

CITY OF FULTON, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2013

**CITY OF FULTON, KENTUCKY
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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, 2013, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 December 4, 2013, 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
December 4, 2013

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, 2013.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of this year by \$9.91 million (*net position*). This represents an increase of \$487 thousand over the prior year. Of the total net position, \$1.31 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 \$1.34 million, an increase of \$96 thousand in comparison with the prior year. Of the total fund balance, \$1.31 million is available for spending at the City's discretion (*unassigned fund balance*).
- The City's governmental activities had a net increase of \$264 thousand, while net income from business-type activities was \$221 thousand, for a total increase of \$485 thousand from operations of the current fiscal year.
- The City's capital assets increased by \$466 thousand, less depreciation of \$374 thousand, for a net increase of \$92 thousand.

Changes made during the fiscal year ended June 30, 2013, were as follows:

- We eliminated cell phone contracts and replaced with a stipend to the employees who need the use of a cell phone to conduct their business.
- We eliminated a cleaning service for City Hall, Pontotoc Center and the Women's Club by utilizing the female detention center crew twice a week.
- We eliminated the City Dispatch Center (3 fulltime and 2 part-time employees).
- We created a part-time Code Enforcement Officer position.
- We created the Code Enforcement – Nuisance Board.
- We filled all vacancies on all City boards.
- We established new fee rates for burial lots and weekend/holiday burials.
- We began review, correction and update of all City ordinances.
- We stopped mowing all vacant lots in the City and began to hold property owners accountable.
- We requested and received assistance in operating costs from the County.
- We met with the Governor and requested and received installation of exit lighting on Exit 1 of the Purchase Parkway in Fulton.
- We implemented systems to maintain consistency in the day-to-day operations of the City.

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 20 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 21 to 23 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 24 to 25 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 26 to 34 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 exceeded liabilities and deferred inflows of resources by \$9.91 million at the close of the most recent fiscal year. The largest portion of the City's net position (73%) 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 (3%) represents resources that are subject to external restriction on how they may be used. The remaining balance of net position representing unrestricted net position (\$2.4 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	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,944,862	\$ 1,737,279	\$ 1,373,275	\$ 1,358,700	\$ 3,318,137	\$ 3,095,979
Capital assets	3,125,875	3,064,115	4,901,830	4,871,503	8,027,705	7,935,618
Total assets	5,070,737	4,801,394	6,275,105	6,230,203	11,345,842	11,031,597
Long-term liabilities	35,802	35,802	931,100	919,465	966,902	955,267
Other liabilities	35,172	34,572	164,282	351,611	199,454	386,183
Total liabilities	70,974	70,374	1,095,382	1,271,076	1,166,356	1,341,450
Deferred inflows of resources	270,333	268,591	-	-	270,333	268,591
Net investment in capital assets	3,125,875	3,028,313	4,061,830	3,898,503	7,187,705	6,926,816
Restricted net position	326,145	210,312	-	-	326,145	210,312
Unrestricted net position	1,277,410	1,223,804	1,117,893	1,060,624	2,395,303	2,284,428
Total net position	\$ 4,729,430	\$ 4,462,429	\$ 5,179,723	\$ 4,959,127	\$ 9,909,153	\$ 9,421,556

Statement of Activities – Revenues from governmental activities exceeded expenditures by \$264 thousand during the current year. The main differences in revenue from the prior year were a \$483 thousand decrease in ambulance revenue, due to the change in the ambulance service during the prior year, and an increase of \$388 thousand in capital grants and contributions received during the current year. Expenditures in public safety decreased by \$626 thousand from the prior year, while non-departmental expenditures increased by \$498 thousand, due mainly to CDBG grant expenditures.

In the business-type activities, revenues exceeded expenses by \$221 thousand. Revenues increased by 8% and expenditures decreased by 5% in the Utility Department from the prior year, mainly attributable to an increase in natural gas revenue and a decrease in the amount of gas purchased. A condensed statement of activities for the years ended June 30, 2013 and 2012, is presented on the next page.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – As of June 30, 2013, the City had invested approximately \$8.03 million, net of accumulated depreciation, in a variety of capital assets. Additional information on the City's capital assets can be found in Note 4D beginning on page 31 of this report.

Long-term debt – At the end of the current fiscal year, the City of Fulton had bonds payable of \$840 thousand. The City reduced its debt through the issuance of refunding bonds during the current year. Additional information on the City's long-term debt can be found in Note 4E beginning on page 33 of this report.

CONDENSED STATEMENT OF ACTIVITIES

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues						
Charges for services	\$ 63,694	\$ 541,462	\$ 2,437,388	\$ 2,248,729	\$ 2,501,082	\$ 2,790,191
Operating grants/contributions	277,098	164,466	-	-	277,098	164,466
Capital grants/contributions	<u>1,219,794</u>	<u>831,900</u>	<u>-</u>	<u>-</u>	<u>1,219,794</u>	<u>831,900</u>
	<u>1,560,586</u>	<u>1,537,828</u>	<u>2,437,388</u>	<u>2,248,729</u>	<u>3,997,974</u>	<u>3,786,557</u>
Expenses						
General government	118,959	228,413	-	-	118,959	228,413
Public safety	1,101,357	1,727,629	-	-	1,101,357	1,727,629
Public works - general	24,303	16,155	-	-	24,303	16,155
Highways and streets	137,269	86,413	-	-	137,269	86,413
Parks and cemeteries	75,329	76,398	-	-	75,329	76,398
Utilities	-	-	2,002,310	2,102,937	2,002,310	2,102,937
Non-departmental	<u>1,380,931</u>	<u>883,023</u>	<u>-</u>	<u>-</u>	<u>1,380,931</u>	<u>883,023</u>
Total expenses	<u>2,838,148</u>	<u>3,018,031</u>	<u>2,002,310</u>	<u>2,102,937</u>	<u>4,840,458</u>	<u>5,120,968</u>
Net program revenue (expense)	(1,277,562)	(1,480,203)	435,078	145,792	(842,484)	(1,334,411)
General revenues						
Taxes	1,151,639	1,211,049	-	-	1,151,639	1,211,049
Other	165,301	76,700	10,159	10,233	175,460	86,933
Transfers	<u>224,641</u>	<u>(320,885)</u>	<u>(224,641)</u>	<u>320,885</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>264,019</u>	<u>(513,339)</u>	<u>220,596</u>	<u>476,910</u>	<u>484,615</u>	<u>(36,429)</u>
Beginning net assets	4,462,429	4,859,742	4,959,127	4,482,217	9,421,556	9,341,959
Prior period adjustment	<u>2,982</u>	<u>116,026</u>	<u>-</u>	<u>-</u>	<u>2,982</u>	<u>116,026</u>
Beginning net assets as restated	<u>4,465,411</u>	<u>4,975,768</u>	<u>4,959,127</u>	<u>4,482,217</u>	<u>9,424,538</u>	<u>9,457,985</u>
Ending net assets	<u>\$ 4,729,430</u>	<u>\$ 4,462,429</u>	<u>\$ 5,179,723</u>	<u>\$ 4,959,127</u>	<u>\$ 9,909,153</u>	<u>\$ 9,421,556</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 more than 96% of governmental fund revenues. Accordingly, this discussion will focus on the General Fund. General fund balance was \$1.34 million at the end of the current fiscal year. Of that balance, \$1.31 million is available to meet the day-to-day needs of the City.

Revenues in the General Fund were approximately \$500 thousand less than last year due to the loss of the ambulance revenue. The most significant changes in expenditures were:

- the decrease in salaries in the police department of \$42 thousand,
- the decrease in salaries in the fire department of \$317 thousand,
- and an increase in CDBG grant expenditures of \$509 thousand.

The grant expenditures were offset by grant revenue. 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 amounted to \$1.12 million. The City's utility department operated at a profit of approximately \$435 thousand before the in-lieu-of-tax transfer to the General Fund. This was an increase of \$289 thousand from the prior year. The main decrease in utility expenses from the prior year was in natural gas purchases, due to the use of reserves from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Final Budgeted and Actual Amounts

Actual revenues exceeded budgeted amounts by \$1.2 million. This was mainly attributable to more grant proceeds received than budgeted. Total expenditures were \$1 million in excess of budgeted amounts, the majority in grant expenditures and in capital outlay in the fire department. Significant variances were as follows:

- Police department expenditures were \$90 thousand more than budgeted.
- Fire department expenditures were \$157 thousand more than budgeted amounts.
- The CDBG expenditures were \$894 thousand more than budgeted.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City continues to have a low debt burden and is financially sound. Our local economy continues to be challenging, but with the announcement of our newest industry, MVP, hopefully we can create a new momentum and help turn our economy around. Our reserve funds remain sound and the money that was allocated for the 2012/13 budget from the reserves will not be used. The 2012/13 budget was met and the surplus allowed the City to spend funds on capital improvements that the 2013/14 budget would not have allowed. One of the City's most needed items that will be purchased with the surplus funds will be a new computer system that will allow the City to be run more efficiently.

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, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash	\$ 1,433,700	\$ 1,022,662	\$ 2,456,362
Taxes receivable, net of allowance	270,333	-	270,333
Grants receivable	26,426	-	26,426
Accounts receivable, net of allowance	-	324,361	324,361
Other taxes receivable	188,013	-	188,013
Due from fiduciary funds	751	-	751
Inventory	-	26,252	26,252
Restricted assets:			
Cash and cash equivalents	25,639	-	25,639
Capital assets not being depreciated			
Land and improvements	269,920	-	269,920
Construction in progress	-	697,654	697,654
Capital assets, net of accumulated depreciation			
Buildings	2,026,348	-	2,026,348
Vehicles and equipment	829,607	-	829,607
Utility plant in service	-	4,204,176	4,204,176
Total assets	<u>5,070,737</u>	<u>6,275,105</u>	<u>11,345,842</u>
Liabilities			
Accounts payable	5,797	33,037	38,834
Other accrued liabilities	-	898	898
Due to fiduciary funds	11,511	2,237	13,748
Customer deposits	8,450	128,110	136,560
Unearned revenue - grants	9,414	-	9,414
Noncurrent liabilities:			
Due within one year	-	-	-
Due in more than one year	35,802	931,100	966,902
Total liabilities	<u>70,974</u>	<u>1,095,382</u>	<u>1,166,356</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	270,333	-	270,333
Net Position			
Net investment in capital assets	3,125,875	3,987,195	7,113,070
Restricted for:			
Drug and Police Evidence Funds	25,639	-	25,639
Ambulance Fund	68,909	-	68,909
Municipal Aid	231,597	-	231,597
Unrestricted	1,277,410	1,192,528	2,469,938
Total net position	<u>\$ 4,729,430</u>	<u>\$ 5,179,723</u>	<u>\$ 9,909,153</u>

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

CITY OF FULTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

<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>
Governmental activities:							
General government	\$ 118,959	\$ -	\$ -	\$ -	\$ (118,959)	\$ -	\$ (118,959)
Public safety	1,101,357	44,511	201,202	-	(855,644)	-	(855,644)
Public works - general	24,303	1,793	-	-	(22,510)	-	(22,510)
Highways and streets	137,269	-	75,896	-	(61,373)	-	(61,373)
Parks and cemeteries	75,329	17,390	-	-	(57,939)	-	(57,939)
Non-departmental	1,380,931	-	-	1,219,794	(161,137)	-	(161,137)
Total governmental activities	2,838,148	63,694	277,098	1,219,794	(1,277,562)	-	(1,277,562)
Business-type activities:							
Public utilities	2,002,310	2,437,388	-	-	-	435,078	435,078
Total	\$ 4,840,458	\$ 2,501,082	\$ 277,098	\$ 1,219,794	(1,277,562)	435,078	(842,484)
General revenues:							
Property taxes					325,882	-	325,882
Franchise taxes					18,023	-	18,023
Payroll taxes					807,734	-	807,734
Business and occupational licenses					20,624	-	20,624
Court fees					2,867	-	2,867
Interest					15,377	10,159	25,536
Rental income					13,990	-	13,990
Sale of property					651	-	651
Miscellaneous					111,792	-	111,792
Transfers					224,641	(224,641)	-
Total general revenues and transfers					1,541,581	(214,482)	1,327,099
Change in net position					264,019	220,596	484,615
Net position - beginning					4,462,429	4,959,127	9,421,556
Prior period adjustment					2,982	-	2,982
Net position - beginning, as restated					4,465,411	4,959,127	9,424,538
Net position - ending					<u>\$ 4,729,430</u>	<u>\$ 5,179,723</u>	<u>\$ 9,909,153</u>

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

CITY OF FULTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 1,147,914	\$ 285,786	\$ 1,433,700
Property taxes receivable, net	270,333	-	270,333
Grants receivable	2,292	24,134	26,426
Other taxes receivable	188,013	-	188,013
Due from fiduciary funds	751	-	751
Restricted cash	<u>25,639</u>	<u>-</u>	<u>25,639</u>
Total assets	<u>\$1,634,942</u>	<u>\$ 309,920</u>	<u>\$ 1,944,862</u>
Liabilities			
Accounts payable	\$ 5,797	\$ -	\$ 5,797
Due to fiduciary funds	11,511	-	11,511
Unearned revenue	-	9,414	9,414
Customer deposits	<u>8,450</u>	<u>-</u>	<u>8,450</u>
Total liabilities	<u>25,758</u>	<u>9,414</u>	<u>35,172</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	<u>270,333</u>	<u>-</u>	<u>270,333</u>
Fund Balances			
Restricted	25,639	300,506	326,145
Unassigned	<u>1,313,212</u>	<u>-</u>	<u>1,313,212</u>
Total fund balances	<u>1,338,851</u>	<u>300,506</u>	<u>1,639,357</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,634,942</u>	<u>\$ 309,920</u>	<u>\$ 1,944,862</u>

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, 2013

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

Total fund balances of governmental funds	\$ 1,639,357
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,125,875
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(35,802)</u>
Net position of governmental activities	<u><u>\$ 4,729,430</u></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, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local taxes	\$ 1,153,939	\$ -	\$ 1,153,939
Intergovernmental revenue	78,339	120,407	198,746
Charges for services	33,173	-	33,173
Grant revenue	1,366,223	-	1,366,223
Interest	13,408	1,969	15,377
Other revenues	110,068	-	110,068
Total revenues	2,755,150	122,376	2,877,526
Expenditures			
Current:			
General government	46,630	-	46,630
Public safety	957,854	-	957,854
Public works - general	24,303	-	24,303
Highways and streets	115,531	13,297	128,828
Parks and cemeteries	75,329	-	75,329
Non-departmental	1,380,931	-	1,380,931
Capital outlay:			
General government	80,326	-	80,326
Public safety	205,707	-	205,707
Total expenditures	2,886,611	13,297	2,899,908
Revenues over (under) expenditures	(131,461)	109,079	(22,382)
Other financing sources (uses)			
Transfers in	224,641	-	224,641
Net change in fund balances	93,180	109,079	202,259
Fund balances - July 1, 2012	1,242,689	191,427	1,434,116
Prior period adjustment	2,982	-	2,982
Fund balances - July 1, 2012, as restated	1,245,671	191,427	1,437,098
Fund balances - June 30, 2013	\$ 1,338,851	\$ 300,506	\$ 1,639,357

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, 2013

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

Net change in fund balances of governmental funds	\$ 202,259
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	286,033
Depreciation	<u>(224,273)</u>
Change in net position of governmental activities	<u>\$ 264,019</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
Local taxes				
Property taxes	\$ 281,000	\$ 281,000	\$ 306,728	\$ 25,728
Interest and penalties	3,700	3,700	6,756	3,056
Payments in lieu of tax	13,334	13,334	12,398	(936)
Delinquent tax lawsuit fees	-	-	2,300	2,300
Franchise taxes	18,300	18,300	18,023	(277)
Payroll taxes	<u>759,085</u>	<u>759,085</u>	<u>807,734</u>	<u>48,649</u>
Total local taxes	<u>1,075,419</u>	<u>1,075,419</u>	<u>1,153,939</u>	<u>78,520</u>
Intergovernmental revenues				
Business licenses	20,000	20,000	20,624	624
County court fees	3,800	3,800	2,867	(933)
Fire department revenue	-	-	1,915	1,915
Federal grant funds	305,369	305,369	1,219,794	914,425
State grant funds	28,250	28,250	146,429	118,179
State incentive revenue	33,354	33,354	36,452	3,098
Law enforcement fees	13,000	13,000	16,406	3,406
Code enforcement revenue	<u>-</u>	<u>-</u>	<u>75</u>	<u>75</u>
Total intergovernmental revenues	<u>403,773</u>	<u>403,773</u>	<u>1,444,562</u>	<u>1,040,789</u>
Charges for services				
Rent	15,000	15,000	13,990	(1,010)
Building permits	150	150	1,793	1,643
Cemetery lots	<u>10,600</u>	<u>10,600</u>	<u>17,390</u>	<u>6,790</u>
Total charges for services	<u>25,750</u>	<u>25,750</u>	<u>33,173</u>	<u>7,423</u>
Fines, forfeitures and penalties				
Parking violations	<u>100</u>	<u>100</u>	<u>-</u>	<u>(100)</u>
Other revenues				
Sale of property	1,500	1,500	651	(849)
Interest income	10,700	10,700	13,408	2,708
Miscellaneous income	<u>2,000</u>	<u>2,000</u>	<u>109,417</u>	<u>107,417</u>
Total other revenues	<u>14,200</u>	<u>14,200</u>	<u>123,476</u>	<u>109,276</u>
Total revenues	<u>1,519,242</u>	<u>1,519,242</u>	<u>2,755,150</u>	<u>1,235,908</u>

(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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Expenditures				
Administrative				
Salaries	92,600	92,600	103,724	11,124
Retirement/pension	12,708	12,708	15,764	3,056
Hospitalization	7,200	7,200	-	(7,200)
Life/dental	150	150	150	-
Social security	5,982	5,982	6,417	435
Other benefits	95	95	3	(92)
Maintenance - vehicles/equipment	-	-	13	13
Office supplies	1,000	1,000	705	(295)
Technical supplies	700	700	652	(48)
Dues and subscriptions	800	800	228	(572)
Motor fuel/oil	-	-	129	129
Telephone	1,700	1,700	1,159	(541)
Advertising/printing	2,000	2,000	4,397	2,397
Travel	1,500	1,500	1,609	109
Professional/technical services	1,700	1,700	613	(1,087)
Training	1,000	1,000	1,164	164
Miscellaneous	750	750	-	(750)
Duplicate charges	<u>(59,368)</u>	<u>(59,368)</u>	<u>(63,087)</u>	<u>(3,719)</u>
Total administrative	<u>70,517</u>	<u>70,517</u>	<u>73,640</u>	<u>3,123</u>
Finance Department				
Salaries	136,773	136,773	141,554	4,781
Overtime/help	1,800	1,800	555	(1,245)
Retirement/pension	27,091	27,091	28,828	1,737
Hospitalization	20,405	20,405	18,602	(1,803)
Life/dental insurance	600	600	562	(38)
Social security	10,601	10,601	9,763	(838)
Other benefits	775	775	376	(399)
Maintenance - fixtures	1,700	1,700	707	(993)
Utilities	9,000	9,000	7,837	(1,163)
Technical supplies	1,000	1,000	901	(99)
Office supplies	1,000	1,000	566	(434)
Cleaning supplies	500	500	566	66
Dues/subscriptions	150	150	20	(130)
Postage	2,000	2,000	1,643	(357)
Telephone	600	600	776	176
Travel	1,000	1,000	350	(650)
Professional/technical services	800	800	480	(320)
Training/registration	1,000	1,000	988	(12)
Duplicate charges	<u>(158,436)</u>	<u>(158,436)</u>	<u>(161,758)</u>	<u>(3,322)</u>
Total finance department	<u>58,359</u>	<u>58,359</u>	<u>53,316</u>	<u>(5,043)</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Code Compliance				
Salaries	-	-	2,548	2,548
Social security	-	-	195	195
Clothing	-	-	56	56
Office supplies	-	1,000	526	(474)
Technical supplies	-	1,000	1,719	719
Motor fuel/oil	-	-	99	99
Postage	-	500	200	(300)
Advertising/printing	-	-	81	81
Travel	-	-	180	180
Professional/technical services	-	-	4,750	4,750
Training	-	-	1,656	1,656
Code enforcement	-	70,000	5,420	(64,580)
Total code compliance	-	72,500	17,430	(55,070)
Police Department				
Salaries	308,947	308,947	369,717	60,770
Overtime/help	40,000	40,000	35,459	(4,541)
Retirement/pension	69,979	69,979	74,400	4,421
Hospitalization	69,550	69,550	70,754	1,204
Life/dental insurance	1,500	1,500	1,421	(79)
Social security	28,117	28,117	26,536	(1,581)
Workers' compensation	15,500	15,500	18,727	3,227
Clothing	2,600	2,600	7,347	4,747
Incentive	18,600	18,600	23,488	4,888
Other benefits	650	650	102	(548)
Maintenance - fixtures	2,500	2,500	1,430	(1,070)
Maintenance - vehicles/equipment	8,000	8,000	8,505	505
Utilities	11,000	11,000	8,195	(2,805)
Technical supplies	3,000	3,000	3,650	650
Office supplies	5,000	5,000	4,266	(734)
Cleaning supplies	1,200	1,200	1,085	(115)
Dues and subscriptions	500	500	118	(382)
Motor fuel/oil	20,000	20,000	26,030	6,030
Postage	500	500	403	(97)
Telephone	12,500	12,500	5,696	(6,804)
Advertising/printing	350	350	144	(206)
Travel	2,000	2,000	1,506	(494)
Insurance	28,181	28,181	28,226	45
Professional/technical services	500	500	492	(8)
Training	650	650	528	(122)
Program implements	200	200	257	57
Animal control	16,705	16,705	6,585	(10,120)

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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Drug fund expenditures	-	-	1,000	1,000
Miscellaneous	500	500	929	429
Capital expenditures	-	-	36,848	36,848
Duplicate charges	<u>(55,544)</u>	<u>(55,544)</u>	<u>(60,918)</u>	<u>(5,374)</u>
Total Police Department	<u>613,185</u>	<u>613,185</u>	<u>702,926</u>	<u>89,741</u>
Fire Department				
Salaries	92,812	92,812	93,760	948
Retirement/pension	19,357	19,357	20,238	881
Hospitalization	20,000	20,000	19,095	(905)
Life/dental insurance	300	300	295	(5)
Social security	7,574	7,574	6,260	(1,314)
Workers' compensation	7,000	7,000	7,000	-
Clothing	1,000	1,000	1,990	990
Incentive	6,200	6,200	6,200	-
Other benefits	1,850	1,850	1,218	(632)
Maintenance - fixtures	1,000	1,000	1,771	771
Maintenance - vehicles/equipment	9,800	9,800	10,366	566
Utilities	7,400	7,400	8,195	795
State Aid expense	8,250	8,250	8,250	-
Volunteer fire expenditures	50,000	50,000	50,000	-
Technical supplies	5,300	5,300	4,674	(626)
Office supplies	850	850	365	(485)
Cleaning supplies	700	700	406	(294)
Dues and subscriptions	1,100	1,100	1,230	130
Motor fuel/oil	4,500	4,500	6,023	1,523
Postage	400	400	260	(140)
Telephone	2,650	2,650	2,843	193
Advertising/printing	400	400	318	(82)
Travel	1,000	1,000	669	(331)
Insurance	15,542	15,542	15,542	-
Professional/technical services	5,000	5,000	5,700	700
Training	1,500	1,500	837	(663)
Miscellaneous	200	200	-	(200)
Capital expenditures	<u>14,706</u>	<u>14,706</u>	<u>169,700</u>	<u>154,994</u>
Total Fire Department	<u>286,391</u>	<u>286,391</u>	<u>443,205</u>	<u>156,814</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Public Works Department				
Salaries	370,790	370,790	369,850	(940)
Overtime/help	25,000	25,000	18,604	(6,396)
Retirement/pension	77,377	77,377	78,185	808
Hospitalization	86,915	86,915	80,289	(6,626)
Life/dental insurance	2,100	2,100	1,721	(379)
Social security	30,278	30,278	27,118	(3,160)
Workers' compensation	27,000	27,000	27,000	-
Clothing	6,500	6,500	3,716	(2,784)
Other benefits	850	850	489	(361)
Duplicate charges	<u>(595,470)</u>	<u>(595,470)</u>	<u>(582,669)</u>	<u>12,801</u>
Total Public Works	<u>31,340</u>	<u>31,340</u>	<u>24,303</u>	<u>(7,037)</u>
Street Department				
Maintenance - buildings/grounds	1,000	1,000	963	(37)
Maintenance - fixtures	1,500	1,500	1,633	133
Maintenance - vehicles/equipment	7,000	7,000	9,141	2,141
Utilities	58,000	58,000	63,402	5,402
Technical supplies	3,000	3,000	2,945	(55)
Office supplies	200	200	612	412
Motor fuel/oil	12,500	12,500	14,437	1,937
Insurance	2,675	2,675	2,675	-
Professional/technical services	1,400	1,400	2,052	652
Street markers	4,000	4,000	3,100	(900)
Miscellaneous	500	500	571	71
Capital expenditures	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>	<u>-</u>
Total Street Department	<u>105,775</u>	<u>105,775</u>	<u>115,531</u>	<u>9,756</u>
Parks and Cemeteries Department				
Maintenance - Buildings/Grounds	3,000	3,000	2,170	(830)
Maintenance - Fixtures	2,500	2,500	1,437	(1,063)
Maintenance - Vehicles/Equipment	4,000	4,000	6,614	2,614
Utilities	14,000	14,000	11,097	(2,903)
Technical supplies	2,000	2,000	2,095	95
Office supplies	500	500	665	165
Women's club expenditures	5,000	5,000	4,722	(278)
Community center expenditures	15,000	15,000	13,217	(1,783)
Motor fuel/oil	3,800	3,800	4,442	642
Insurance	4,302	4,302	4,302	-
Professional/technical services	4,800	4,800	3,150	(1,650)
Miscellaneous	300	300	142	(158)
Capital expenditures	<u>14,000</u>	<u>14,000</u>	<u>21,276</u>	<u>7,276</u>
Total Parks and Cemeteries	<u>73,202</u>	<u>73,202</u>	<u>75,329</u>	<u>2,127</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Non-Departmental				
Maintenance - buildings/grounds	5,000	5,000	1,491	(3,509)
Shop expense	14,000	14,000	15,537	1,537
Postage	500	500	180	(320)
Delinquent property tax lawsuit expense	-	-	141	141
PVA - tax roll	5,200	5,200	5,237	37
Service contracts	7,500	7,500	15,083	7,583
Audit	7,000	7,000	5,950	(1,050)
General liability insurance	44,964	44,964	45,269	305
Bad debt	-	-	(214)	(214)
Chamber of Commerce	1,200	1,200	1,200	-
Airport	1,100	1,100	1,100	-
Library	5,000	5,000	5,000	-
Detention Center meals	17,500	17,500	17,138	(362)
Kentucky Municipal League	710	710	590	(120)
Purchase area development	500	500	500	-
CDBG - housing revitalization program	325,369	325,369	1,219,794	894,425
Contingency	17,000	17,000	19,435	2,435
Economic development	7,500	7,500	7,500	-
Grant expenditures	<u>105,000</u>	<u>105,000</u>	<u>20,000</u>	<u>(85,000)</u>
Total Non-Departmental	<u>565,043</u>	<u>565,043</u>	<u>1,380,931</u>	<u>815,888</u>
Total expenditures	<u>1,803,812</u>	<u>1,876,312</u>	<u>2,886,611</u>	<u>1,010,299</u>
Revenues over (under) expenditures	<u>(284,570)</u>	<u>(357,070)</u>	<u>(131,461)</u>	<u>225,609</u>
Other financing sources (uses)				
Transfers in - payments in lieu of tax	<u>191,866</u>	<u>191,866</u>	<u>224,641</u>	<u>32,775</u>
Net change in fund balance	<u>\$ (92,704)</u>	<u>\$ (165,204)</u>	<u>93,180</u>	<u>\$ 258,384</u>
Fund balance - July 1, 2012			1,242,689	
Prior period adjustment			<u>2,982</u>	
Fund balance - July 1, 2012, as restated			<u>1,245,671</u>	
Fund balance - June 30, 2013			<u>\$ 1,338,851</u>	

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

CITY OF FULTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2013

ASSETS

Current assets	
Cash	\$ 1,022,662
Accounts receivable (net)	324,361
Inventory	<u>26,252</u>
Total current assets	<u>1,373,275</u>
Capital assets, net of accumulated depreciation:	
Utility plant in service	4,204,176
Construction in progress	<u>697,654</u>
Total capital assets	<u>4,901,830</u>
Total assets	<u>6,275,105</u>

LIABILITIES

Current liabilities	
Accounts payable	33,037
Accrued expenses	898
Due to fiduciary funds	2,237
Customer deposits	128,110
Noncurrent liabilities due within one year	<u>-</u>
Total current liabilities	<u>164,282</u>
Noncurrent liabilities	
Accrued vacation and sick leave	16,465
Bonds payable, net of current portion	<u>914,635</u>
Total noncurrent liabilities	<u>931,100</u>
Total liabilities	<u>1,095,382</u>

NET POSITION

Net investment in capital assets	3,987,195
Unrestricted	<u>1,192,528</u>
Total net position	<u>\$ 5,179,723</u>

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, 2013

Operating revenues	
Utility sales	\$ 2,347,439
Miscellaneous	<u>89,949</u>
Total operating revenues	<u>2,437,388</u>
Operating expenses	
Personnel/administrative costs	868,431
Maintenance	25,670
Utilities	172,449
Maintenance to system	67,180
Technical supplies	27,827
Office and cleaning supplies	6,994
Dues and subscriptions	754
Motor fuel and oil	36,817
Postage	7,813
Gas purchases	381,662
Rent	450
Telephone	26,523
Advertising and printing	1,141
Travel and registrations	351
Insurance	32,618
Professional services	128,203
Training	1,392
Audit expense	6,000
Sewer project	1,347
Depreciation	149,518
Miscellaneous	<u>571</u>
Total operating expenses	<u>1,943,711</u>
Operating income	<u>493,677</u>
Non-operating revenue (expense)	
Interest earnings	10,159
Debt issuance costs	(16,966)
Interest expense	<u>(41,633)</u>
Total non-operating revenue (expense)	<u>(48,440)</u>
Change in net position before transfers	445,237
Transfers	
Transfer out - payment in lieu of taxes	<u>(224,641)</u>
Change in net position	220,596
Net position - July 1, 2012	<u>4,959,127</u>
Net position - June 30, 2013	<u>\$ 5,179,723</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, 2013

Cash Flows from Operating Activities

Cash received from customers	\$ 2,432,203
Cash payments to employees for services	(868,431)
Cash payments to suppliers	<u>(1,043,491)</u>
Net cash provided by operating activities	520,281

Cash Flows from Non-Capital Financing Activities

Interfund transfers	(224,641)
---------------------	-----------

Cash Flows from Capital and Related Financing Activities

Additions to plant utility	(179,845)
Payments on principal of long-term debt	(70,000)
Interest payments on long-term debt	<u>(46,964)</u>
Net cash used by capital and related financing activities	(296,809)

Cash Flows from Investing Activities

Interest received	<u>10,159</u>
-------------------	---------------

Net increase in cash **8,990**

Cash - July 1, 2012 1,013,672

Cash - June 30, 2013 \$ 1,022,662

Reconciliation of Cash Flows from Operating Activities

Operating income	\$ 493,677
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	149,518
Increase in accounts receivable	(5,585)
Decrease in accounts payable	(117,729)
Increase in accrued expenses	612
Decrease in customer deposits	<u>(212)</u>
Total adjustments	<u>26,604</u>
Net cash provided by operating activities	<u>\$ 520,281</u>

Noncash Financing Activities

Refunding bonds	\$ 840,000
Premium on refunding bonds	79,966
Debt issuance costs	<u>(16,966)</u>
Refunded bonds	<u>\$ 903,000</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, 2013

	<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>
Assets				
Cash	\$ 133,666	\$ 1,356	\$ 87	\$ 36,090
Due from general fund	-	-	11,511	-
Due from utility fund	-	2,237	-	-
Due from payroll fund	-	1,636	-	-
Accounts receivable	-	35	-	-
Total assets	<u>133,666</u>	<u>5,264</u>	<u>11,598</u>	<u>36,090</u>
Liabilities				
Due to other funds	-	751	-	-
Due to expenditure revolving fund	-	-	1,636	-
Perpetual care contributions	-	-	-	650
Accounts payable	-	-	9,358	-
Total liabilities	<u>-</u>	<u>751</u>	<u>10,994</u>	<u>650</u>
Net position				
Held in trust for tourism and other purposes	<u>\$ 133,666</u>	<u>\$ 4,513</u>	<u>\$ 604</u>	<u>\$ 35,440</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, 2013

	<u>Private Purpose Trust Cemetery Trust Fund</u>
Additions	
Interest	\$ 131
Miscellaneous	1,400
Total additions	<u>1,531</u>
Deductions	<u>-</u>
Change in net position	1,531
Net position - July 1, 2012	<u>33,909</u>
Net position - June 30, 2013	<u><u>\$ 35,440</u></u>

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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 2013

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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The cost of purchased water is accrued based on the final meter reading of the fiscal year. This may result in unrecognized expenses for the period between the final billing and the end of the fiscal year. This practice is consistent with industry guidelines and does not differ significantly from generally accepted accounting principles.

D. Impact of recently issued accounting pronouncements

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the City's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all other elements presented in a statement of financial position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. However, management has chosen to implement this pronouncement for the year ended June 30, 2013. The early implementation of this pronouncement did not result in any restatement of prior period balances.

E. Assets, Liabilities 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.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Capital Assets

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

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

Capital assets are depreciated over the following useful lives:

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

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 no deferred outflows as of June 30, 2013.

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 one item that qualifies 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 as unavailable revenue in both the governmental funds balance sheet and the statement of net position.

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.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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. With the adoption of GASB 65, 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.
- 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, 2013, the City had restricted fund balance of \$25,639 for Drug and Police Evidence Funds, \$68,909 for the Ambulance Fund and \$231,597 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 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The financial statements include a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of the \$3,125,875 difference are as follows:

Governmental funds capital assets	\$ 7,891,209
Less accumulated depreciation	<u>4,765,334</u>
Net adjustment	<u>\$ 3,125,875</u>

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Invested Funds

Custodial credit risk of deposits is the risk that in the event of a bank failure the government's deposits may not be returned to it. 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, 2013, all bank balances were covered by insurance or adequately collateralized. All funds are classified as public funds.

B. Receivables

Receivables as of June 30, 2013, 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, 2013. The allowance for uncollectible property taxes was \$47,746 at June 30, 2013.

C. Interfund receivables, payables, and transfers

The transfer of \$224,641 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, 2013, was as follows:

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 244,870	\$ 25,050	\$ -	\$ 269,920
Capital assets, being depreciated				
Buildings	3,844,415	-	-	3,844,415
Vehicles and equipment	<u>3,515,891</u>	<u>260,983</u>	<u>-</u>	<u>3,776,874</u>
Total capital assets, being depreciated	<u>7,360,306</u>	<u>260,983</u>	<u>-</u>	<u>7,621,289</u>
Less accumulated depreciation for:				
Buildings	1,753,397	64,670	-	1,818,067
Vehicles and equipment	<u>2,787,664</u>	<u>159,603</u>	<u>-</u>	<u>2,947,267</u>
Total accumulated depreciation	<u>4,541,061</u>	<u>224,273</u>	<u>-</u>	<u>4,765,334</u>
Total capital assets being depreciated, net	<u>2,819,245</u>	<u>36,710</u>	<u>-</u>	<u>2,855,955</u>
Governmental activities capital assets, net	<u>\$ 3,064,115</u>	<u>\$ 61,760</u>	<u>\$ -</u>	<u>\$ 3,125,875</u>
Business-type activities:				
Capital assets, being depreciated				
Utility plant in operation	\$ 8,927,262	\$ 47,295	\$ -	\$ 8,974,557
Less accumulated depreciation for:				
Utility plant in operation	<u>4,620,863</u>	<u>149,518</u>	<u>-</u>	<u>4,770,381</u>
Total capital assets, being depreciated, net	4,306,399	(102,223)	-	4,204,176
Capital assets, not being depreciated				
Construction in progress	<u>565,104</u>	<u>132,550</u>	<u>-</u>	<u>697,654</u>
Business-type activities capital assets, net	<u>\$ 4,871,503</u>	<u>\$ 30,327</u>	<u>\$ -</u>	<u>\$ 4,901,830</u>

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

Governmental activities:	
General	\$ 72,329
Public safety	143,503
Highways and streets	<u>8,441</u>
Total - governmental activities	<u>\$ 224,273</u>
Business-type activities:	
Water and sewer	<u>\$ 149,518</u>

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

E. Long-Term Debt

Utility Fund

There was a note payable to Kentucky Infrastructure Authority with an outstanding balance of \$25,000 at June 30, 2012. This note was for infrastructure improvements and was re-written in 2004 for a lower interest rate. It had a variable interest rate that was 5.04% as of June 30, 2012. It matured June 1, 2013, and was paid in full.

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, 2013, 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 following is a summary of future debt service requirements for the City:

Year Ending June 30,	Business-type Activities	
	Principal	Interest
2014	\$ -	\$ 11,378
2015	55,000	32,400
2016	50,000	30,942
2017	50,000	29,293
2018	50,000	27,392
2019-2023	290,000	101,487
2024-2028	345,000	32,167
Totals	<u>\$ 840,000</u>	<u>\$ 265,059</u>

Changes in long-term liabilities for the year ended June 30, 2013, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental activities:					
Compensated absences	<u>\$ 35,802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,802</u>	<u>\$ -</u>

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Business-type activities:					
KY Infrastructure Authority	\$ 25,000	\$ -	\$ 25,000	\$ -	\$ -
KY Rural Water Finance Corp. - refunded	948,000	-	948,000	-	-
KY Rural Water Finance Corp. - refunding	-	840,000	-	840,000	-
Bond premium, reduced by amortization	-	79,966	5,331	74,635	n/a
Compensated absences	16,465	-	-	16,465	-
	<u>\$ 989,465</u>	<u>\$ 919,966</u>	<u>\$ 978,331</u>	<u>\$ 931,100</u>	<u>\$ -</u>

F. Prior Period Adjustment

There was a prior period adjustment made to beginning fund balance in the General Fund and to beginning net assets in the government-wide statements. The beginning balances were increased by \$2,982 to correct grant activity reported in the prior year. Beginning cash related to grants was increased by \$4,000 and grants receivable was decreased by \$1,018.

OTHER SUPPLEMENTARY INFORMATION SECTION

**CITY OF FULTON, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2013**

	<u>Special Revenue Funds</u>		
	<u>Municipal Aid Fund</u>	<u>Ambulance Fund</u>	<u>Total</u>
Assets			
Cash in banks	\$ 216,877	\$ 68,909	\$ 285,786
Grants receivable	<u>24,134</u>	<u>-</u>	<u>24,134</u>
Total assets	<u>\$ 241,011</u>	<u>\$ 68,909</u>	<u>\$ 309,920</u>
Liabilities			
Unearned revenue	\$ 9,414	\$ -	\$ 9,414
Fund balances			
Restricted	<u>231,597</u>	<u>68,909</u>	<u>300,506</u>
Total liabilities and fund balances	<u>\$ 241,011</u>	<u>\$ 68,909</u>	<u>\$ 309,920</u>

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, 2013

	<u>Special Revenue Funds</u>		
	<u>Municipal</u>	<u>Ambulance</u>	
	<u>Aid Fund</u>	<u>Fund</u>	<u>Total</u>
Revenues			
Intergovernmental revenue	\$ 75,896	\$ 44,511	\$ 120,407
Interest income	1,710	259	1,969
Total revenues	<u>77,606</u>	<u>44,770</u>	<u>122,376</u>
Expenditures			
Repair and maintenance	4,573	-	4,573
Professional/technical services	2,870	-	2,870
Sidewalk repair	<u>5,854</u>	<u>-</u>	<u>5,854</u>
Total expenditures	<u>13,297</u>	<u>-</u>	<u>13,297</u>
Net change in fund balances	64,309	44,770	109,079
Fund balances - July 1, 2012	<u>167,288</u>	<u>24,139</u>	<u>191,427</u>
Fund balances - June 30, 2013	<u>\$ 231,597</u>	<u>\$ 68,909</u>	<u>\$ 300,506</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
State municipal aid	\$ 59,000	\$ 59,000	\$ 75,896	\$ 16,896
Interest	2,700	1,260	1,710	450
Total revenues	<u>61,700</u>	<u>60,260</u>	<u>77,606</u>	<u>17,346</u>
Expenditures				
Maintenance - streets	10,000	10,000	4,573	(5,427)
Professional/technical services	40,000	35,000	2,870	(32,130)
Sidewalk repair	<u>10,000</u>	<u>10,000</u>	<u>5,854</u>	<u>(4,146)</u>
Total expenditures	<u>60,000</u>	<u>55,000</u>	<u>13,297</u>	<u>(41,703)</u>
Net change in fund balance	1,700	5,260	64,309	59,049
Fund balance - July 1, 2012	<u>167,288</u>	<u>167,288</u>	<u>167,288</u>	<u>-</u>
Fund balance - June 30, 2013	<u>\$168,988</u>	<u>\$ 172,548</u>	<u>\$ 231,597</u>	<u>\$ 59,049</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, 2013

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Over</u> <u>(Under)</u>
Revenues				
Hotel tax - City of Fulton	\$ 3,000	\$ 3,000	\$ 3,819	\$ 819
Restaurant tax	80,000	80,000	76,898	(3,102)
Interest	2,400	2,400	1,542	(858)
Festival income	3,000	3,000	31,389	28,389
Miscellaneous	550	550	271	(279)
Total revenues	<u>88,950</u>	<u>88,950</u>	<u>113,919</u>	<u>24,969</u>
Expenditures				
Clerical services	15,000	15,000	8,750	(6,250)
Special projects	3,000	38,000	31,528	(6,472)
Office supplies	100	100	-	(100)
Fourth of July/Christmas	9,500	9,500	9,458	(42)
Telephone	800	800	967	167
Advertising/printing	700	700	127	(573)
Festival expenses	57,500	57,500	75,351	17,851
Miscellaneous	500	500	-	(500)
Postage	350	350	101	(249)
Total expenditures	<u>87,450</u>	<u>122,450</u>	<u>126,282</u>	<u>3,832</u>
Net change in fund balance	1,500	(33,500)	(12,363)	21,137
Fund balance - July 1, 2012	<u>146,029</u>	<u>146,029</u>	<u>146,029</u>	<u>-</u>
Fund balance - June 30, 2013	<u>\$ 147,529</u>	<u>\$ 112,529</u>	<u>\$ 133,666</u>	<u>\$ 21,137</u>

See independent auditor's report

CITY OF FULTON, KENTUCKY
SCHEDULE OF STATE ASSISTANCE
For the Year Ended June 30, 2013

Grantor Agency/ Pass-through Entity/ Program Name	Grant Number	Balance July 1, 2012	Receipts	Disbursements	Balance June 30, 2013	(Receivable) Unearned June 30, 2013
Kentucky Office of Homeland Security						
Law Enforcement Protection Grant Program	P02-094-1200005349-1	\$ -	\$ 8,070	\$ 8,070	\$ -	\$ -
Homeland Security Grant Program	P02-094-1100002249-1	-	1,091	1,091	-	-
		<u>-</u>	<u>9,161</u>	<u>9,161</u>	<u>-</u>	<u>-</u>
Kentucky Transportation Cabinet						
Fulton Industrial Park Road Project	800020817	9,414	-	-	9,414	9,414
Fulton KY Hwy 166 Sidewalk Grant	STPE 3000 (706)	(120,825)	96,692	-	(24,133)	(24,133)
Kentucky League of Cities						
KLCIS Safety Grant Program	n/a	-	2,170	2,170	-	-
Kentucky State Fire Commission						
Fire Rescue Training	n/a	-	8,250	8,250	-	-
Commonwealth of Kentucky						
State Grant - computer	n/a	-	1,848	1,848	-	-
Total state assistance		<u>\$ (111,411)</u>	<u>\$ 118,121</u>	<u>\$ 21,429</u>	<u>\$ (14,719)</u>	<u>\$ (14,719)</u>

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, 2013

<u>Grantor Agency/ Pass-through Entity/ Program Name</u>	<u>CFDA #</u>	<u>Grant Number</u>	<u>Balance July 1, 2012</u>	<u>Adjustment</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2013</u>	<u>(Receivable) Unearned June 30, 2013</u>
U.S. Department of Homeland Security Assistance to Firefighters Program	97.044	EMW-2010-FR-00228	\$ -	\$ -	\$ 125,000	\$ 125,000	\$ -	\$ -
U.S. Department of Housing and Urban Development/ Pass-through Department for Local Government/ Community Development Block Grants:								
State-Administered Small Cities Program	14.228	12-082	-		980,000	980,000 *	-	-
Scattered Site Housing Revitalization	14.228	08-033	<u>(1,018)</u>	<u>1,018</u>	<u>237,502</u>	<u>239,794</u>	<u>(2,292)</u>	<u>(2,292)</u>
Total Community Development Block Grants			<u>(1,018)</u>	<u>1,018</u>	<u>1,217,502</u>	<u>1,219,794</u>	<u>(2,292)</u>	<u>(2,292)</u>
Total federal awards			<u>\$ (1,018)</u>	<u>\$ 1,018</u>	<u>\$1,342,502</u>	<u>\$ 1,344,794</u>	<u>\$ (2,292)</u>	<u>\$ (2,292)</u>

*major program

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

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CITY OF FULTON, KENTUCKY
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
BY INDIVIDUAL ISSUE - ALL FUNDS
 June 30, 2013

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>	
2014	\$ -	\$ 11,378	\$ 11,378
2015	55,000	32,400	87,400
2016	50,000	30,942	80,942
2017	50,000	29,293	79,293
2018	50,000	27,392	77,392
2019	55,000	25,135	80,135
2020	55,000	22,770	77,770
2021	55,000	20,405	75,405
2022	60,000	17,932	77,932
2023	65,000	15,245	80,245
2024	65,000	12,288	77,288
2025	65,000	9,168	74,168
2026	70,000	6,102	76,102
2027	75,000	3,454	78,454
2028	70,000	1,155	71,155
Totals	<u>\$ 840,000</u>	<u>\$ 265,059</u>	<u>\$ 1,105,059</u>

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION

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

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 4, 2013.

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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 12-1, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Fulton's Response to Finding

City of Fulton's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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
December 4, 2013

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Independent Auditor's Report on Internal Control over Compliance

To the Mayor and Members of the City Commission
City of Fulton, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Alexander Thompson Arnold PLLC

Martin, Tennessee
December 4, 2013

CITY OF FULTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- material weakness(es) identified? yes no
- significant deficiency(ies) identified? yes none reported
- noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- material weakness(es) identified? yes no
- significant deficiency(ies) identified? yes none reported

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

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

Identification of major programs:

<u>Program Name</u>	<u>CFDA No.</u>
Community Development Block Grants: State Administered Small Cities Program	14.228

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

Auditee qualified as low-risk auditee? yes no

CITY OF FULTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

Section II – Financial Statement Findings

12-1 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. We will start having the City Manager review the bank reconciliations.*

Section III – Federal Award Findings and Questioned Costs

There were no findings required to be reported by section 510(a) of Circular A-133.