

CITY OF FULTON, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2017

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

Financial Section

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

Supplementary and Other Information Section

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

Internal Control and Compliance Section

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49
Schedule of Findings	51

FINANCIAL SECTION



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, 2017, 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, 2017, 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 4 through 10 and the schedules related to pensions on pages 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fulton's basic financial statements. The Combining and Individual Nonmajor Fund Statements and Schedules, the Schedule of Expenditures of Federal Awards, Schedule of State Assistance and Schedule of Debt Service Requirements to Maturity by Individual Issue are presented for purposes of additional analysis and are not a required part of the financial statements.

The Combining and Individual Nonmajor Fund Statements and Schedules, the Schedule of Expenditures of Federal Awards, Schedule of State Assistance and Schedule of Debt Service Requirements to Maturity by Individual Issue are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining 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 fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fulton's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Martin, Tennessee
January 3, 2018

City of Fulton

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Fulton, Kentucky, we offer readers of the City of Fulton's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of this year by \$7.7 million (*net position*). This represents a decrease of \$705 thousand from the prior year. Of the total net position, \$2.3 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 \$1.29 million, an increase of \$21 thousand in comparison with the prior year. Of the total fund balance, \$1.06 million is available for spending at the City's discretion (*unassigned fund balance*).
- The City's governmental activities had a net decrease of \$216 thousand, and business-type activities had a net decrease of \$489 thousand, for a total decrease of \$705 thousand from operations of the current fiscal year.
- The City's capital assets increased by \$4.6 million, less depreciation of \$428 thousand, for a net increase of \$4.1 million.

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

- Continued to review, correct and update of all City ordinances
- Continued improvements of our Public Works department
- Continued to implement systems in order to maintain consistencies in day to day operations of the City
- Condemned approximately 10 and demolished 6 blighted properties
- Met our deadline of July 1, 2017 to have completed all described needs to our Wastewater Treatment Plant to meet our Agreed Order with the DOW. Now waiting on final inspection from the DOW.
- Replaced all gas and water meters for efficiency gains.

- Replaced all street lights and decorative sidewalk lights to LED efficiency standards along with updating some of the City's public buildings lighting and heating and cooling systems. This will be paid for on a guaranteed savings agreement with Harshaw Trane and financed with a municipal bond.
- Collected over \$15,000 in delinquent taxes
- Placed liens on multiple properties in regards to absentee owners neglecting to maintain their properties or pay taxes.
- Filed foreclosure on 35 properties

The City continues to have a low debt burden and is financially sound. Our local economy continues to recover from the closing of our local hospital. The City has seen several new retail shops locate here. We have also had one existing industry add to their current workforce. Our reserve funds remain sound. The 2016/17 budget had a deficit of approximately \$50,000 in the General Fund and a deficit of approximately \$270,000 in the Utility Fund, which was due to the upgrade of the Waste Water Treatment Plant to meet an Agreed Order with the Department of Water.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-Wide Financial Statements

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

- The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, compensated absences, etc.).

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fulton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of the City are categorized as either governmental funds, proprietary funds, or fiduciary funds.

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

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

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

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

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

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position – As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Fulton, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$7.7 million at the close of the most recent fiscal year. The largest portion of the City's net position (62%) 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 (9%) represents resources that are subject to external restriction on how they may be used. The remaining balance of net position representing unrestricted net position (29%) 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	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 2,021,517	\$ 1,948,865	\$ 3,394,233	\$ 1,460,887	\$ 5,415,750	\$ 3,409,752
Capital assets	<u>3,395,410</u>	<u>2,992,155</u>	<u>9,296,244</u>	<u>5,568,654</u>	<u>12,691,654</u>	<u>8,560,809</u>
Total assets	<u>5,416,927</u>	<u>4,941,020</u>	<u>12,690,477</u>	<u>7,029,541</u>	<u>18,107,404</u>	<u>11,970,561</u>
Deferred outflows of resources	<u>305,735</u>	<u>252,147</u>	<u>301,150</u>	<u>257,889</u>	<u>606,885</u>	<u>510,036</u>
Long-term liabilities	2,012,550	1,257,825	8,388,379	2,265,065	10,400,929	3,522,890
Other liabilities	<u>46,429</u>	<u>44,151</u>	<u>297,201</u>	<u>234,331</u>	<u>343,630</u>	<u>278,482</u>
Total liabilities	<u>2,058,979</u>	<u>1,301,976</u>	<u>8,685,580</u>	<u>2,499,396</u>	<u>10,744,559</u>	<u>3,801,372</u>
Deferred inflows of resources	<u>238,000</u>	<u>250,015</u>	<u>7,323</u>	<u>-</u>	<u>245,323</u>	<u>250,015</u>
Net investment in capital assets	2,640,057	2,828,499	2,119,554	4,394,669	4,759,611	7,223,168
Restricted net position	679,902	626,661	-	-	679,902	626,661
Unrestricted net position	<u>105,724</u>	<u>186,016</u>	<u>2,179,170</u>	<u>393,365</u>	<u>2,284,894</u>	<u>579,381</u>
Total net position	<u>\$ 3,425,683</u>	<u>\$ 3,641,176</u>	<u>\$ 4,298,724</u>	<u>\$ 4,788,034</u>	<u>\$ 7,724,407</u>	<u>\$ 8,429,210</u>

Statement of Activities – Expenditures from governmental activities exceeded revenues by \$216 thousand during the current year. The main difference in revenue from the prior year was the decrease in capital grants and contributions. Expenditures increased by \$148 thousand, with the largest increase in Public Safety due to increased pension expense. Expenditures in general government increased by \$46 thousand due to new debt service on the Trane project. Most other departments had increased expenditures, with the exception of highways and streets.

In the business-type activities, expenses exceeded revenues by \$489 thousand. Service revenues decreased by 3%, while expenditures increased by 18% from the prior year, mainly attributable to bond issuance costs and interest on the bonds. No capital grants were received during the current year.

A condensed statement of activities for the years ended June 30, 2017 and 2016, is presented below.

CONDENSED STATEMENT OF ACTIVITIES

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program revenues						
Charges for services	\$ 39,519	\$ 35,987	\$ 2,041,798	\$ 2,107,875	\$ 2,081,317	\$ 2,143,862
Operating grants/contributions	109,976	111,900	-	-	109,976	111,900
Capital grants/contributions	16,800	64,314	-	99,368	16,800	163,682
	166,295	212,201	2,041,798	2,207,243	2,208,093	2,419,444
Expenses						
General government	280,004	233,582	-	-	280,004	233,582
Public safety	1,394,255	1,306,690	-	-	1,394,255	1,306,690
Public works - general	68,329	53,426	-	-	68,329	53,426
Highways and streets	106,602	115,939	-	-	106,602	115,939
Parks and cemeteries	83,185	80,446	-	-	83,185	80,446
Utilities	-	-	2,343,441	1,988,777	2,343,441	1,988,777
Non-departmental	145,086	138,990	-	-	145,086	138,990
Total expenses	2,077,461	1,929,073	2,343,441	1,988,777	4,420,902	3,917,850
Net program revenue (expense)	(1,911,166)	(1,716,872)	(301,643)	218,466	(2,212,809)	(1,498,406)
General revenues						
Taxes	1,392,477	1,280,945	-	-	1,392,477	1,280,945
Other	103,452	85,044	12,077	9,922	115,529	94,966
Transfers	199,744	212,888	(199,744)	(212,888)	-	-
Change in net assets	(215,493)	(137,995)	(489,310)	15,500	(704,803)	(122,495)
Beginning net assets	3,641,176	3,799,150	4,788,034	4,809,088	8,429,210	8,608,238
Prior period adjustment	-	(19,979)	-	(36,554)	-	(56,533)
Beginning net assets as restated	3,641,176	3,779,171	4,788,034	4,772,534	8,429,210	8,551,705
Ending net assets	\$ 3,425,683	\$ 3,641,176	\$ 4,298,724	\$ 4,788,034	\$ 7,724,407	\$ 8,429,210

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 95% of governmental fund revenues. Accordingly, this discussion will focus on the General Fund. General fund balance was \$1.29 million at the end of the current fiscal year. Of that balance, \$1.06 million is available to meet the day-to-day needs of the City.

Revenues in the General Fund were approximately \$94 thousand more than last year due mainly to increased alcoholic beverage commission regulatory fees received and payroll taxes. In total, General Fund expenditures increased by \$78 thousand, mainly in police department capital outlay.

Proprietary funds – Unrestricted net position in the proprietary fund at the end of the year was \$2.2 million. The City’s utility department operated at a profit of approximately \$15 thousand before bond issuance costs of \$181 thousand and interest on the new bond issue of \$136 thousand, and the in-lieu-of-tax transfer to the General Fund of \$200 thousand. In total, net position decreased \$489 thousand

from the prior year. There was an increase in personnel and administrative costs from the prior year of \$89 thousand, which includes pension expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

Final Budgeted and Actual Amounts

Actual revenues were \$82 thousand more than budgeted amounts. This was mainly attributable to increased payroll tax revenue received. Total expenditures were \$15 thousand more than budgeted amounts, with the majority in debt service expenditures on the new bond issue.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – As of June 30, 2017, the City had invested approximately \$12.7 million, net of accumulated depreciation, in a variety of capital assets. The majority of the increase was due to new construction in the Utility Department. Additional information on the City's capital assets can be found in Note 3D beginning on page 33 of this report.

Long-term debt – At the end of the current fiscal year, the City of Fulton had bonds payable of \$6.7 million and a note payable for a new fire truck with an outstanding balance of \$104 thousand. During the prior year, a loan was executed with Kentucky Infrastructure Authority to finance new utility construction. The balance as of June 30, 2017, was \$1.1 million. Additional information on the City's long-term debt can be found in Note 3E beginning on page 34 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

Some of the 2017/18 goals and priorities include in no particular order:

1. Continue to beautify and enhance our entryways to the City.
2. Concentrated effort to eliminate blighted and abandoned properties
3. Expand code enforcement efforts
4. Continue to boost employee morale in all departments of the City
5. Continue weekly meeting with department heads and City attorney
6. Analyze budget monthly
7. Eliminate mowing of vacant properties that are not owned by the City and hold the owners accountable to the Property Code.
8. Redefine the City boundaries and zoning areas
9. Develop a capital project list for future expenditures
10. Foreclose on approximately 35 properties within the City to help eliminate the blight in the City
11. Purchase a new patrol car for the police department
12. Finalize installing a new computer system for City Hall
13. Upgrade lagoon through project with Harshaw Trane, which will enhance the operation of the WWTP. This is part of the energy savings contract that we signed with Harshaw Trane in 2016.

A new Dollar Tree retail shop broke ground in June 2016. We hope to have one or more additional shops to open adjacent to it in 2017/18.

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, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 1,366,563	\$ 1,148,759	\$ 2,515,322
Taxes receivable, net of allowance	230,566	-	230,566
Grants receivable	24,134	-	24,134
Accounts receivable, net of allowance	-	339,053	339,053
Other taxes receivable	184,538	-	184,538
Internal balances	(13,175)	13,175	-
Due from fiduciary funds	-	2,689	2,689
Inventory	-	26,252	26,252
Restricted assets:			
Cash and cash equivalents	228,891	1,864,305	2,093,196
Capital assets not being depreciated			
Land and improvements	269,920	-	269,920
Construction in progress	629,455	3,329,323	3,958,778
Capital assets, net of accumulated depreciation			
Buildings	1,767,945	-	1,767,945
Vehicles and equipment	728,090	-	728,090
Utility plant in service	-	5,966,921	5,966,921
Total assets	5,416,927	12,690,477	18,107,404
Deferred Outflows of Resources			
Deferred outflows related to pensions	305,735	301,150	606,885
Liabilities			
Accounts payable	5,797	138,454	144,251
Payroll-related liabilities	4,740	-	4,740
Other accrued liabilities	-	2,163	2,163
Due to fiduciary funds	16,080	-	16,080
Customer deposits	10,398	156,584	166,982
Unearned revenue - grants	9,414	-	9,414
Noncurrent liabilities:			
Net pension liability	1,221,395	1,203,078	2,424,473
Long-term liabilities due within one year	72,697	197,266	269,963
Long-term liabilities due in more than one year	718,458	6,988,035	7,706,493
Total liabilities	2,058,979	8,685,580	10,744,559
Deferred Inflows of Resources			
Deferred revenue - property taxes	230,566	-	230,566
Deferred inflows related to pensions	7,434	7,323	14,757
Total deferred inflows	238,000	7,323	245,323
Net Position			
Net investment in capital assets	2,640,057	2,119,554	4,759,611
Restricted for:			
Drug and Police Evidence Funds	228,891	-	228,891
Ambulance Fund	212,057	-	212,057
Municipal Aid	238,954	-	238,954
Unrestricted	105,724	2,179,170	2,284,894
Total net position	\$ 3,425,683	\$ 4,298,724	\$ 7,724,407

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

CITY OF FULTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

<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	\$ 244,406	\$ -	\$ -	\$ -	\$ (244,406)	\$ -	\$ (244,406)
Public safety	1,394,255	31,949	65,322	-	(1,296,984)	-	(1,296,984)
Public works - general	68,329	160	-	-	(68,169)	-	(68,169)
Highways and streets	106,602	-	44,654	-	(61,948)	-	(61,948)
Parks and cemeteries	83,185	7,410	-	-	(75,775)	-	(75,775)
Non-departmental	145,086	-	-	16,800	(128,286)	-	(128,286)
Debt service expenses	35,598	-	-	-	(35,598)	-	(35,598)
Total governmental activities	2,077,461	39,519	109,976	16,800	(1,911,166)	-	(1,911,166)
Business-type activities:							
Public utilities	2,343,441	2,041,798	-	-	-	(301,643)	(301,643)
Total	\$ 4,420,902	\$ 2,081,317	\$ 109,976	\$ 16,800	(1,911,166)	(301,643)	(2,212,809)
General revenues:							
Property taxes					323,687	-	323,687
Franchise taxes					18,019	-	18,019
Alcoholic beverage control regulatory fees					274,766	-	274,766
Payroll taxes					740,705	-	740,705
Business and other licenses					35,300	-	35,300
Court fees					3,128	-	3,128
Fines					6,227	-	6,227
Interest					13,870	12,077	25,947
Rental income					24,171	-	24,171
Miscellaneous					56,056	-	56,056
Transfers					199,744	(199,744)	-
Total general revenues and transfers					1,695,673	(187,667)	1,508,006
Change in net position					(215,493)	(489,310)	(704,803)
Net position - beginning					3,641,176	4,788,034	8,429,210
Net position - ending					\$ 3,425,683	\$ 4,298,724	\$ 7,724,407

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

CITY OF FULTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 930,272	\$ 436,291	\$ 1,366,563
Property taxes receivable, net	230,566	-	230,566
Grants receivable	-	24,134	24,134
Other taxes receivable	184,538	-	184,538
Restricted cash	228,891	-	228,891
Total assets	\$1,574,267	\$ 460,425	\$ 2,034,692
Liabilities			
Accounts payable	\$ 5,797	\$ -	\$ 5,797
Payroll-related liabilities	4,740	-	4,740
Due to utility fund	13,175	-	13,175
Due to fiduciary funds	16,080	-	16,080
Unearned revenue	-	9,414	9,414
Customer deposits	10,398	-	10,398
Total liabilities	50,190	9,414	59,604
Deferred Inflows of Resources			
Unavailable revenue - property taxes	230,566	-	230,566
Fund Balances			
Restricted	228,891	451,011	679,902
Unassigned	1,064,620	-	1,064,620
Total fund balances	1,293,511	451,011	1,744,522
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,574,267	\$ 460,425	\$ 2,034,692

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, 2017

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

Total fund balances of governmental funds		\$ 1,744,522
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,395,410
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Deferred inflows/outflows of resources related to long-term pension liabilities are not recognized as inflows or outflows of resources until a future period and, therefore, are not reported in the current fund financial statements.		
	Bonds payable	755,353
	Compensated absences	35,802
	Net pension liability	1,221,395
	Deferred inflows related to pensions	7,434
	Deferred outflows related to pensions	<u>(305,735)</u>
	Total	<u>(1,714,249)</u>
Net position of governmental activities		<u>\$ 3,425,683</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, 2017

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local taxes	\$ 1,357,177	\$ -	\$ 1,357,177
Intergovernmental revenue	92,510	76,603	169,113
Charges for services	31,741	-	31,741
Grant revenue	33,274	-	33,274
Fines, forfeitures and penalties	6,227	-	6,227
Interest	10,785	3,085	13,870
Other revenues	50,822	-	50,822
Total revenues	<u>1,582,536</u>	<u>79,688</u>	<u>1,662,224</u>
Expenditures			
Current:			
General government	140,892	-	140,892
Public safety	1,157,871	-	1,157,871
Public works - general	41,308	-	41,308
Highways and streets	87,727	11,083	98,810
Parks and cemeteries	59,151	-	59,151
Non-departmental	145,086	-	145,086
Debt service:			
Principal	64,686	-	64,686
Interest	16,972	-	16,972
Bond issuance costs	24,018	-	24,018
Capital outlay:			
Public safety	52,356	-	52,356
Public works - general	629,455	-	629,455
Total expenditures	<u>2,419,522</u>	<u>11,083</u>	<u>2,430,605</u>
Revenues over (under) expenditures	(836,986)	68,605	(768,381)
Other financing sources (uses)			
Bond proceeds	658,460	-	658,460
Transfers in	199,744	-	199,744
Total other financing sources (uses)	<u>858,204</u>	<u>-</u>	<u>858,204</u>
Net change in fund balances	21,218	68,605	89,823
Fund balances - July 1, 2016	<u>1,272,293</u>	<u>382,406</u>	<u>1,654,699</u>
Fund balances - June 30, 2017	<u>\$ 1,293,511</u>	<u>\$ 451,011</u>	<u>\$ 1,744,522</u>

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

CITY OF FULTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

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

Net change in fund balances of governmental funds \$ 89,823

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay expenditures	681,811	
Depreciation expense	<u>(278,556)</u>	
Net effect		403,255

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

Pension contributions	87,406	
Pension expense	<u>(204,280)</u>	
Net effect		(116,874)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Proceeds from bonds	(658,460)	
Payments on bond principal	<u>64,686</u>	
Net effect		(593,774)

Governmental funds report the effect of premiums and discounts on debt when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the bond discount, net of amortization, on bonds issued this year.

2,077

Change in net position of governmental activities \$ (215,493)

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, 2017

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Over (Under)
Revenues				
Local taxes				
Property taxes	\$ 357,000	\$ 299,247	\$ 299,798	\$ 551
Interest and penalties	4,000	2,751	3,458	707
Payments in lieu of tax	18,500	20,431	20,431	-
Franchise taxes	18,000	18,020	18,019	(1)
Alcoholic beverage control regulatory fee	280,000	270,000	274,766	4,766
Payroll taxes	710,000	710,000	740,705	30,705
Total local taxes	1,387,500	1,320,449	1,357,177	36,728
Intergovernmental revenues				
Business licenses	33,000	28,000	29,100	1,100
Alcoholic beverage control licenses	6,200	6,200	6,200	-
County court fees	3,100	3,100	3,128	28
Fire department revenue	4,000	89	580	491
Federal grant funds	-	-	16,800	16,800
State grant funds	11,000	16,774	16,474	(300)
State incentive revenue	52,000	39,500	40,366	866
Law enforcement fees	9,500	9,000	7,902	(1,098)
Code enforcement revenue	4,500	5,500	5,234	(266)
Total intergovernmental revenues	123,300	108,163	125,784	17,621
Charges for services				
Rent	8,500	9,000	9,150	150
Building permits	500	160	160	-
Cemetery lots	4,500	6,900	7,410	510
Cemetery openings and upkeep	11,500	14,561	15,021	460
Total charges for services	25,000	30,621	31,741	1,120
Fines, forfeitures and penalties				
Parking violations	-	51	51	-
Drug fund revenue	-	323	323	-
Base court revenue	-	-	5,853	5,853
Total fines, forfeitures and penalties	-	374	6,227	5,853
Other revenues				
Sale of property	25,000	15,600	15,600	-
Interest income	11,000	8,800	10,785	1,985
Damage awards	-	9,751	9,751	-
Miscellaneous income	2,000	6,820	25,471	18,651
Total other revenues	38,000	40,971	61,607	20,636
Total revenues	1,573,800	1,500,578	1,582,536	81,958

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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Expenditures				
Administrative				
Salaries	111,400	113,061	108,911	(4,150)
Retirement/pension	17,559	17,150	15,634	(1,516)
Hospitalization	80	85	86	1
Life/dental	170	186	186	-
Social security	7,421	7,250	7,191	(59)
Other benefits	641	600	674	74
Office supplies	900	800	705	(95)
Technical supplies	500	510	405	(105)
Dues and subscriptions	500	300	285	(15)
Motor fuel/oil	2,000	1,900	1,929	29
Telephone	1,000	1,121	1,153	32
Advertising/printing	2,000	2,150	1,957	(193)
Travel	2,000	1,350	1,196	(154)
Professional/technical services	500	750	1,362	612
Training	1,250	1,150	1,063	(87)
Miscellaneous	750	100	-	(100)
Duplicate charges	(68,636)	(69,166)	(66,331)	2,835
Total administrative	<u>80,035</u>	<u>79,297</u>	<u>76,406</u>	<u>(2,891)</u>
Finance Department				
Salaries	165,436	168,000	167,975	(25)
Overtime/help	1,620	3,600	3,271	(329)
Retirement/pension	31,206	34,500	31,286	(3,214)
Hospitalization	29,900	28,700	28,677	(23)
Life/dental insurance	680	750	747	(3)
Social security	11,684	11,500	11,407	(93)
Other benefits	2,329	1,500	1,674	174
Maintenance - fixtures	1,200	1,800	1,460	(340)
Utilities	8,000	7,900	7,868	(32)
Technical supplies	600	581	475	(106)
Office supplies	900	797	666	(131)
Cleaning supplies	500	550	512	(38)
Dues/subscriptions	150	100	55	(45)
Postage	1,700	800	698	(102)
Telephone	1,100	900	942	42
Travel	800	750	681	(69)
Professional/technical services	400	400	320	(80)
Training/registration	800	612	459	(153)
Miscellaneous	200	-	-	-
Duplicate charges	(194,284)	(198,840)	(194,687)	4,153
Total finance department	<u>64,921</u>	<u>64,900</u>	<u>64,486</u>	<u>(414)</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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Code Compliance				
Salaries	28,366	28,500	28,369	(131)
Retirement/pension	5,299	5,850	5,299	(551)
Health/vision	2,300	2,300	2,262	(38)
Life/dental	170	186	186	-
Social security	2,062	2,110	2,103	(7)
Other benefits	250	200	214	14
Clothing	500	50	15	(35)
Maintenance - vehicles/equipment	500	700	643	(57)
Office supplies	2,500	1,150	1,691	541
Technical supplies	1,500	1,600	987	(613)
Dues and subscriptions	2,500	1,910	1,533	(377)
Motor fuel/oil	400	400	295	(105)
Postage	1,500	500	500	-
Advertising/printing	250	-	-	-
Travel	3,500	400	276	(124)
Professional/technical services	5,000	4,200	4,127	(73)
Training	1,000	50	10	(40)
Code enforcement	25,000	30,600	30,521	(79)
Miscellaneous	250	50	73	23
Total code compliance	<u>82,847</u>	<u>80,756</u>	<u>79,104</u>	<u>(1,652)</u>
Police Department				
Salaries	336,256	297,000	297,191	191
Overtime/help	40,000	62,000	62,107	107
Retirement/pension	73,920	77,900	71,277	(6,623)
Hospitalization	52,482	65,000	66,141	1,141
Life/dental insurance	1,657	1,560	1,557	(3)
Social security	29,499	27,400	27,321	(79)
Workers' compensation	16,500	16,500	16,500	-
Clothing	3,500	3,500	3,040	(460)
Incentive	36,000	26,600	26,564	(36)
Other benefits	3,218	2,500	2,781	281
Maintenance - fixtures	3,000	500	537	37
Maintenance - vehicles/equipment	12,000	17,000	15,067	(1,933)
Utilities	8,200	8,100	8,022	(78)
Alcoholic beverage control expenses	1,000	2,000	1,652	(348)
Technical supplies	6,200	3,500	3,529	29
Office supplies	4,000	3,600	3,712	112
Cleaning supplies	1,000	800	932	132
Dues and subscriptions	600	-	-	-
Motor fuel/oil	17,000	19,333	19,290	(43)
Postage	800	521	559	38
Telephone	7,500	8,000	8,045	45
Advertising/printing	500	400	348	(52)
Travel	6,000	3,400	3,279	(121)

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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Insurance	29,700	29,700	29,700	-
Professional/technical services	400	700	590	(110)
Training	600	400	1,362	962
Program implements	600	350	277	(73)
Animal control	2,000	625	764	139
Dispatch expense	20,000	20,000	20,000	-
Drug fund expenditures	6,000	7,000	12,070	5,070
Miscellaneous	400	1,350	6,885	5,535
Capital expenditures	<u>39,000</u>	<u>48,099</u>	<u>48,099</u>	<u>-</u>
Total Police Department	<u>759,532</u>	<u>755,338</u>	<u>759,198</u>	<u>3,860</u>
Fire Department				
Salaries	112,261	110,000	110,243	243
Retirement/pension	22,465	24,200	22,052	(2,148)
Hospitalization	21,169	25,700	25,451	(249)
Life/dental insurance	383	417	418	1
Social security	8,282	8,200	8,176	(24)
Workers' compensation	5,700	5,700	5,700	-
Clothing	1,800	1,570	1,570	-
Incentive	8,000	8,000	8,000	-
Other benefits	4,191	1,100	1,146	46
Maintenance - fixtures	1,500	3,600	3,099	(501)
Maintenance - vehicles/equipment	15,500	16,000	17,647	1,647
Utilities	8,200	8,000	8,022	22
State Aid expense	11,000	11,000	11,000	-
Volunteer fire expenditures	50,000	50,000	50,000	-
Fire prevention	1,000	1,100	1,049	(51)
Technical supplies	14,100	14,000	13,443	(557)
Office supplies	1,200	900	880	(20)
Cleaning supplies	750	600	693	93
Dues and subscriptions	1,500	1,500	1,283	(217)
Motor fuel/oil	2,800	2,100	2,115	15
Postage	450	50	12	(38)
Telephone	3,000	3,700	3,748	48
Advertising/printing	500	-	-	-
Travel	3,500	3,500	3,405	(95)
Insurance	19,000	19,000	19,000	-
Professional/technical services	10,000	9,300	9,242	(58)
Training	3,900	4,200	4,585	385
Dispatch expense	20,000	20,000	20,000	-
Fire truck loan payments	63,600	63,496	63,496	-
Miscellaneous	<u>200</u>	<u>20,000</u>	<u>19,946</u>	<u>(54)</u>
Total Fire Department	<u>415,951</u>	<u>436,933</u>	<u>435,421</u>	<u>(1,512)</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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Public Works Department				
Salaries	437,794	456,300	449,865	(6,435)
Overtime/help	25,000	27,000	28,954	1,954
Retirement/pension	86,450	95,500	86,780	(8,720)
Hospitalization	73,350	97,000	97,037	37
Life/dental insurance	2,210	2,311	2,311	-
Social security	32,372	34,500	34,088	(412)
Workers' compensation	23,000	27,594	27,594	-
Clothing	6,300	6,500	6,468	(32)
Other benefits	3,901	2,400	3,211	811
Duplicate charges	<u>(655,858)</u>	<u>(711,649)</u>	<u>(695,000)</u>	<u>16,649</u>
Total Public Works	<u>34,519</u>	<u>37,456</u>	<u>41,308</u>	<u>3,852</u>
Street Department				
Maintenance - buildings/grounds	1,000	900	715	(185)
Maintenance - fixtures	1,500	1,000	848	(152)
Maintenance - vehicles/equipment	10,000	12,000	13,636	1,636
Utilities	60,000	53,000	52,887	(113)
Technical supplies	4,000	6,500	5,772	(728)
Motor fuel/oil	8,000	7,900	7,944	44
Insurance	2,380	2,380	2,380	-
Professional/technical services	1,500	1,800	1,328	(472)
Street markers	3,000	3,000	1,726	(1,274)
Miscellaneous	<u>500</u>	<u>500</u>	<u>491</u>	<u>(9)</u>
Total Street Department	<u>91,880</u>	<u>88,980</u>	<u>87,727</u>	<u>(1,253)</u>
Parks and Cemeteries Department				
Maintenance - buildings/grounds	4,000	3,500	2,750	(750)
Maintenance - fixtures	1,500	1,600	1,330	(270)
Maintenance - vehicles/equipment	8,000	8,000	9,180	1,180
Utilities	12,500	14,881	14,837	(44)
Technical supplies	2,200	3,200	4,323	1,123
Women's club expenditures	900	500	394	(106)
Community center expenditures	10,000	17,000	15,726	(1,274)
Motor fuel/oil	2,800	2,500	2,444	(56)
Insurance	4,300	6,680	6,680	-
Professional/technical services	3,500	1,000	1,343	343
Miscellaneous	<u>300</u>	<u>300</u>	<u>144</u>	<u>(156)</u>
Total Parks and Cemeteries	<u>50,000</u>	<u>59,161</u>	<u>59,151</u>	<u>(10)</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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Non-Departmental				
Maintenance - buildings/grounds	4,000	4,000	1,190	(2,810)
Shop expense	14,000	15,500	19,067	3,567
Postage	300	300	235	(65)
Delinquent property tax lawsuit expense	50,000	11,500	16,715	5,215
PVA - tax roll	5,300	4,900	4,881	(19)
Service contracts	21,000	14,000	11,499	(2,501)
Audit	7,000	7,000	7,000	-
General liability insurance	45,000	45,510	45,502	(8)
Chamber of Commerce	1,200	1,200	1,200	-
Airport	1,270	1,270	1,270	-
Library	5,000	5,000	4,960	(40)
Detention Center meals	17,000	11,000	10,926	(74)
Kentucky Municipal League	850	850	850	-
Purchase area development	500	500	500	-
Contingency	2,500	3,200	2,942	(258)
Economic development	7,500	7,500	3,750	(3,750)
Grant expenditures	10,000	15,000	12,599	(2,401)
Total Non-Departmental	<u>192,420</u>	<u>148,230</u>	<u>145,086</u>	<u>(3,144)</u>
Debt service				
Debt payment	-	-	4,505	4,505
Interest on debt	-	-	13,657	13,657
Total debt service	<u>-</u>	<u>-</u>	<u>18,162</u>	<u>18,162</u>
Total expenditures	<u>1,772,105</u>	<u>1,751,051</u>	<u>1,766,049</u>	<u>14,998</u>
Revenues over (under) expenditures	(198,305)	(250,473)	(183,513)	66,960
Other financing sources (uses)				
Transfers in - payments in lieu of tax	<u>199,744</u>	<u>199,744</u>	<u>199,744</u>	<u>-</u>
Net change in fund balance	<u>\$ 1,439</u>	<u>\$ (50,729)</u>	16,231	<u>\$ 66,960</u>
Reconciliation of budgetary basis to gaap basis:				
Bond proceeds not budgeted			658,460	
Bond issuance costs not budgeted			(24,018)	
Project expenditures paid with bonds not budgeted			<u>(629,455)</u>	
Net change in fund balance - page 15			<u>\$ 21,218</u>	

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

CITY OF FULTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2017

ASSETS

Current assets	
Cash	\$ 1,148,759
Accounts receivable (net)	339,053
Due from expenditure revolving fund	2,689
Due from general fund	13,175
Inventory	<u>26,252</u>
Total current assets	1,529,928
Noncurrent assets	
Restricted assets:	
Cash and cash equivalents	1,864,305
Capital assets, net of accumulated depreciation:	
Utility plant in service	5,966,921
Construction in progress	<u>3,329,323</u>
Total capital assets	<u>9,296,244</u>
Total assets	<u>12,690,477</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	<u>301,150</u>
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LIABILITIES

Current liabilities	
Accounts payable	138,454
Accrued expenses	2,163
Customer deposits	156,584
Noncurrent liabilities due within one year	<u>197,266</u>
Total current liabilities	<u>494,467</u>
Noncurrent liabilities	
Accrued vacation and sick leave	8,611
Net pension liability	1,203,078
Bonds and notes payable, net of current portion	<u>6,979,424</u>
Total noncurrent liabilities	<u>8,191,113</u>
Total liabilities	<u>8,685,580</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	<u>7,323</u>
--------------------------------------	--------------

NET POSITION

Net investment in capital assets	2,119,554
Unrestricted	<u>2,179,170</u>
Total net position	<u>\$ 4,298,724</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, 2017

Operating revenues	
Utility sales	\$ 1,968,490
Miscellaneous	<u>73,308</u>
Total operating revenues	2,041,798
Operating expenses	
Personnel/administrative costs	1,042,000
Maintenance	34,981
Utilities	135,606
Maintenance to system	76,334
Technical supplies	16,995
Office and cleaning supplies	8,404
Dues and subscriptions	515
Motor fuel and oil	20,430
Postage	8,482
Gas purchases	351,127
Telephone	4,100
Advertising and printing	580
Travel and registrations	627
Insurance	34,150
Professional services	104,337
Training	1,488
Audit expense	7,500
Depreciation	149,281
Dispatch expense	20,000
Miscellaneous	<u>9,950</u>
Total operating expenses	<u>2,026,887</u>
Operating income	14,911
Non-operating revenue (expense)	
Interest earnings	12,077
Bond issuance costs	(180,990)
Interest expense	<u>(135,564)</u>
Total non-operating revenue (expense)	<u>(304,477)</u>
Income (loss) before capital contributions and transfers	(289,566)
Transfer out - payment in lieu of taxes	<u>(199,744)</u>
Change in net position	(489,310)
Net position - July 1, 2016	<u>4,788,034</u>
Net position - June 30, 2017	<u>\$ 4,298,724</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, 2017

Cash Flows from Operating Activities		
Cash received from customers		\$ 2,058,510
Cash payments for employees services and benefits		(957,329)
Cash payments to suppliers		<u>(758,306)</u>
Net cash provided by operating activities		342,875
Cash Flows from Non-Capital Financing Activities		
Interfund transfers	(199,744)	
Increase in due to/from other funds	<u>(13,175)</u>	
Net cash used by non-capital financing activities		(212,919)
Cash Flows from Capital and Related Financing Activities		
Proceeds from bonds and note payable	2,263,325	
Payments on principal of long-term debt	(115,028)	
Bond issuance costs	(199,024)	
Interest payments on long-term debt	<u>(139,993)</u>	
Net cash provided by capital and related financing activities		1,809,280
Cash Flows from Investing Activities		
Interest received		<u>12,077</u>
Net increase in cash		1,951,313
Cash - July 1, 2016		<u>1,061,751</u>
Cash - June 30, 2017		<u>\$ 3,013,064</u>
Reconciliation of Cash Flows from Operating Activities		
Operating income		\$ 14,911
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	149,281	
Deferred outflows related to pensions	(43,261)	
Deferred inflows related to pensions	7,323	
Increase in accounts receivable	(3,825)	
Decrease in prepaid expenses	34,967	
Increase in accounts payable	42,333	
Increase in accrued expenses	667	
Increase in customer deposits	19,870	
Increase in net pension liability	<u>120,609</u>	
Total adjustments		<u>327,964</u>
Net cash provided by operating activities		<u>\$ 342,875</u>
Noncash Capital and Related Financing Activities		
Capital assets constructed with bond and note proceeds		<u>\$ 3,876,870</u>

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

CITY OF FULTON, KENTUCKY
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
June 30, 2017

	<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	\$ 217,882	\$ 1,356	\$ 1,259	\$ 40,520
Due from general fund	-	4,569	11,511	-
Due from payroll fund	-	1,636	-	-
Accounts receivable	289	-	-	-
Total assets	<u>218,171</u>	<u>7,561</u>	<u>12,770</u>	<u>40,520</u>
Liabilities				
Due to utility fund	-	2,689	-	-
Due to expenditure revolving fund	-	-	1,636	-
Perpetual care contributions	-	-	-	650
Accounts payable	-	-	10,474	-
Total liabilities	<u>-</u>	<u>2,689</u>	<u>12,110</u>	<u>650</u>
Net position				
Held in trust for tourism and other purposes	<u>\$ 218,171</u>	<u>\$ 4,872</u>	<u>\$ 660</u>	<u>\$ 39,870</u>

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

CITY OF FULTON, KENTUCKY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2017

	<u>Private Purpose Trust Cemetery Trust Fund</u>
Additions	
Interest	\$ 88
Miscellaneous	1,100
Total additions	<u>1,188</u>
Deductions	<u>-</u>
Change in net position	1,188
Net position - July 1, 2016	<u>38,682</u>
Net position - June 30, 2017	<u>\$ 39,870</u>

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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all of the City's enterprise funds are charges to customers for sales and services. The Utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. The utility funds recognize income based on cycle billings. This results in recognizing as income the water usage through each respective cycle each month, which may not coincide with the last day of the fiscal year. Non-recognition of income from water sales as a result of cycle billing is a common industry practice. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

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

Cash

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

Receivables and Payables

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

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

Inventories

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

Capital Assets

Capital assets, including property, plant, vehicles, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 for 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 using the straight-line method 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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 has items related to its pension plan that qualified for reporting in this category. See Note 4A for details concerning deferred outflows related to pensions.

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 various items that qualify for reporting in this category. Property taxes reported as receivables in the statements of financial position before the period for which they were levied are deferred and recognized as an inflow of resources in the period that the amounts become available. This item is reported in both the governmental funds balance sheet and the statement of net position. There are also deferred inflows related to pensions included in this category.

Compensated Absences

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

Pensions

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

Fund Balance/Net Position

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

- Nonspendable – amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

As of June 30, 2017, the City had restricted fund balance of \$23,463 for Drug and Police Evidence Funds, \$205,428 for alcoholic beverage funds, \$212,057 for the Ambulance Fund and \$238,954 for municipal aid funds.

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (gaap). However, during the year ended June 30, 2017, the City did not budget for bond proceeds and the related project expenditures paid from the bond proceeds. A reconciliation has been provided on the budget statement to demonstrate the effect of these transactions on the gaap-basis statements. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Commission.

Kentucky statutes state that all monies expended by cities must be authorized by a legally adopted budget. For the year ended June 30, 2017, the City had expenditures of \$14,998 in the General Fund that were not appropriated in the final budget.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Invested Funds

Custodial credit risk of deposits is the risk that in the event of a bank failure the government's deposits may not be returned to it. Interest-bearing and non-interest bearing deposits are each covered by federal depository insurance up to \$250,000. Deposits over the insured amounts are covered by collateral held by the City's agent in the City's name. At June 30, 2017, there were bank deposits of \$577,000 that were uninsured and uncollateralized. All funds are classified as public funds.

B. Receivables

Receivables are presented in the financial statements net of allowances for uncollectible accounts. The Utility Fund has an allowance of \$8,000 as of June 30, 2017. The allowance for uncollectible property taxes was \$33,800 at June 30, 2017.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

C. Interfund Receivables, Payables, and Transfers

All due to/due from amounts at June 30, 2017, were temporary balances regarding expenditure revolving fund transactions or payroll transfers. The transfer of \$199,744 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, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 269,920	\$ -	\$ -	\$ 269,920
Construction in process	-	629,455	-	629,455
Capital assets, being depreciated				
Buildings	3,844,415	-	-	3,844,415
Vehicles and equipment	4,553,602	52,357	-	4,605,959
Total capital assets, being depreciated	8,398,017	52,357	-	8,450,374
Less accumulated depreciation for:				
Buildings	2,011,800	64,670	-	2,076,470
Vehicles and equipment	3,663,983	213,886	-	3,877,869
Total accumulated depreciation	5,675,783	278,556	-	5,954,339
Net capital assets being depreciated	2,722,234	(226,199)	-	2,496,035
Governmental activities capital assets, net	<u>\$ 2,992,154</u>	<u>\$ 403,256</u>	<u>\$ -</u>	<u>\$ 3,395,410</u>
Business-type activities:				
Capital assets, not being depreciated				
Construction in process	\$ 499,536	\$ 3,876,870	\$ 1,047,083	3,329,323
Capital assets, being depreciated				
Utility plant in operation	10,207,096	1,047,083	-	11,254,179
Less accumulated depreciation	5,137,977	149,281	-	5,287,258
Utility plant in operation, net	5,069,119	897,802	-	5,966,921
Business-type capital assets, net	<u>\$ 5,568,655</u>	<u>\$ 4,774,672</u>	<u>\$ 1,047,083</u>	<u>\$ 9,296,244</u>

Depreciation expense was charged to governmental functions as follows:

General	\$ 89,510
Public safety	135,130
Public works	22,090
Highways and streets	7,792
Parks and cemeteries	24,034
Total - governmental activities	<u>\$ 278,556</u>

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

E. Long-Term Debt

Governmental Funds

The City borrowed \$298,997 on February 18, 2014, for the purchase of a fire truck. The note matures February 1, 2019, and requires 60 monthly payments of \$5,291 beginning March 1, 2014. The interest rate is fixed at 2.4%. The balance outstanding as of June 30, 2017, was \$103,475.

The General Fund is also paying 10.81% of the lease agreement dated October 20, 2016, with the Kentucky Bond Corporation. As a result, this percentage of the long-term debt activity is being reported in the governmental activities section of the government-wide financial statements. See the Utility Fund section below for details related to this lease.

Utility Fund

In conjunction with the issuance of Kentucky Rural Water Finance Corporation (KRWFC) Public Projects Refunding and Improvement Revenue Bonds, Series 2013C, the City amended its assistance agreement with KRWFC effective March 27, 2013, in order to effect substantial debt service savings regarding the original loan used for major water system improvements completed in 2006. The balance outstanding at the time of the amendment was \$903,000. The revised principal amount of the loan as a result of this amendment is \$840,000. This refunding was undertaken to reduce total debt service payments over the next 14 years by \$179,182 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$145,695. The premium associated with the new debt was \$79,966. This amount is being amortized over the life of the new debt, and is included in bonds payable in the statements of net position. Amortization for the year ended June 30, 2017, was \$5,331.

The refunding bonds have interest rates that vary from 2.3% to 4.8% and the maturity date is February 1, 2027. Principal payments are due annually on February 1, with interest payments due semi-annually on February 1 and August 1. The balance outstanding at June 30, 2017, was \$633,000.

On January 1, 2016, the City entered into an assistance agreement with the Kentucky Infrastructure Authority for a loan in the amount of \$1,139,000 for wastewater treatment plant improvements. The interest rate is .75% and the term is 20 years. Annual debt service is \$61,467 plus an administrative fee of \$2,278. Semi-annual payments of principal and interest are due June 1 and December 1 each year. The balance drawn as of June 30, 2016, was \$430,343. Additional draws during the current year of \$708,657 brought the final amount to \$1,139,000. The amount outstanding as of June 30, 2017, was \$1,113,134. In conjunction with this loan, a replacement reserve account will be established with \$2,800 added to the account each December 1 until the balance reaches \$28,000. This reserve shall be maintained for the life of the loan.

On October 20, 2016, the City entered into a lease agreement with the Kentucky Bond Corporation in conjunction with the Series 2016C bond issue in the amount of \$6,090,000 for acquisition and installation of the energy savings project more particularly described in the PACT Agreement dated August 22, 2016, between City of Fulton and Trane U.S. Inc. The term of the lease is 20 years. Monthly payments of principal and interest are due, plus an administrative fee. The amount outstanding as of June 30, 2017, was \$6,048,333. The lease payments are being paid 89.19% from the Water Fund and 10.81% from the General Fund.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

The following is a summary of estimated future debt service requirements as of June 30, 2017:

Year Ending June 30,	Government Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 72,697	\$ 19,518	\$ 197,266	\$ 179,280
2019	53,839	17,846	207,842	174,694
2020	13,648	17,222	221,622	169,942
2021	15,494	16,949	242,265	164,814
2022	17,656	16,639	265,512	159,158
2023-2027	122,468	76,938	1,635,868	693,868
2028-2032	194,761	58,333	1,898,020	497,505
2033-2037	266,867	23,604	2,472,117	199,873
Totals	<u>\$ 757,430</u>	<u>\$ 247,049</u>	<u>\$ 7,140,512</u>	<u>\$ 2,239,134</u>

Changes in long-term liabilities for the year ended June 30, 2017, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental activities:					
Note payable - fire truck	\$ 163,656	\$ -	\$ 60,181	\$ 103,475	\$ 61,662
KY Bond Corporation, 2016C series	-	658,460	4,505	653,955	11,035
Bond discount, net of amortization	-	(2,186)	(109)	(2,077)	n/a
Compensated absences	35,802	-	-	35,802	n/a
Total for governmental activities	<u>\$ 199,458</u>	<u>\$ 656,274</u>	<u>\$ 64,577</u>	<u>\$ 791,155</u>	<u>\$ 72,697</u>
Business-type activities:					
KY Rural Water Finance Corp. - refunding	\$ 685,000	\$ -	\$ 52,000	\$ 633,000	\$ 53,000
Bond premium, reduced by amortization	58,642	-	5,331	53,311	n/a
KIA Infrastructure loan	430,343	708,657	25,866	1,113,134	53,218
KY Bond Corporation, 2016C series	-	5,431,540	37,162	5,394,378	91,048
Bond discount, net of amortization	-	(18,034)	(901)	(17,133)	n/a
Compensated absences	8,611	-	-	8,611	n/a
Total for business-type activities	<u>\$ 1,182,596</u>	<u>\$ 6,122,163</u>	<u>\$ 119,458</u>	<u>\$ 7,185,301</u>	<u>\$ 197,266</u>

The liability for compensated absences in governmental activities is fully liquidated by the General Fund.

NOTE 4 – OTHER INFORMATION

A. Pensions

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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

The Plan provides for retirement, disability, and death benefits to Plan members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly.

Under the City's plan, members are eligible to retire with an unreduced benefit at age 65 or after 27 years of service credit. Employees who began participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service must equal 87 and be a minimum of 57 years of age) or be age 65 with a minimum of 60 months service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit for employees who began before September 1, 2008, and at age 60 with 10 years of service for those who began on or after September 1, 2008 but before January 1, 2014. There is no reduced benefit available for those whose participation began on or after January 1, 2014. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

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

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

Employer contribution rates for fiscal year 2017 were adopted by the Board of KRS based on actuarially recommended rates. For the year ended June 30, 2017, the City's covered payroll was \$1,243,734. Covered payroll refers to the payroll on which contributions to a pension plan are based. The required pension contribution rate for the year ended June 30, 2017, was 13.95%. The City's contributions to the Plan for the year ended June 30, 2017, were \$173,501.

Pension Liabilities. At June 30, 2017, the City reported a liability of \$2,424,473 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, based on an expected total pension liability calculated as of that date using standard roll forward techniques applied to the total pension liability determined by an actuarial valuation as of June 30, 2015. The

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was 0.049240 percent. At June 30, 2015, the City's proportion was 0.049792 percent.

Pension Expense. For the year ended June 30, 2017, the City recognized pension expense of \$368,209.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Plan investments	\$ 227,924	\$ -
Changes in assumptions	128,435	-
Differences between expected and actual experience	10,585	-
Changes in proportion and differences between City contributions and proportionate share of contributions	66,440	14,757
Contributions subsequent to the measurement date of June 30, 2016	173,501	<i>(not applicable)</i>
Total	\$ 606,885	\$ 14,757

The deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending June 30:	
2018	\$174,174
2019	107,503
2020	86,305
2021	50,645

Actuarial Assumptions. The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.50 percent, net of Plan investment expense, including inflation

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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year.

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have not been updated.

The long-term expected rate of return on pension plan investments is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long- term Expected Real Rate of Return</u>
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash equivalents	<u>2%</u>	-.25%
Total	100%	

Discount Rate. The discount rate used to measure the total pension liability was 7.50 percent. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

	<u>Discount rate</u>	<u>City's proportionate share of net pension liability</u>
1% decrease	6.50%	\$ 3,021,286
Current discount rate	7.50%	\$ 2,424,473
1% increase	8.50%	\$ 1,912,885

Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems comprehensive annual financial report for the fiscal year ended June 30, 2016.

B. Risk Management

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

C. Impact of Recently Issued Pronouncements

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB) and replaces the requirements of Statements No. 45 and No. 57. Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, established new accounting and financial reporting requirements for the OPEB plans themselves. These pronouncements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The scope of Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government employers. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, it identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed. Management is currently evaluating the impact that this Statement will have on the City's financial statements.

CITY OF FULTON, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>
City of Fulton's proportion of the collective net pension liability	.045510%	.049792%	.049240%
City of Fulton's proportionate share of the net pension liability	\$1,477,000	\$2,140,836	\$2,424,473
City of Fulton's covered payroll	\$1,043,418	\$1,162,279	\$1,177,546
City of Fulton's proportionate share of the net pension liability as a percentage of its covered payroll	141.55%	184.19%	205.89%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contributions	\$ 143,366	\$ 148,663	\$ 146,734	\$ 173,501
Contributions in relation to the actuarially determined contribution	143,366	148,663	146,734	173,501
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of Fulton's covered payroll	\$1,043,418	\$1,162,279	\$1,177,546	\$1,243,734
City of Fulton's contributions as a percentage of covered payroll	13.74%	12.75%	12.42%	13.95%

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

See independent auditor's report

CITY OF FULTON, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

Notes to Schedules

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

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

Changes of assumptions. The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Method and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates were determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015, and on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation

See independent auditor's report

SUPPLEMENTARY AND OTHER INFORMATION SECTION

**CITY OF FULTON, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2017**

	<u>Special Revenue Funds</u>		
	<u>Municipal Aid Fund</u>	<u>Ambulance Fund</u>	<u>Total</u>
Assets			
Cash in banks	\$ 224,234	\$ 212,057	\$ 436,291
Grants receivable	<u>24,134</u>	<u>-</u>	<u>24,134</u>
Total assets	<u>\$ 248,368</u>	<u>\$ 212,057</u>	<u>\$ 460,425</u>
Liabilities			
Unearned revenue	\$ 9,414	\$ -	\$ 9,414
Fund balances			
Restricted	<u>238,954</u>	<u>212,057</u>	<u>451,011</u>
Total liabilities and fund balances	<u>\$ 248,368</u>	<u>\$ 212,057</u>	<u>\$ 460,425</u>

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CITY OF FULTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	<u>Special Revenue Funds</u>		
	<u>Municipal Aid Fund</u>	<u>Ambulance Fund</u>	<u>Total</u>
Revenues			
Intergovernmental revenue	\$ 44,654	\$ 31,949	\$ 76,603
Interest income	1,652	1,433	3,085
Total revenues	<u>46,306</u>	<u>33,382</u>	<u>79,688</u>
Expenditures			
Repair and maintenance	4,523	-	4,523
Professional/technical services	-	-	-
Sidewalk repair	<u>6,560</u>	<u>-</u>	<u>6,560</u>
Total expenditures	<u>11,083</u>	<u>-</u>	<u>11,083</u>
Net change in fund balances	35,223	33,382	68,605
Fund balances - July 1, 2016	<u>203,731</u>	<u>178,675</u>	<u>382,406</u>
Fund balances - June 30, 2017	<u>\$ 238,954</u>	<u>\$ 212,057</u>	<u>\$ 451,011</u>

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**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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
State municipal aid	\$ 49,000	\$ 43,737	\$ 44,654	\$ 917
Interest	1,100	1,600	1,652	52
Total revenues	<u>50,100</u>	<u>45,337</u>	<u>46,306</u>	<u>969</u>
Expenditures				
Maintenance - streets	5,000	5,500	4,523	(977)
Professional/technical services	30,000	-	-	-
Sidewalk repair	<u>15,000</u>	<u>10,000</u>	<u>6,560</u>	<u>(3,440)</u>
Total expenditures	<u>50,000</u>	<u>15,500</u>	<u>11,083</u>	<u>(4,417)</u>
Net change in fund balance	100	29,837	35,223	5,386
Fund balance - July 1, 2016	<u>203,731</u>	<u>203,731</u>	<u>203,731</u>	<u>-</u>
Fund balance - June 30, 2017	<u>\$203,831</u>	<u>\$ 233,568</u>	<u>\$ 238,954</u>	<u>\$ 5,386</u>

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

For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
Hotel tax - City of Fulton	\$ 3,000	\$ 2,400	\$ 2,600	\$ 200
Restaurant tax	73,000	75,000	81,006	6,006
Interest	1,000	1,213	1,613	400
Festival income	45,000	42,413	57,059	14,646
Total revenues	<u>122,000</u>	<u>121,026</u>	<u>142,278</u>	<u>21,252</u>
Expenditures				
Clerical services	13,800	13,800	13,800	-
Special projects	7,000	6,000	5,573	(427)
Lohaus Field	6,500	3,700	3,891	191
Office supplies	200	60	170	110
Fourth of July/Christmas	16,500	16,900	17,195	295
Telephone	800	853	890	37
Advertising/printing	1,000	1,683	1,324	(359)
Travel	1,000	1,344	1,008	(336)
Festival expenses	72,000	80,000	73,606	(6,394)
Miscellaneous	3,000	2,100	3,575	1,475
Postage	200	150	45	(105)
Total expenditures	<u>122,000</u>	<u>126,590</u>	<u>121,077</u>	<u>(5,513)</u>
Net change in fund balance	-	(5,564)	21,201	26,765
Fund balance - July 1, 2016	<u>196,970</u>	<u>196,970</u>	<u>196,970</u>	<u>-</u>
Fund balance - June 30, 2017	<u>\$ 196,970</u>	<u>\$ 191,406</u>	<u>\$ 218,171</u>	<u>\$ 26,765</u>

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CITY OF FULTON, KENTUCKY
SCHEDULE OF STATE ASSISTANCE
For the Year Ended June 30, 2017

<u>Grantor Agency/ Pass-through Entity/ Program Name</u>	<u>Grant Number</u>	<u>Disbursements</u>
Kentucky League of Cities KLCIS Safety Grant Program	n/a	\$ 2,023
Kentucky State Fire Commission Fire Rescue Training	n/a	11,000
Thermal Imaging Camera Grant	n/a	3,200
Kentucky Infrastructure Authority Federally Assisted Wastewater Revolving Loan Fund Program	A15-097	<u>645,579</u>
Total state assistance		<u>\$ 661,802</u>

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

CITY OF FULTON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

Grantor Agency/ Pass-through Entity Program Name	CFDA #	Grant Number	Disbursements
U.S. Department of Housing and Urban Development/ Department for Local Government/ State-Administered Small Cities Program Community Development Block Grants	14.228	12-082	\$ 3,500
U.S. Department of Homeland Security/ Kentucky Office of Homeland Security Homeland Security Grant Program	97.067	16-257	13,300
Environmental Protection Agency/ Kentucky Infrastructure Authority Capitalization Grants for Clean Water State Revolving Funds	66.458	A15-097	<u>63,078</u>
Total federal awards			<u>\$ 79,878</u>

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

CITY OF FULTON, KENTUCKY
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
BY INDIVIDUAL ISSUE - ALL FUNDS
June 30, 2017

GOVERNMENTAL LONG-TERM DEBT						
Year Ended	KWFC Flexible Term Program Series 2013 B		Kentucky Bond Corporation Financing Program Revenue Bonds - Series 2016C		Total Debt Service	
	Principal	Interest	Principal	Interest		
2018	\$ 61,662	\$ 1,835	\$ 11,035	\$ 17,683	\$ 92,215	
2019	41,813	384	12,026	17,462	71,685	
2020			13,648	17,222	30,870	
2021			15,494	16,949	32,443	
2022			17,656	16,639	34,295	
2023			19,818	16,286	36,104	
2024			21,980	15,889	37,869	
2025			24,368	15,450	39,818	
2026			26,845	14,949	41,794	
2027			29,457	14,364	43,821	
2028			32,475	13,668	46,143	
2029			35,403	12,821	48,224	
2030			38,646	11,809	50,455	
2031			42,114	10,649	52,763	
2032			46,123	9,386	55,509	
2033			50,221	8,002	58,223	
2034			54,455	6,495	60,950	
2035			59,320	4,862	64,182	
2036			63,959	3,082	67,041	
2037			38,912	1,163	40,075	
Totals	\$ 103,475	\$ 2,219	\$ 653,955	\$ 244,830	\$ 1,004,479	

WATER AND SEWER FUND							
Year Ended	Bonds Payable Kentucky Rural Water Finance Corporation		Kentucky Bond Corporation Financing Program Revenue Bonds - Series 2016C		Note Payable Kentucky Infrastructure Authority		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2018	\$ 53,000	\$ 25,135	91,048	145,896	\$ 53,218	\$ 8,249	\$ 376,546
2019	55,000	22,770	99,224	144,075	53,618	7,849	382,536
2020	55,000	20,405	112,602	142,091	54,020	7,446	391,564
2021	60,000	17,935	127,839	139,839	54,426	7,040	407,079
2022	65,000	15,245	145,677	137,282	54,835	6,631	424,670
2023	65,000	12,288	163,515	134,369	55,247	6,219	436,638
2024	65,000	9,168	181,353	131,098	55,662	5,804	448,085
2025	70,000	6,102	201,049	127,471	56,081	5,386	466,089
2026	75,000	3,454	221,489	123,339	56,502	4,964	484,748
2027	70,000	1,155	243,043	118,511	56,927	4,540	494,176
2028			267,942	112,773	57,354	4,112	442,181
2029			292,097	105,782	57,785	3,681	459,345
2030			318,854	97,429	58,220	3,247	477,750
2031			347,469	87,863	58,657	2,810	496,799
2032			380,544	77,439	59,098	2,369	519,450
2033			414,362	66,023	59,542	1,925	541,852
2034			449,295	53,592	59,989	1,477	564,353
2035			489,430	40,113	60,440	1,027	591,010
2036			527,707	25,430	60,894	572	614,603
2037			319,839	9,599	30,619	115	360,172
Totals	\$ 633,000	\$ 133,657	\$ 5,394,378	\$ 2,020,014	\$ 1,113,134	\$ 85,463	\$ 9,379,646

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION



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

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 3, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2017-001 and 2017-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Fulton's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as item 2017-002.

City of Fulton's Response to Findings

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

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Martin, Tennessee
January 3, 2018

CITY OF FULTON, KENTUCKY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2017

2017-001 Segregation of Duties

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

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

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

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

Response: *We cannot hire additional staff at this time. We will continue to monitor all money handlers with cameras. We will also have the City Manager review random transactions.*

2017-002 Expenditures Not Budgeted

Condition: The City had expenditures that exceeded the amount appropriated in the annual budget. For the year ended June 30, 2017, the General Fund had expenditures in excess of appropriations in the amount of \$14,998.

Criteria: Kentucky Revised Statutes, Chapter 91A.030, states that no city shall expend any moneys from any governmental or proprietary fund except in accordance with a budget ordinance. The majority of the overage in the General Fund pertained to debt service expenditures not budgeted. The Kentucky Cities Financial Manual states that budgeted expenditures “shall mean all funds to be paid out for expenses of the city, county, or taxing district during the fiscal year, including amounts necessary to pay the principal and interest due during the fiscal year on any debt.”

Effect: The City has made expenditures not appropriated in the budget.

Recommendation: We recommend that the City ensure that all expenditures are legally appropriated through budget amendments.

Response: *We will correctly expense the bond payments.*