounds	2,940	5,300	5,894	594
Maintenance - Fixtures	1,470	1,900	2,637	737
Maintenance - Vehicles/Equipment	5,880	7,200	10,151	2,951
Utilities	11,270	11,700	12,029	329
Technical supplies	1,960	2,400	2,775	375
Office supplies	-	220	183	(37)
Women's club expenditures	2,450	818	789	(29)
Community center expenditures	9,800	10,740	11,059	319
Motor fuel/oil	4,410	4,700	4,932	232
Insurance	4,732	4,732	4,732	-
Professional/technical services	3,430	3,100	3,286	186
Miscellaneous	294	284	464	180
Total Parks and Cemeteries	<u>48,636</u>	<u>53,094</u>	<u>58,931</u>	<u>5,837</u>

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



**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Non-Departmental				
Maintenance - buildings/grounds	4,000	3,200	2,820	(380)
Shop expense	13,720	13,000	14,458	1,458
Postage	300	275	216	(59)
PVA - tax roll	5,300	5,290	5,290	-
Service contracts	25,000	18,000	17,699	(301)
Audit	7,000	7,000	7,000	-
General liability insurance	49,000	50,681	50,681	-
Chamber of Commerce	1,200	1,200	1,200	-
Airport	1,500	1,270	1,270	-
Library	5,000	5,000	4,996	(4)
Detention Center meals	15,000	16,500	17,628	1,128
Kentucky Municipal League	710	779	779	-
Purchase area development	500	500	500	-
Contingency	2,500	3,400	3,302	(98)
Economic development	7,500	7,500	7,500	-
Grant expenditures	-	315	315	-
Total Non-Departmental	<u>138,230</u>	<u>133,910</u>	<u>135,654</u>	<u>1,744</u>
<b>Total expenditures</b>	<b><u>1,531,782</u></b>	<b><u>1,577,499</u></b>	<b><u>1,648,847</u></b>	<b><u>71,348</u></b>
<b>Revenues over (under) expenditures</b>	<b>(207,732)</b>	<b>(208,833)</b>	<b>(343,290)</b>	<b>(134,457)</b>
<b>Other financing sources (uses)</b>				
Transfers in - payments in lieu of tax	<u>210,026</u>	<u>210,026</u>	<u>210,026</u>	<u>-</u>
<b>Net change in fund balance</b>	<b><u>\$ 2,294</u></b>	<b><u>\$ 1,193</u></b>	<b><u>(133,264)</u></b>	<b><u>\$(134,457)</u></b>
Fund balance - July 1, 2014			<u>1,391,259</u>	
Fund balance - June 30, 2015			<u>\$ 1,257,995</u>	

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
June 30, 2015

**ASSETS**

Current assets	
Cash	\$ 1,262,376
Accounts receivable (net)	308,911
Due from expenditure revolving fund	2,689
Inventory	<u>26,252</u>
Total current assets	1,600,228
Noncurrent assets:	
Capital assets, net of accumulated depreciation:	
Utility plant in service	<u>4,947,656</u>
Total assets	<u>6,547,884</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows related to pensions	<u>102,316</u>
---------------------------------------	----------------

**LIABILITIES**

Current liabilities	
Accounts payable	80,612
Accrued expenses	1,467
Customer deposits	130,949
Noncurrent liabilities due within one year	<u>50,000</u>
Total current liabilities	<u>263,028</u>
Noncurrent liabilities	
Accrued vacation and sick leave	8,611
Net pension liability	738,000
Bonds payable, net of current portion	<u>748,973</u>
Total noncurrent liabilities	<u>1,495,584</u>
Total liabilities	<u>1,758,612</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows related to pensions	<u>82,500</u>
--------------------------------------	---------------

**NET POSITION**

Net investment in capital assets	4,148,683
Unrestricted	<u>660,405</u>
<b>Total net position</b>	<b><u>\$ 4,809,088</u></b>

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
For the Year Ended June 30, 2015

<b>Operating revenues</b>	
Utility sales	\$ 2,233,003
Miscellaneous	<u>44,348</u>
Total operating revenues	2,277,351
<b>Operating expenses</b>	
Personnel/administrative costs	831,120
Maintenance	51,426
Utilities	148,512
Maintenance to system	80,362
Technical supplies	33,437
Office and cleaning supplies	6,106
Dues and subscriptions	942
Motor fuel and oil	32,616
Postage	8,356
Gas purchases	520,344
Telephone	8,614
Advertising and printing	1,556
Travel and registrations	199
Insurance	36,582
Professional services	119,259
Training	1,297
Audit expense	6,350
Depreciation	152,276
Dispatch expense	20,000
Miscellaneous	<u>294</u>
Total operating expenses	<u>2,059,648</u>
<b>Operating income</b>	<b>217,703</b>
<b>Non-operating revenue (expense)</b>	
Interest earnings	11,731
Interest expense	<u>(18,107)</u>
Total non-operating revenue (expense)	<u>(6,376)</u>
Change in net position before transfers	211,327
Transfer out - payment in lieu of taxes	<u>(210,026)</u>
<b>Change in net position</b>	<b>1,301</b>
Net position - July 1, 2014	5,544,174
Restatement - new pension standards	<u>(736,387)</u>
Net position - July 1, 2014, as restated	<u>4,807,787</u>
Net position - June 30, 2015	<u>\$ 4,809,088</u>

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
For the Year Ended June 30, 2015

<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 2,289,914
Cash payments to employees for services	(838,974)
Cash payments to suppliers	<u>(1,079,719)</u>
Net cash provided by operating activities	371,221
<b>Cash Flows from Non-Capital Financing Activities</b>	
Grant proceeds	28,080
Interfund transfers	(210,026)
Increase in due to/from other funds	<u>(5,200)</u>
Net cash used by non-capital financing activities	(187,146)
<b>Cash Flows from Capital and Related Financing Activities</b>	
Additions to plant utility	(394,221)
Payments on principal of long-term debt	(50,000)
Interest payments on long-term debt	<u>(23,438)</u>
Net cash used by capital and related financing activities	(467,659)
<b>Cash Flows from Investing Activities</b>	
Interest received	<u>11,731</u>
<b>Net decrease in cash</b>	<b>(271,853)</b>
Cash - July 1, 2014	<u>1,534,229</u>
Cash - June 30, 2015	<u>\$ 1,262,376</u>

<b>Reconciliation of Cash Flows from Operating Activities</b>	
Operating income	\$ 217,703
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	152,276
Pension expense	84,113
Pension contributions paid	(102,316)
Decrease in accounts receivable	12,899
Increase in accounts payable	14,736
Increase in accrued expenses	16
Decrease in accrued vacation and sick leave	(7,854)
Decrease in customer deposits	<u>(352)</u>
Total adjustments	153,518
Net cash provided by operating activities	<u>\$ 371,221</u>

<b>Noncash Pension Activity</b>	
Pension expense	\$ 84,113
Net pension liability	(738,000)
Deferred inflows related to pensions	(82,500)
Restatement of beginning net position for beginning pension liability	<u>736,387</u>
Net effect of noncash pension activity	<u>\$ -</u>

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS**  
June 30, 2015

	<u>Agency</u>			<u>Private Purpose Trust</u>
	<u>Tourism Fund</u>	<u>Expenditure Revolving Fund</u>	<u>Payroll Fund</u>	<u>Cemetery Trust Fund</u>
<b>Assets</b>				
Cash	\$ 169,452	\$ 1,356	\$ 1,866	\$ 38,615
Due from general fund	-	4,569	11,511	-
Due from payroll fund	-	1,636	-	-
Total assets	<u>169,452</u>	<u>7,561</u>	<u>13,377</u>	<u>38,615</u>
<b>Liabilities</b>				
Due to utility fund	-	2,689	-	-
Due to expenditure revolving fund	-	-	1,636	-
Perpetual care contributions	-	-	-	650
Accounts payable	-	-	11,080	-
Total liabilities	<u>-</u>	<u>2,689</u>	<u>12,716</u>	<u>650</u>
<b>Net position</b>				
Held in trust for tourism and other purposes	<u>\$ 169,452</u>	<u>\$ 4,872</u>	<u>\$ 661</u>	<u>\$ 37,965</u>

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

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUND**  
For the Year Ended June 30, 2015

	<u>Private Purpose Trust Cemetery Trust Fund</u>
Additions	
Interest	\$ 114
Miscellaneous	1,200
Total additions	<u>1,314</u>
Deductions	<u>-</u>
<b>Change in net position</b>	<b>1,314</b>
Net position - July 1, 2014	<u>36,651</u>
Net position - June 30, 2015	<u><u>\$ 37,965</u></u>

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

**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**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**

For financial reporting purposes, the City includes 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 position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. 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.

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 utility 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.

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.

**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**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.

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 fund:

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 City reports the following major proprietary fund:

The Utility Fund accounts for the activities associated with the water distribution system, the activities associated with the City's collection, transportation, treatment and disposal of wastewater, and the activities associated with the gas distribution system.

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 Utility 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



**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

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. Impact of recently adopted accounting pronouncements**

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revised existing standards of financial reporting by state and local government pension plans and was adopted by the pension plan itself. Statement 68 affects the governments that participate as employers in these plans and was effective for fiscal years beginning after June 15, 2014. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with defined benefit pension plans and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. The adoption of Statement 68 resulted in a restatement of beginning net position to record the calculated liability to the pension plan as of July 1, 2014. This restatement decreased net position by \$1,473,774 and increased net pension liability by this same amount.

**E. Assets, Liabilities, Deferred Inflows/Outflows, and Fund Balance/Net Position**

**Cash**

The City's cash includes all deposits with financial institutions, including restricted deposits. The City has no investments or cash equivalents as defined by GASB that require disclosure.

**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 City reports an allowance for uncollectible accounts in the General Fund for property taxes and in the Utility Fund for accounts receivable. Property taxes receivable include taxes which attach as an enforceable lien in the current fiscal year but are not billed until the following October.

**Inventories**

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.

**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

**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applied to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City had one item related to its pension plan that qualified for reporting in this category as of June 30, 2015.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. Property taxes reported as receivables in the statements of financial position before the period for which they were levied are deferred and recognized as an inflow of resources in the period that the amounts become available. This item is reported in both the governmental funds balance sheet and the statement of net position. The City also has deferred inflows related to its pension plan. See Note 4A for details concerning deferred inflows and outflows related to pensions.

**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 employee's hourly rate or \$5.00 per hour, whichever is less.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Retirement Systems (KRS) County Employees Retirement System (CERS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by KRS. For this purpose, benefits (including refunds of employee

**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

contributions) are recognized when due and payable in accordance with the benefit terms of the Plan. Investments are reported at fair value.

**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 position. Bond premiums and discounts 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 expensed when incurred.

**Fund Balance/Net Position**

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable – amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – amounts that can be spent only for specific purposes because of limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions.
- Committed – amounts that can be used only for specific purposes determined by a formal action of the City Commission by ordinance, with the same process required to rescind.
- Assigned – amounts that are designated by the City Commission for a particular purpose but are not spendable until there is a majority vote approval by the City Commission.
- Unassigned – all amounts in the General Fund not included in other spendable classifications.

As of June 30, 2015, the City had restricted fund balance of \$28,718 for Drug and Police Evidence Funds, \$144,043 for the Ambulance Fund and \$166,207 for municipal aid funds.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances, before using unassigned fund balances.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information** – Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds. 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.

Kentucky statutes state that all monies expended by cities must be authorized by a legally adopted budget. For the year ended June 30, 2015, the City had expenditures of \$71,348 that were not appropriated in the final budget. In addition, state statutes require that the full amount estimated to be required for debt service during the budget year be appropriated for all governmental fund types. For the

**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

year ended June 30, 2015, the appropriation for debt service in the General Fund was \$6,287. Actual debt service for the year was \$63,496.

**NOTE 3 – 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. Interest-bearing and non-interest bearing deposits are each covered by federal depository insurance up to \$250,000. Deposits over the insured amounts are covered by collateral held by the City's agent in the City's name. At June 30, 2015, all bank balances were covered by insurance or adequately collateralized. All funds are classified as public funds.

**B. Receivables**

Receivables as of June 30, 2015, for the City's individual major funds and nonmajor funds in the aggregate are detailed in the governmental funds balance sheet. The Utility Fund has an allowance for uncollectible accounts of \$8,000 as of June 30, 2015. The allowance for uncollectible property taxes was \$42,665 at June 30, 2015.

**C. Interfund receivables, payables, and transfers**

All due to/due from amounts at June 30, 2015, were temporary balances regarding expenditure revolving fund transactions. The transfer of \$210,026 from the Utility Fund to the General Fund is the annual in-lieu-of-tax payment.

**D. Capital Assets**

Capital asset activity for the year ended June 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 269,920	\$ -	\$ -	\$ 269,920
Capital assets, being depreciated				
Buildings	3,844,415	-	-	3,844,415
Vehicles and equipment	<u>4,446,610</u>	<u>43,836</u>	<u>-</u>	<u>4,490,446</u>
Total capital assets, being depreciated	<u>8,291,025</u>	<u>43,836</u>	<u>-</u>	<u>8,334,861</u>
Less accumulated depreciation for:				
Buildings	1,882,738	64,671	-	1,947,409
Vehicles and equipment	<u>3,195,534</u>	<u>254,796</u>	<u>-</u>	<u>3,450,330</u>
Total accumulated depreciation	<u>5,078,272</u>	<u>319,467</u>	<u>-</u>	<u>5,397,739</u>
Total capital assets being depreciated, net	<u>3,212,753</u>	<u>(275,631)</u>	<u>-</u>	<u>2,937,122</u>
Governmental activities capital assets, net	<u>\$ 3,482,673</u>	<u>\$ (275,631)</u>	<u>\$ -</u>	<u>\$ 3,207,042</u>

**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, being depreciated				
Utility plant in operation	\$ 9,548,484	\$ 394,221	\$ -	\$ 9,942,705
Less accumulated depreciation for:				
Utility plant in operation	<u>4,842,773</u>	<u>152,276</u>	<u>-</u>	<u>4,995,049</u>
Business-type activities capital assets, net	<u>\$ 4,705,711</u>	<u>\$ 241,945</u>	<u>\$ -</u>	<u>\$ 4,947,656</u>

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

Governmental activities:	
General	\$ 137,568
Public safety	174,107
Highways and streets	<u>7,792</u>
Total - governmental activities	<u>\$ 319,467</u>
Business-type activities:	
Water and sewer	<u>\$ 152,276</u>

**E. Long-Term Debt**

Governmental Funds

The City borrowed \$298,997 on February 18, 2014, for the purchase of a fire truck. The note matures February 1, 2019, and requires 60 monthly payments of \$5,291 beginning March 1, 2014. The interest rate is fixed at 2.4%. The balance outstanding as of June 30, 2015, was \$222,379.

Utility Fund

In conjunction with the issuance of Kentucky Rural Water Finance Corporation (KRWFC) Public Projects Refunding and Improvement Revenue Bonds, Series 2013C, the City amended its assistance agreement with KRWFC effective March 27, 2013, in order to effect substantial debt service savings regarding the original loan used for major water system improvements completed in 2006. The balance outstanding at the time of the amendment was \$903,000. The revised principal amount of the loan as a result of this amendment is \$840,000. This refunding was undertaken to reduce total debt service payments over the next 14 years by \$179,182 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$145,695. The premium associated with the new debt was \$79,966. This amount is being amortized over the life of the new debt, and is included in bonds payable in the statements of net position. Amortization for the year ended June 30, 2015, was \$5,331.

The refunding bonds have interest rates that vary from 2.3% to 4.8% and the maturity date is February 1, 2027. Principal payments are due annually on February 1, with interest payments due semi-annually on February 1 and August 1. The balance outstanding at June 30, 2015, was \$735,000. The following is a summary of future debt service requirements for the City:

**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

Year Ending June 30,	Government Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 58,725	\$ 4,773	\$ 50,000	\$ 29,293
2017	60,180	3,315	50,000	27,392
2018	61,662	1,835	55,000	25,135
2019	41,812	384	55,000	22,770
2020	-	-	55,000	20,405
2021-2025	-	-	325,000	60,738
2026-2027	-	-	145,000	4,609
Totals	<u>\$ 222,379</u>	<u>\$ 10,307</u>	<u>\$ 735,000</u>	<u>\$ 190,342</u>

Changes in long-term liabilities for the year ended June 30, 2015, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
<b>Governmental activities:</b>					
Note payable - fire truck	\$ 279,705	\$ -	\$ 57,326	\$ 222,379	\$ 58,725
Compensated absences	35,802	-	-	35,802	n/a
Total for governmental activities	<u>\$ 315,507</u>	<u>\$ -</u>	<u>\$ 57,326</u>	<u>\$ 258,181</u>	<u>\$ 58,725</u>
<b>Business-type activities:</b>					
KY Rural Water Finance Corp. - refunding	\$ 785,000	\$ -	\$ 50,000	\$ 735,000	\$ 50,000
Bond premium, reduced by amortization	69,304	-	5,331	63,973	n/a
Compensated absences	16,465	-	7,854	8,611	n/a
Total for business-type activities	<u>\$ 870,769</u>	<u>\$ -</u>	<u>\$ 63,185</u>	<u>\$ 807,584</u>	<u>\$ 50,000</u>

**NOTE 4 – OTHER INFORMATION**

**A. Pensions**

*Plan Description.* The City contributes to the Kentucky Retirement Systems (KRS) County Employees Retirement System (CERS), hereafter referred to as the "Plan," which is a cost-sharing multiple employer defined benefit pension plan. The Plan was established in 1958 by the Kentucky General Assembly in order to supplement the benefits provided by Social Security. Under the provisions of Kentucky Revised Statute Section 61.701, the KRS Board of Trustees administers the Kentucky Retirement Systems Insurance Fund. All regular full-time employees of the City are eligible to participate in the Plan.

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

**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

Under the City's plan, any member, age 65 or older, with at least 1 month of service credit may elect to receive a benefit for life that is an actuarial equivalent to twice the member's contributions and interest. A member, age 65 or older, with at least 48 months of service credit is eligible to receive an unreduced monthly benefit for life based on the member's salary and service credit. A member with 27 or more years of service credit can retire at any time with no reduction in benefits. A member with at least 25, but less than 27 years of service credit, may retire at any time, prior to age 65, with a reduction in benefits. A member age 55, with at least 5 years of service credit, may retire with a reduction in benefits.

For the year ended June 30, 2015, the City's total payroll for all employees was \$1,178,926. Total covered payroll was \$1,162,279. Covered payroll refers to all compensation paid by the City to active employees covered by the Plan.

*Contributions.* The contribution requirements of Plan members and the City are established by state statute. Employee contributions for nonhazardous employees who began participating with KRS prior to September 1, 2008, contribute 5% of their creditable compensation to KRS. Those who began on or after September 1, 2008, contribute a total of 6% of all their creditable compensation to KRS. One percent of each employee's contribution is deposited to the KRS Pension Fund 401(h) account for the payment of health insurance benefits. If a member terminates his/her employment and applies to take a refund, the member is entitled to a full refund of contributions and interest in his/her account; however, the 1% contributed to the 401(h) account is non-refundable and is forfeited. Employer contribution rates for fiscal year 2015 were adopted by the Board of KRS based on actuarially recommended rates. The required contribution rate for the year ended June 30, 2015, was 17.67% for nonhazardous employees. The City's contributions to the Plan for the year ended June 30, 2015, were \$205,360.

*Pension Liabilities.* At June 30, 2015, the City reported a liability of \$1,477,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's proportion was 0.045510 percent.

*Pension Expense.* For the year ended June 30, 2015, the City recognized pension expense of \$118,000.

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Plan investments	\$ -	\$ 165,000
Contributions subsequent to the measurement date of June 30, 2014	205,360	(not applicable)
Total	\$ 205,360	\$ 165,000

**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

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

Year Ending June 30:	
2016	\$33,000
2017	33,000
2018	33,000
2019	33,000
2020	33,000

*Actuarial Assumptions.* The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

The long-term expected rate of return on pension plan investments is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return and net of investment expense) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.



**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long- term Expected Real Rate of Return</u>
Domestic equity	30%	8.45%
International equity	22%	8.85%
Emerging market equity	5%	10.50%
Private equity	7%	11.25%
Real estate	5%	7.00%
Core US fixed income	10%	5.25%
High yield US fixed income	5%	7.25%
Non US fixed income	5%	5.50%
TIPS	5%	5.00%
Commodities	5%	7.75%
Cash	1%	3.25%
Total	100%	

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

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

	<u>Discount rate</u>	<u>City's proportionate share of net pension liability</u>
1% decrease	6.75%	\$ 1,286,000
Current discount rate	7.75%	\$ 1,477,000
1% increase	8.75%	\$ 1,668,000

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

**CITY OF FULTON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**B. Risk Management**

The City purchases commercial insurance for the risks of losses to which it is exposed through the Kentucky League of Cities Insurance Services. These risks include general liability, property and casualty, worker's compensation, and public officials and employee liability. There were no losses that exceeded insurance coverage in the past three years.

**CITY OF FULTON, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
June 30, 2015

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

	2014
City of Fulton's proportion of the collective net pension liability	.045510%
City of Fulton's proportionate share of the net pension liability	\$ 1,477,000
City of Fulton's covered employee payroll	\$ 1,043,418
City of Fulton's proportionate share of the net pension liability as a percentage of its covered employee payroll	141.55%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

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

	2014	2015
Actuarially determined contributions	\$ 197,226	\$ 205,360
Contributions in relation to the actuarially determined contribution	197,226	205,360
Contribution deficiency (excess)	\$ -	\$ -
City of Fulton's covered employee payroll	\$ 1,043,418	\$ 1,162,279
City of Fulton's contributions as a percentage of covered employee payroll	18.89%	17.67%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**CITY OF FULTON, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
June 30, 2015

**Notes to Schedules**

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

2014 – A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

*Changes of assumptions.* The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30:

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

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

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

## **SUPPLEMENTARY AND OTHER INFORMATION SECTION**

**CITY OF FULTON, KENTUCKY  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2015**

	<b>Special Revenue Funds</b>		
	<b>Municipal Aid Fund</b>	<b>Ambulance Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash in banks	\$ 151,487	\$ 144,043	\$ 295,530
Grants receivable	24,134	-	24,134
<b>Total assets</b>	<b>\$ 175,621</b>	<b>\$ 144,043</b>	<b>\$ 319,664</b>
<b>Liabilities</b>			
Unearned revenue	\$ 9,414	\$ -	\$ 9,414
<b>Fund balances</b>			
Restricted	166,207	144,043	310,250
<b>Total liabilities and fund balances</b>	<b>\$ 175,621</b>	<b>\$ 144,043</b>	<b>\$ 319,664</b>

*See independent auditor's report*

**CITY OF FULTON, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2015

	<u>Special Revenue Funds</u>		
	<u>Municipal</u>	<u>Ambulance</u>	<u>Total</u>
	<u>Aid Fund</u>	<u>Fund</u>	
<b>Revenues</b>			
Intergovernmental revenue	\$ 58,359	\$ 33,549	\$ 91,908
Interest income	1,540	880	2,420
Total revenues	<u>59,899</u>	<u>34,429</u>	<u>94,328</u>
<b>Expenditures</b>			
Repair and maintenance	3,831	-	3,831
Professional/technical services	160,781	-	160,781
Sidewalk repair	<u>1,700</u>	<u>-</u>	<u>1,700</u>
Total expenditures	<u>166,312</u>	<u>-</u>	<u>166,312</u>
<b>Net change in fund balances</b>	<b>(106,413)</b>	<b>34,429</b>	<b>(71,984)</b>
Fund balances - July 1, 2014	<u>272,620</u>	<u>109,614</u>	<u>382,234</u>
Fund balances - June 30, 2015	<u>\$ 166,207</u>	<u>\$ 144,043</u>	<u>\$ 310,250</u>

*See independent auditor's report*

**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**MUNICIPAL AID FUND**

For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>Revenues</b>				
State municipal aid	\$ 50,000	\$ 56,000	\$ 58,359	\$ 2,359
Interest	1,700	1,400	1,540	140
Total revenues	<u>51,700</u>	<u>57,400</u>	<u>59,899</u>	<u>2,499</u>
<b>Expenditures</b>				
Maintenance - streets	-	4,500	3,831	(669)
Professional/technical services	35,000	161,000	160,781	(219)
Sidewalk repair	<u>10,000</u>	<u>2,500</u>	<u>1,700</u>	<u>(800)</u>
Total expenditures	<u>45,000</u>	<u>168,000</u>	<u>166,312</u>	<u>(1,688)</u>
 <b>Net change in fund balance</b>	 <b>6,700</b>	 <b>(110,600)</b>	 <b>(106,413)</b>	 <b>4,187</b>
 Fund balance - July 1, 2014	 <u>272,620</u>	 <u>272,620</u>	 <u>272,620</u>	 <u>-</u>
 Fund balance - June 30, 2015	 <u>\$279,320</u>	 <u>\$ 162,020</u>	 <u>\$ 166,207</u>	 <u>\$ 4,187</u>

*See independent auditor's report*



**CITY OF FULTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**TOURISM FUND**

For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>Revenues</b>				
Hotel tax - City of Fulton	\$ 2,000	\$ 6,085	\$ 3,999	\$ (2,086)
Restaurant tax	74,000	70,000	79,048	9,048
Interest	1,000	1,026	1,176	150
Festival income	28,000	42,730	47,968	5,238
Miscellaneous	200	21	21	-
Total revenues	<u>105,200</u>	<u>119,862</u>	<u>132,212</u>	<u>12,350</u>
<b>Expenditures</b>				
Clerical services	12,600	10,500	11,550	1,050
Special projects	7,000	7,000	7,000	-
Lohaus Field	6,000	1,450	6,085	4,635
Office supplies	500	75	25	(50)
Fourth of July/Christmas	13,000	13,000	12,130	(870)
Telephone	1,000	805	898	93
Advertising/printing	500	-	-	-
Travel	1,500	-	-	-
Festival expenses	60,000	73,000	70,440	(2,560)
Miscellaneous	2,000	1,400	1,606	206
Postage	500	50	25	(25)
Total expenditures	<u>104,600</u>	<u>107,280</u>	<u>109,759</u>	<u>2,479</u>
<b>Net change in fund balance</b>	<b>600</b>	<b>12,582</b>	<b>22,453</b>	<b>9,871</b>
Fund balance - July 1, 2014	<u>146,999</u>	<u>146,999</u>	<u>146,999</u>	<u>-</u>
Fund balance - June 30, 2015	<u>\$ 147,599</u>	<u>\$ 159,581</u>	<u>\$ 169,452</u>	<u>\$ 9,871</u>

*See independent auditor's report*

**CITY OF FULTON, KENTUCKY**  
**SCHEDULE OF STATE ASSISTANCE**  
For the Year Ended June 30, 2015

<u>Grantor Agency/ Pass-through Entity/ Program Name</u>	<u>Grant Number</u>	<u>Balance July 1, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2015</u>	<u>(Receivable) Unearned June 30, 2015</u>
Kentucky Transportation Cabinet Fulton Industrial Park Road Project Highway Planning and Construction	800020817 STPE 3000 (706)	\$ 9,414 \$ (24,134)	\$ - -	\$ - -	\$ 9,414 \$ (24,134)	\$ 9,414 \$ (24,134)
Kentucky League of Cities KLCIS Safety Grant Program	n/a	-	3,000	3,000	-	-
Kentucky State Fire Commission Fire Rescue Training	n/a	-	8,250	8,250	-	-
Kentucky Infrastructure Authority Infrastructure for Economic Development Fund	SX21075006	(28,080)	28,080	-	-	-
<b>Total state assistance</b>		<b><u>\$ (42,800)</u></b>	<b><u>\$ 39,330</u></b>	<b><u>\$ 11,250</u></b>	<b><u>\$ (14,720)</u></b>	<b><u>\$ (14,720)</u></b>

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

*See independent auditor's report*

**CITY OF FULTON, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2015

<u>Grantor Agency/ Pass-through Entity/ Program Name</u>	<u>CFDA #</u>	<u>Grant Number</u>	<u>Balance July 1, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2015</u>
U.S. Department of Homeland Security Assistance to Firefighters Program	97.044	EMW-2012-FO-00331	-	\$ 1,007	\$ 1,007	-
<b>Total federal awards</b>			<u>\$ -</u>	<u>\$ 1,007</u>	<u>\$ 1,007</u>	<u>\$ -</u>

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

*See independent auditor's report*

**CITY OF FULTON, KENTUCKY**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**BY INDIVIDUAL ISSUE - ALL FUNDS**  
 June 30, 2015

**GENERAL FUND**

<u>Year Ended</u>	<u>KRWFC Flexible Term Program Series 2013 B</u>		<u>TOTAL DEBT SERVICE</u>
	<u>Principal</u>	<u>Interest</u>	
2016	\$ 58,725	\$ 4,773	\$ 63,498
2017	60,180	3,315	63,495
2018	61,662	1,835	63,497
2019	41,812	384	42,196
<b>Totals</b>	<b><u>\$ 222,379</u></b>	<b><u>\$ 10,307</u></b>	<b><u>\$ 232,686</u></b>

**WATER AND SEWER FUND**

<u>Year Ended</u>	<u>Bonds Payable Kentucky Rural Water Finance Corporation</u>		<u>TOTAL DEBT SERVICE</u>
	<u>Principal</u>	<u>Interest</u>	
2016	\$ 50,000	\$ 29,293	\$ 79,293
2017	50,000	27,392	77,392
2018	55,000	25,135	80,135
2019	55,000	22,770	77,770
2020	55,000	20,405	75,405
2021	60,000	17,935	77,935
2022	65,000	15,245	80,245
2023	65,000	12,288	77,288
2024	65,000	9,168	74,168
2025	70,000	6,102	76,102
2026	75,000	3,454	78,454
2027	70,000	1,155	71,155
<b>Totals</b>	<b><u>\$ 735,000</u></b>	<b><u>\$ 190,342</u></b>	<b><u>\$ 925,342</u></b>

*See independent auditor's report*

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

**Members of:**

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

To the Mayor and Members of the City Commission  
City of 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 City of Fulton, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 6, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Fulton'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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2015-001, that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Fulton's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as item 2015-002.

## **City of Fulton's Response to Findings**

City of Fulton's response to the findings identified in our audit is described in the accompanying schedule of findings. The City'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*

Martin, Tennessee  
January 6, 2016

**CITY OF FULTON, KENTUCKY**  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2015

**2015-001 Segregation of Duties**

Condition: The City cannot fully segregate the record-keeping, custodial and authorization functions of its internal controls due to the size of its staff.

Criteria: Generally accepted accounting principles require that management design internal control to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or timely detected and corrected. A fundamental concept in a good system of internal control is segregation of duties.

Effect: The risk of errors or fraud occurring and not being prevented or detected in a timely manner increases when accounting functions are not adequately segregated and sufficient controls are not in place.

Recommendation: We realize that the City cannot fully segregate duties with the number of employees available. However, management and the board should be aware of this issue and continue to develop policies and procedures that segregate accounting functions as much as possible. This policy should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets.

Response: *The CFO never signs checks. She writes almost all checks; so, they are signed by two other people. The City Manager reviews the bank reconciliations.*

**2015-002 Expenditures Not Budgeted**

Condition: The City had expenditures that exceeded the amount appropriated in the annual budget. For the year ended June 30, 2015, the General Fund had expenditures in excess of appropriations in the amount of \$71,348.

Criteria: Kentucky Revised Statutes, Chapter 91A.030, states that no city shall expend any moneys from any governmental or proprietary fund except in accordance with a budget ordinance. Paragraph 9 of this chapter states that the full amount estimated to be required for debt service during the budget year shall be appropriated for all governmental fund types. The majority of the overage in the General Fund pertained to the fire truck note payments, which were \$63,496 for the current year. The final budget appropriation for this line item was only \$6,287.

Effect: The City has made expenditures not appropriated in the budget and is not in compliance with KRS 91A.030, Paragraph 9, related to appropriation of debt service in governmental funds.

Recommendation: We recommend that the City ensure that all expenditures are legally appropriated through budget amendments, and that all debt service payments be fully appropriated.

Response: *The CFO will book the correct fire truck note expense in the future.*