

CITY OF FULTON, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2016

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

Financial Section

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

Supplementary and Other Information Section

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

Internal Control and Compliance Section

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

FINANCIAL SECTION

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fulton, Kentucky, as of and for the year ended June 30, 2016, 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, 2016, 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 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 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 November 17, 2016, on our consideration of the City of Fulton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control

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

Alexander Thompson Arnold PLLC

Martin, Tennessee
November 17, 2016

City of Fulton

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Fulton, Kentucky, we offer readers of the City of Fulton's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

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 \$8.4 million (*net position*). This represents a decrease of \$179 thousand over the prior year. Of this decrease, \$57 thousand was the result of a prior period adjustment related to pensions. The remaining \$122 thousand decrease was from current year operations. Of the total net position, \$579 thousand (*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 \$1.27 million, an increase of \$14 thousand in comparison with the prior year. Of the total fund balance, \$1.03 million is available for spending at the City's discretion (*unassigned fund balance*).
- The City's governmental activities had a net decrease of \$138 thousand, while net income from business-type activities was \$16 thousand, for a total decrease of \$122 thousand from operations of the current fiscal year.
- The City's capital assets increased by \$827 thousand, less depreciation of \$421 thousand, for a net increase of \$406 thousand.

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

- Continued to review, correct and update of all City ordinances
- Completed our relocation and remodeling of our Public Works department
- Continued to implement systems in order to maintain consistencies in day to day operations of the City
- Sold one surplused Ambulance to North Graves County Rescue Squad (Thru TCAS)
- Donated one surplused Ambulance to Fulton County Rescue Squad (Thru TCAS)
- Condemned 19 and demolished 7 blighted properties
- Began project to bring our Wastewater Treatment Plant up to EPA standards

- Entered into a partnership with Harshaw Trane to update the City's gas and water meters and replace all street lights to LED efficiency standards along with updated 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 revenue bond through the Kentucky Bond Corporation.
- Replaced a commissioner due to relocation outside of the City limits.
- Applied again for a TIGER Grant that would upgrade the local AMTRAK station in Fulton
- Collected over \$12,500 in delinquent taxes
- Placed liens on multiple properties in regards to absentee owners neglecting to maintain their properties or pay taxes.
- Purchased a new utility truck for the streets, parks and cemeteries with surplus funds in the general fund
- Participated in raising funds to construct a new Amtrak station in Fulton in fiscal year 2016/17
- Finalized our 5 year comprehensive plan with assistance from the PADD office

Our local economy continues to recover from the closing of our local hospital. The city has had two new industries locate here and employ approximately 25 employees. We have also had two existing industries add to their current workforce along with the opening of a few new retail shops. Our reserve funds remain sound. The 2015/16 budget was met with an estimated surplus of \$20,000 in the General Fund and a deficit of approximately \$300,000 in the Utility Fund which was due to the upgrade of the new Public Works property for the WWTP project.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-Wide Financial Statements

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

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

Both of the government-wide financial statements distinguish functions of the City of Fulton that are principally supported by taxes and intergovernmental revenues (governmental activities) from other

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

Fund Financial Statements

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

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

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

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

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

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

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position – As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Fulton, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8.4 million at the close of the most recent fiscal year. The largest portion of the City’s net position (86%) 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 (7%) represents resources that are subject to external restriction on how they may be used. The remaining balance of net position representing unrestricted net position (7%) 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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 1,948,865	\$ 1,865,582	\$ 1,460,887	\$ 1,600,228	\$ 3,409,752	\$ 3,465,810
Capital assets	2,992,155	3,207,042	5,568,654	4,947,656	8,560,809	8,154,698
Total assets	4,941,020	5,072,624	7,029,541	6,547,884	11,970,561	11,620,508
Deferred outflows of resources	252,147	103,044	257,889	102,316	510,036	205,360
Long-term liabilities	1,257,825	996,681	2,265,065	1,545,584	3,522,890	2,542,265
Other liabilities	44,151	43,282	234,331	213,028	278,482	256,310
Total liabilities	1,301,976	1,039,963	2,499,396	1,758,612	3,801,372	2,798,575
Deferred inflows of resources	250,015	336,555	-	82,500	250,015	419,055
Net investment in capital assets	2,828,499	2,948,861	4,394,669	4,148,683	7,223,168	7,097,544
Restricted net position	626,661	338,968	-	-	626,661	338,968
Unrestricted net position	186,016	511,321	393,365	660,405	579,381	1,171,726
Total net position	\$ 3,641,176	\$ 3,799,150	\$ 4,788,034	\$ 4,809,088	\$ 8,429,210	\$ 8,608,238

Statement of Activities – Expenditures from governmental activities exceeded revenues by \$138 thousand during the current year. The main difference in revenue from the prior year was a \$167 thousand increase in taxes due to new alcoholic beverage commission regulatory fees collected this year. Expenditures decreased by \$86 thousand, with the largest decrease in Highways and Streets. Expenditures in the Municipal Aid Fund decreased \$149 thousand from the prior year. Most other departments had increased expenditures, with the exception of General Government.

In the business-type activities, revenues exceeded expenses by \$15.5 thousand. Service revenues decreased by 7.4%, while expenditures decreased by 4% from the prior year, mainly attributable to a decrease in the cost of gas purchases. Capital grants were received during the current year.

A condensed statement of activities for the years ended June 30, 2016 and 2015, is presented below.

CONDENSED STATEMENT OF ACTIVITIES

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues						
Charges for services	\$ 35,987	\$ 37,474	\$ 2,107,875	\$ 2,277,351	\$ 2,143,862	\$ 2,314,825
Operating grants/contributions	111,900	118,711	-	-	111,900	118,711
Capital grants/contributions	64,314	1,007	99,368	-	163,682	1,007
	<u>212,201</u>	<u>157,192</u>	<u>2,207,243</u>	<u>2,277,351</u>	<u>2,419,444</u>	<u>2,434,543</u>
Expenses						
General government	233,582	277,808	-	-	233,582	277,808
Public safety	1,306,690	1,239,029	-	-	1,306,690	1,239,029
Public works - general	53,426	31,154	-	-	53,426	31,154
Highways and streets	115,939	271,957	-	-	115,939	271,957
Parks and cemeteries	80,446	58,931	-	-	80,446	58,931
Utilities	-	-	1,988,777	2,077,755	1,988,777	2,077,755
Non-departmental	138,990	135,654	-	-	138,990	135,654
Total expenses	<u>1,929,073</u>	<u>2,014,533</u>	<u>1,988,777</u>	<u>2,077,755</u>	<u>3,917,850</u>	<u>4,092,288</u>
Net program revenue (expense)	(1,716,872)	(1,857,341)	218,466	199,596	(1,498,406)	(1,657,745)
General revenues						
Taxes	1,280,945	1,114,006	-	-	1,280,945	1,114,006
Other	85,044	128,687	9,922	11,731	94,966	140,418
Transfers	212,888	210,026	(212,888)	(210,026)	-	-
Change in net assets	<u>(137,995)</u>	<u>(404,622)</u>	<u>15,500</u>	<u>1,301</u>	<u>(122,495)</u>	<u>(403,321)</u>
Beginning net assets	3,799,150	4,940,659	4,809,088	5,544,174	8,608,238	10,484,833
Prior period adjustment	(19,979)	(736,887)	(36,554)	(736,387)	(56,533)	(1,473,274)
Beginning net assets as restated	<u>3,779,171</u>	<u>4,203,772</u>	<u>4,772,534</u>	<u>4,807,787</u>	<u>8,551,705</u>	<u>9,011,559</u>
Ending net assets	<u>\$ 3,641,176</u>	<u>\$ 3,799,150</u>	<u>\$ 4,788,034</u>	<u>\$ 4,809,088</u>	<u>\$ 8,429,210</u>	<u>\$ 8,608,238</u>

COMMENTS ON FUND FINANCIAL STATEMENTS

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

The General Fund accounts for 94% of governmental fund revenues. Accordingly, this discussion will focus on the General Fund. General fund balance was \$1.27 million at the end of the current fiscal year. Of that balance, \$1.02 million is available to meet the day-to-day needs of the City.

Revenues in the General Fund were approximately \$184 thousand more than last year due mainly to \$218 thousand in new alcoholic beverage commission regulatory fees received in the current year. In total, General Fund expenditures increased by \$39 thousand spread across all departments.

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

Proprietary funds – Unrestricted net position in the proprietary fund at the end of the year was \$393 thousand. The City’s utility department operated at a profit of approximately \$228 thousand before the in-lieu-of-tax transfer to the General Fund of \$213 thousand. However, total net position decreased \$37 thousand due to a prior period adjustment related to pensions. There was a decrease in operating expenses from the prior year of \$96 thousand, with natural gas purchases down \$178 thousand. Personnel expenses, including pension expense, increased by \$122 thousand.

GENERAL FUND BUDGETARY HIGHLIGHTS

Final Budgeted and Actual Amounts

Actual revenues were \$45 thousand more than budgeted amounts. This was mainly attributable to federal grant funds received that were not budgeted. Total expenditures were \$53 thousand more than budgeted amounts, with the majority in fire department grant expenditures. Significant variances were as follows:

- Payroll tax revenue was \$12 thousand more than budgeted.
- Federal grant revenues were \$64 thousand more than budgeted.
- Alcoholic beverage commission regulatory fees were \$52 less than budgeted.
- Fire department expenditures were \$60 thousand more than budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – As of June 30, 2016, the City had invested approximately \$8.56 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 \$685 thousand and a note payable for a new fire truck with an outstanding balance of \$164 thousand. During the current year, a loan was executed with Kentucky Infrastructure Authority to finance new utility construction. The amount drawn as of June 30, 2016, was \$430 thousand. 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 2016/17 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. Complete and become compliant with our Agreed Order with the Department of Water concerning our WWTP.
11. Foreclose on approximately 50 properties within the City to help eliminate the blight in the City
12. Purchase a new patrol car for the police department
13. Purchase and install a new computer system for City Hall

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, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 1,118,626	\$ 1,061,751	\$ 2,180,377
Taxes receivable, net of allowance	250,015	-	250,015
Grants receivable	24,134	-	24,134
Accounts receivable, net of allowance	-	335,228	335,228
Other taxes receivable	167,729	-	167,729
Due from fiduciary funds	-	2,689	2,689
Prepaid expense	144,106	34,967	179,073
Inventory	-	26,252	26,252
Restricted assets:			
Cash and cash equivalents	244,255	-	244,255
Capital assets not being depreciated			
Land and improvements	269,920	-	269,920
Construction in progress	-	499,536	499,536
Capital assets, net of accumulated depreciation			
Buildings	1,832,615	-	1,832,615
Vehicles and equipment	889,620	-	889,620
Utility plant in service	-	5,069,118	5,069,118
Total assets	4,941,020	7,029,541	11,970,561
Deferred Outflows of Resources			
Deferred outflows related to pensions	252,147	257,889	510,036
Liabilities			
Accounts payable	5,797	96,121	101,918
Payroll-related liabilities	3,312	-	3,312
Other accrued liabilities	-	1,496	1,496
Due to fiduciary funds	16,080	-	16,080
Customer deposits	9,548	136,714	146,262
Unearned revenue - grants	9,414	-	9,414
Noncurrent liabilities:			
Net pension liability	1,058,367	1,082,469	2,140,836
Long-term liabilities due within one year	60,180	50,000	110,180
Long-term liabilities due in more than one year	139,278	1,132,596	1,271,874
Total liabilities	1,301,976	2,499,396	3,801,372
Deferred Inflows of Resources			
Deferred revenue - property taxes	250,015	-	250,015
Deferred inflows related to pensions	-	-	-
Total deferred inflows	250,015	-	250,015
Net Position			
Net investment in capital assets	2,828,499	4,394,669	7,223,168
Restricted for:			
Drug and Police Evidence Funds	244,255	-	244,255
Ambulance Fund	178,675	-	178,675
Municipal Aid	203,731	-	203,731
Unrestricted	186,016	393,365	579,381
Total net position	\$ 3,641,176	\$ 4,788,034	\$ 8,429,210

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

CITY OF FULTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

<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	\$ 233,582	\$ -	\$ -	\$ -	\$ (233,582)	\$ -	\$ (233,582)
Public safety	1,306,690	33,477	58,754	-	(1,214,459)	-	(1,214,459)
Public works - general	53,426	150	-	-	(53,276)	-	(53,276)
Highways and streets	115,939	-	53,146	-	(62,793)	-	(62,793)
Parks and cemeteries	80,446	2,360	-	-	(78,086)	-	(78,086)
Non-departmental	138,990	-	-	64,314	(74,676)	-	(74,676)
Total governmental activities	1,929,073	35,987	111,900	64,314	(1,716,872)	-	(1,716,872)
Business-type activities:							
Public utilities	1,988,777	2,107,875	-	99,368	-	218,466	218,466
Total	<u>\$ 3,917,850</u>	<u>\$ 2,143,862</u>	<u>\$ 111,900</u>	<u>\$ 163,682</u>	<u>(1,716,872)</u>	<u>218,466</u>	<u>(1,498,406)</u>
General revenues:							
Property taxes					342,973	-	342,973
Franchise taxes					18,021	-	18,021
Alcoholic beverage control regulatory fees					218,211	-	218,211
Payroll taxes					701,740	-	701,740
Business and other licenses					39,925	-	39,925
Court fees					4,036	-	4,036
Interest					13,285	9,922	23,207
Rental income					17,660	-	17,660
Miscellaneous					10,138	-	10,138
Transfers					212,888	(212,888)	-
Total general revenues and transfers					<u>1,578,877</u>	<u>(202,966)</u>	<u>1,375,911</u>
Change in net position					(137,995)	15,500	(122,495)
Net position - beginning					3,799,150	4,809,088	8,608,238
Prior period adjustments					(19,979)	(36,554)	(56,533)
Net position - beginning, as restated					<u>3,779,171</u>	<u>4,772,534</u>	<u>8,551,705</u>
Net position - ending					<u>\$ 3,641,176</u>	<u>\$ 4,788,034</u>	<u>\$ 8,429,210</u>

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

CITY OF FULTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 750,940	\$ 367,686	\$ 1,118,626
Property taxes receivable, net	250,015	-	250,015
Grants receivable	-	24,134	24,134
Other taxes receivable	167,729	-	167,729
Prepaid expense	144,106	-	144,106
Restricted cash	244,255	-	244,255
Total assets	\$1,557,045	\$ 391,820	\$ 1,948,865
Liabilities			
Accounts payable	\$ 5,797	\$ -	\$ 5,797
Payroll-related liabilities	3,312	-	3,312
Due to fiduciary funds	16,080	-	16,080
Unearned revenue	-	9,414	9,414
Customer deposits	9,548	-	9,548
Total liabilities	34,737	9,414	44,151
Deferred Inflows of Resources			
Unavailable revenue - property taxes	250,015	-	250,015
Fund Balances			
Restricted	244,255	382,406	626,661
Unassigned	1,028,038	-	1,028,038
Total fund balances	1,272,293	382,406	1,654,699
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,557,045	\$ 391,820	\$ 1,948,865

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, 2016

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

Total fund balances of governmental funds		\$ 1,654,699
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,992,155
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Deferred inflows/outflows of resources related to long-term pension liabilities are not recognized as inflows or outflows of resources until a future period and, therefore, are not reported in the current fund financial statements.		
	Note payable	163,656
	Compensated absences	35,802
	Net pension liability	1,058,367
	Deferred outflows related to pensions	<u>(252,147)</u>
	Total	<u>(1,005,678)</u>
Net position of governmental activities		<u>\$ 3,641,176</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, 2016

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local taxes	\$ 1,280,945	\$ -	\$ 1,280,945
Intergovernmental revenue	97,260	86,623	183,883
Charges for services	20,170	-	20,170
Grant revenue	72,564	-	72,564
Interest	10,798	2,487	13,285
Other revenues	7,343	-	7,343
Total revenues	<u>1,489,080</u>	<u>89,110</u>	<u>1,578,190</u>
Expenditures			
Current:			
General government	135,862	-	135,862
Public safety	1,106,353	-	1,106,353
Public works - general	32,983	-	32,983
Highways and streets	90,418	16,954	107,372
Parks and cemeteries	56,412	-	56,412
Non-departmental	138,990	-	138,990
Debt service:			
Principal	58,724	-	58,724
Interest	4,772	-	4,772
Capital outlay:			
Public safety	27,230	-	27,230
Parks and cemeteries	17,963	-	17,963
Highways and streets	17,963	-	17,963
Total expenditures	<u>1,687,670</u>	<u>16,954</u>	<u>1,704,624</u>
Revenues over (under) expenditures	(198,590)	72,156	(126,434)
Other financing sources (uses)			
Transfers in	<u>212,888</u>	<u>-</u>	<u>212,888</u>
Net change in fund balances	14,298	72,156	86,454
Fund balances - July 1, 2015	<u>1,257,995</u>	<u>310,250</u>	<u>1,568,245</u>
Fund balances - June 30, 2016	<u>\$ 1,272,293</u>	<u>\$ 382,406</u>	<u>\$ 1,654,699</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, 2016

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

Net change in fund balances of governmental funds		\$ 86,454
<p>Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
	Capital outlay expenditures	63,156
	Depreciation expense	<u>(278,043)</u>
	Net effect	(214,887)
<p>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.</p>		
	Pension contributions	72,540
	Pension expense	<u>(140,825)</u>
	Net effect	(68,285)
<p>The repayment of long-term debt consumes current financial resources in governmental funds. However, these repayments have no effect on net position. This is the amount repaid during the current year.</p>		
		<u>58,723</u>
Change in net position of governmental activities		<u><u>\$ (137,995)</u></u>

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

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

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Over (Under)
Revenues				
Local taxes				
Property taxes	\$ 295,000	\$ 311,000	\$ 321,564	\$ 10,564
Interest and penalties	4,000	2,600	2,673	73
Payments in lieu of tax	16,000	18,736	18,736	-
Franchise taxes	18,000	18,000	18,021	21
Alcoholic beverage control regulatory fee	230,000	270,000	218,211	(51,789)
Payroll taxes	660,000	690,000	701,740	11,740
Total local taxes	1,223,000	1,310,336	1,280,945	(29,391)
Intergovernmental revenues				
Business licenses	33,000	33,300	33,725	425
Alcoholic beverage control licenses	6,500	6,200	6,200	-
County court fees	3,100	3,500	4,036	536
Fire department revenue	3,000	2,179	2,179	-
Federal grant funds	-	-	64,314	64,314
State grant funds	8,250	8,250	8,250	-
State incentive revenue	34,100	37,917	37,510	(407)
Law enforcement fees	9,500	7,800	10,815	3,015
Code enforcement revenue	4,500	2,645	2,795	150
Total intergovernmental revenues	101,950	101,791	169,824	68,033
Charges for services				
Rent	8,000	9,300	10,075	775
Building permits	500	200	150	(50)
Cemetery lots	4,500	3,000	2,360	(640)
Cemetery openings and upkeep	11,500	7,510	7,585	75
Total charges for services	24,500	20,010	20,170	160
Other revenues				
Local grant revenues	-	-	1,878	1,878
Sale of property	-	200	805	605
Interest income	11,000	8,895	10,798	1,903
Miscellaneous income	2,000	3,040	4,660	1,620
Total other revenues	13,000	12,135	18,141	6,006
Total revenues	1,362,450	1,444,272	1,489,080	44,808

(continued)

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

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

For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Expenditures				
Administrative				
Salaries	109,156	110,400	109,242	(1,158)
Retirement/pension	15,653	14,920	13,913	(1,007)
Hospitalization	-	87	85	(2)
Life/dental	170	169	169	-
Social security	7,249	6,550	6,775	225
Other benefits	327	250	287	37
Maintenance - vehicles/equipment	-	132	132	-
Office supplies	900	1,028	1,226	198
Technical supplies	500	850	882	32
Dues and subscriptions	500	300	447	147
Motor fuel/oil	2,300	2,287	2,179	(108)
Telephone	1,000	1,100	1,044	(56)
Advertising/printing	2,000	750	782	32
Travel	2,000	2,429	1,822	(607)
Professional/technical services	500	460	566	106
Training	1,250	1,500	1,362	(138)
Miscellaneous	750	-	-	-
Duplicate charges	(66,278)	(66,188)	(65,237)	951
Total administrative	<u>77,977</u>	<u>77,024</u>	<u>75,676</u>	<u>(1,348)</u>
Finance Department				
Salaries	160,608	160,600	160,516	(84)
Overtime/help	1,620	921	835	(86)
Retirement/pension	27,676	27,100	27,100	-
Hospitalization	24,907	29,000	31,378	2,378
Life/dental insurance	680	600	590	(10)
Social security	11,332	11,000	10,723	(277)
Other benefits	1,686	1,686	1,563	(123)
Maintenance - fixtures	1,200	645	698	53
Utilities	8,500	7,905	7,085	(820)
Technical supplies	600	325	416	91
Office supplies	900	400	300	(100)
Cleaning supplies	500	640	764	124
Dues/subscriptions	150	140	105	(35)
Postage	1,700	1,500	1,248	(252)
Telephone	1,100	1,000	932	(68)
Travel	800	850	800	(50)
Professional/technical services	400	60	45	(15)
Training/registration	800	800	800	-
Miscellaneous	200	200	200	-
Duplicate charges	(182,807)	(184,726)	(185,912)	(1,186)
Total finance department	<u>62,552</u>	<u>60,646</u>	<u>60,186</u>	<u>(460)</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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Code Compliance				
Salaries	27,540	28,000	27,540	(460)
Retirement/pension	4,698	4,700	4,698	(2)
Health/vision	2,307	2,300	1,591	(709)
Life/dental	170	169	169	-
Social security	2,001	2,000	1,980	(20)
Other benefits	123	150	74	(76)
Clothing	500	-	118	118
Maintenance - vehicles/equipment	500	-	-	-
Office supplies	1,500	2,000	2,078	78
Technical supplies	2,500	1,851	1,462	(389)
Dues and subscriptions	1,500	3,332	2,778	(554)
Motor fuel/oil	800	300	270	(30)
Postage	1,500	1,500	1,050	(450)
Advertising/printing	500	-	-	-
Travel	2,000	500	922	422
Professional/technical services	7,000	4,785	3,589	(1,196)
Training	1,000	1,200	906	(294)
Code enforcement	25,000	25,000	20,132	(4,868)
Miscellaneous	200	-	-	-
Total code compliance	<u>81,339</u>	<u>77,787</u>	<u>69,357</u>	<u>(8,430)</u>
Police Department				
Salaries	316,981	295,000	295,477	477
Overtime/help	40,000	45,000	43,641	(1,359)
Retirement/pension	64,721	60,100	59,944	(156)
Hospitalization	52,425	51,000	67,736	16,736
Life/dental insurance	1,530	1,268	1,335	67
Social security	27,435	25,500	25,187	(313)
Workers' compensation	14,500	14,500	14,500	-
Clothing	3,500	3,500	2,858	(642)
Incentive	27,900	27,900	26,238	(1,662)
Other benefits	1,733	1,500	1,278	(222)
Maintenance - fixtures	3,000	2,709	2,387	(322)
Maintenance - vehicles/equipment	12,000	16,183	15,164	(1,019)
Utilities	8,500	8,183	7,608	(575)
Alcoholic beverage control expenses	-	741	556	(185)
Technical supplies	4,000	4,500	2,680	(1,820)
Office supplies	4,000	4,200	4,308	108
Cleaning supplies	1,000	1,200	1,074	(126)
Dues and subscriptions	600	127	95	(32)
Motor fuel/oil	25,000	17,000	16,808	(192)
Postage	800	800	722	(78)
Telephone	7,000	7,500	7,479	(21)
Advertising/printing	500	188	141	(47)
Travel	6,000	6,000	5,315	(685)

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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Insurance	35,100	34,881	34,881	-
Professional/technical services	400	100	105	5
Training	600	300	181	(119)
Program implements	600	604	580	(24)
Animal control	2,000	2,000	3,881	1,881
Dispatch expense	20,000	20,000	20,000	-
Drug fund expenditures	6,000	6,000	9,505	3,505
Miscellaneous	400	400	839	439
Total Police Department	<u>688,225</u>	<u>658,884</u>	<u>672,503</u>	<u>13,619</u>
Fire Department				
Salaries	109,591	107,100	107,530	430
Retirement/pension	18,814	18,600	18,541	(59)
Hospitalization	18,025	21,000	18,691	(2,309)
Life/dental insurance	340	340	338	(2)
Social security	7,950	7,700	7,660	(40)
Workers' compensation	5,000	5,000	5,000	-
Clothing	1,800	1,000	591	(409)
Incentive	6,200	6,200	6,200	-
Other benefits	3,750	1,000	551	(449)
Maintenance - fixtures	1,500	2,069	1,802	(267)
Maintenance - vehicles/equipment	16,500	9,000	8,090	(910)
Utilities	8,500	8,183	7,608	(575)
State Aid expense	8,250	8,250	8,250	-
Volunteer fire expenditures	50,000	50,000	50,000	-
Fire prevention	-	300	1,997	1,697
Technical supplies	14,100	14,100	14,084	(16)
Office supplies	1,200	1,972	1,585	(387)
Cleaning supplies	500	983	931	(52)
Dues and subscriptions	1,500	1,084	963	(121)
Motor fuel/oil	4,400	2,328	2,771	443
Postage	450	455	341	(114)
Telephone	2,700	3,000	2,971	(29)
Advertising/printing	600	-	-	-
Travel	3,500	2,500	2,132	(368)
Insurance	22,850	22,350	21,961	(389)
Professional/technical services	10,000	8,413	7,319	(1,094)
Training	3,900	3,305	3,848	543
Dispatch expense	20,000	20,000	20,000	-
Fire truck loan payments	4,775	63,500	63,496	(4)
Miscellaneous	200	500	19,448	18,948
Capital expenditures	-	5,186	50,520	45,334
Total Fire Department	<u>346,895</u>	<u>395,418</u>	<u>455,219</u>	<u>59,801</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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Public Works Department				
Salaries	416,407	425,000	423,282	(1,718)
Overtime/help	22,500	31,000	28,768	(2,232)
Retirement/pension	74,877	77,000	76,199	(801)
Hospitalization	73,350	72,000	76,807	4,807
Life/dental insurance	2,210	2,100	2,100	-
Social security	30,625	31,500	31,127	(373)
Workers' compensation	20,000	20,134	20,134	-
Clothing	6,300	5,741	4,576	(1,165)
Other benefits	2,196	1,600	1,676	76
Duplicate charges	<u>(616,042)</u>	<u>(632,772)</u>	<u>(631,686)</u>	<u>1,086</u>
Total Public Works	<u>32,423</u>	<u>33,303</u>	<u>32,983</u>	<u>(320)</u>
Street Department				
Maintenance - buildings/grounds	1,000	1,200	1,051	(149)
Maintenance - fixtures	1,500	1,437	1,200	(237)
Maintenance - vehicles/equipment	10,000	12,000	11,933	(67)
Utilities	60,000	59,375	57,615	(1,760)
Technical supplies	4,000	5,389	4,293	(1,096)
Office supplies	-	423	317	(106)
Motor fuel/oil	13,000	8,000	8,294	294
Insurance	3,300	2,800	2,800	-
Professional/technical services	1,500	1,291	1,750	459
Street markers	3,500	500	552	52
Miscellaneous	500	541	613	72
Capital expenditures	<u>-</u>	<u>18,500</u>	<u>17,963</u>	<u>(537)</u>
Total Street Department	<u>98,300</u>	<u>111,456</u>	<u>108,381</u>	<u>(3,075)</u>
Parks and Cemeteries Department				
Maintenance - Buildings/Grounds	4,000	4,000	3,626	(374)
Maintenance - Fixtures	1,500	1,500	1,279	(221)
Maintenance - Vehicles/Equipment	6,000	7,000	7,304	304
Utilities	11,500	16,000	15,292	(708)
Technical supplies	2,200	3,500	3,315	(185)
Office supplies	-	299	224	(75)
Women's club expenditures	900	607	582	(25)
Community center expenditures	10,000	15,000	15,673	673
Motor fuel/oil	4,500	2,619	2,753	134
Insurance	5,250	5,053	5,053	-
Professional/technical services	3,500	1,187	890	(297)
Miscellaneous	300	300	421	121
Capital expenditures	<u>-</u>	<u>18,500</u>	<u>17,963</u>	<u>(537)</u>
Total Parks and Cemeteries	<u>49,650</u>	<u>75,565</u>	<u>74,375</u>	<u>(1,190)</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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Non-Departmental				
Maintenance - buildings/grounds	4,000	4,705	3,530	(1,175)
Shop expense	11,500	17,388	16,747	(641)
Postage	300	676	507	(169)
PVA - tax roll	5,300	5,300	4,961	(339)
Service contracts	21,000	21,680	17,177	(4,503)
Audit	7,000	6,800	6,800	-
General liability insurance	55,000	52,000	51,642	(358)
Chamber of Commerce	1,200	1,200	1,200	-
Airport	1,270	1,270	1,270	-
Library	5,000	5,000	5,000	-
Detention Center meals	15,000	17,000	18,296	1,296
Kentucky Municipal League	779	850	850	-
Purchase area development	500	500	500	-
Contingency	2,500	3,000	3,010	10
Economic development	7,500	7,500	7,500	-
Total Non-Departmental	<u>137,849</u>	<u>144,869</u>	<u>138,990</u>	<u>(5,879)</u>
Total expenditures	<u>1,575,210</u>	<u>1,634,952</u>	<u>1,687,670</u>	<u>52,718</u>
Revenues over (under) expenditures	<u>(212,760)</u>	<u>(190,680)</u>	<u>(198,590)</u>	<u>(7,910)</u>
Other financing sources (uses)				
Transfers in - payments in lieu of tax	<u>212,888</u>	<u>212,888</u>	<u>212,888</u>	<u>-</u>
Net change in fund balance	<u>\$ 128</u>	<u>\$ 22,208</u>	<u>14,298</u>	<u>\$ (7,910)</u>
Fund balance - July 1, 2015			<u>1,257,995</u>	
Fund balance - June 30, 2016			<u>\$ 1,272,293</u>	

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

CITY OF FULTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2016

ASSETS

Current assets	
Cash	\$ 1,061,751
Accounts receivable (net)	335,228
Due from expenditure revolving fund	2,689
Prepaid expenses	34,967
Inventory	<u>26,252</u>
Total current assets	1,460,887
Noncurrent assets:	
Capital assets, net of accumulated depreciation:	
Utility plant in service	5,069,118
Construction in progress	<u>499,536</u>
Total capital assets	<u>5,568,654</u>
Total assets	<u>7,029,541</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	<u>257,889</u>
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LIABILITIES

Current liabilities	
Accounts payable	96,121
Accrued expenses	1,496
Customer deposits	136,714
Noncurrent liabilities due within one year	<u>50,000</u>
Total current liabilities	<u>284,331</u>
Noncurrent liabilities	
Accrued vacation and sick leave	8,611
Net pension liability	1,082,469
Bonds and notes payable, net of current portion	<u>1,123,985</u>
Total noncurrent liabilities	<u>2,215,065</u>
Total liabilities	<u>2,499,396</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	<u>-</u>
--------------------------------------	----------

NET POSITION

Net investment in capital assets	4,394,669
Unrestricted	<u>393,365</u>
Total net position	<u>\$ 4,788,034</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, 2016

Operating revenues	
Utility sales	\$ 2,062,751
Miscellaneous	45,124
Total operating revenues	<u>2,107,875</u>
Operating expenses	
Personnel/administrative costs	952,676
Maintenance	43,446
Utilities	140,158
Maintenance to system	89,648
Technical supplies	30,906
Office and cleaning supplies	9,896
Dues and subscriptions	1,299
Motor fuel and oil	20,906
Postage	9,274
Gas purchases	341,882
Equipment rental	456
Telephone	8,687
Advertising and printing	764
Travel and registrations	390
Insurance	39,093
Professional services	102,920
Training	1,310
Audit expense	7,100
Depreciation	142,928
Dispatch expense	20,000
Miscellaneous	726
Total operating expenses	<u>1,964,465</u>
Operating income	143,410
Non-operating revenue (expense)	
Interest earnings	9,922
Interest expense	<u>(24,312)</u>
Total non-operating revenue (expense)	<u>(14,390)</u>
Income before capital contributions and transfers	129,020
Capital contributions	99,368
Transfer out - payment in lieu of taxes	<u>(212,888)</u>
Change in net position	15,500
Net position - July 1, 2015	4,809,088
Prior period adjustment	<u>(36,554)</u>
Net position - July 1, 2015, as restated	<u>4,772,534</u>
Net position - June 30, 2016	<u><u>\$ 4,788,034</u></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, 2016

Cash Flows from Operating Activities		
Cash received from customers		\$ 2,087,352
Cash payments for employees services and benefits		(882,834)
Cash payments to suppliers		<u>(888,319)</u>
Net cash provided by operating activities		316,199
Cash Flows from Non-Capital Financing Activities		
Interfund transfers		(212,888)
Cash Flows from Capital and Related Financing Activities		
Additions to plant utility	(763,926)	
Capital grant proceeds	99,368	
Proceeds from note payable	430,343	
Payments on principal of long-term debt	(50,000)	
Interest payments on long-term debt	<u>(29,643)</u>	
Net cash used by capital and related financing activities		(313,858)
Cash Flows from Investing Activities		
Interest received		<u>9,922</u>
Net decrease in cash		(200,625)
Cash - July 1, 2015		<u>1,262,376</u>
Cash - June 30, 2016		<u>\$ 1,061,751</u>
Reconciliation of Cash Flows from Operating Activities		
Operating income		\$ 143,410
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	142,928	
Pension expense	144,034	
Pension contributions paid	(74,192)	
Increase in accounts receivable	(26,317)	
Increase in prepaid expenses	(34,967)	
Increase in accounts payable	15,509	
Increase in accrued expenses	29	
Increase in customer deposits	<u>5,765</u>	
Total adjustments		<u>172,789</u>
Net cash provided by operating activities		<u>\$ 316,199</u>
Noncash Pension Activity		
Pension expense	\$ 144,034	
Deferred outflows related to pensions	81,381	
Net pension liability	(344,469)	
Deferred inflows related to pensions	82,500	
Prior period adjustment related to pensions	<u>36,554</u>	
Net effect of noncash pension activity		<u>\$ -</u>

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

CITY OF FULTON, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
June 30, 2016

	<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	\$ 196,970	\$ 1,356	\$ 926	\$ 39,332
Due from general fund	-	4,569	11,511	-
Due from payroll fund	-	1,636	-	-
Total assets	<u>196,970</u>	<u>7,561</u>	<u>12,437</u>	<u>39,332</u>
Liabilities				
Due to utility fund	-	2,689	-	-
Due to expenditure revolving fund	-	-	1,636	-
Perpetual care contributions	-	-	-	650
Accounts payable	-	-	10,140	-
Total liabilities	<u>-</u>	<u>2,689</u>	<u>11,776</u>	<u>650</u>
Net position				
Held in trust for tourism and other purposes	<u>\$ 196,970</u>	<u>\$ 4,872</u>	<u>\$ 661</u>	<u>\$ 38,682</u>

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

CITY OF FULTON, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2016

	Private Purpose Trust Cemetery Trust Fund
Additions	
Interest	\$ 117
Miscellaneous	600
Total additions	717
Deductions	-
Change in net position	717
Net position - July 1, 2015	37,965
Net position - June 30, 2016	\$ 38,682

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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016

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, 2016

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, 2016

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 as of June 30, 2016. 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 one item that qualifies for reporting in this category. Property taxes reported as receivables in the statements of financial position before the period for which they were levied are deferred and recognized as an inflow of resources in the period that the amounts become available. This item is reported in both the governmental funds balance sheet and the statement of net position.

Compensated Absences

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

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, 2016

- 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, 2016, the City had restricted fund balance of \$25,273 for Drug and Police Evidence Funds, \$218,982 for alcoholic beverage funds, \$178,675 for the Ambulance Fund and \$203,731 for municipal aid funds.

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Kentucky statutes state that all monies expended by cities must be authorized by a legally adopted budget. For the year ended June 30, 2016, the City had expenditures of \$52,718 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, 2016, all bank balances were covered by insurance or adequately collateralized. All funds are classified as public funds.

B. Receivables

Receivables as of June 30, 2016, for the City's individual major funds and nonmajor funds in the aggregate are detailed in the governmental funds balance sheet. The Utility Fund has an allowance for uncollectible accounts of \$8,000 as of June 30, 2016. The allowance for uncollectible property taxes was \$28,462 at June 30, 2016.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

C. Interfund receivables, payables, and transfers

All due to/due from amounts at June 30, 2016, were temporary balances regarding expenditure revolving fund transactions or payroll transfers. The transfer of \$212,888 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, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 269,920	\$ -	\$ -	\$ 269,920
Capital assets, being depreciated				
Buildings	3,844,415	-	-	3,844,415
Vehicles and equipment	<u>4,490,446</u>	<u>63,156</u>	<u>-</u>	<u>4,553,602</u>
Total capital assets, being depreciated	8,334,861	63,156	-	8,398,017
Less accumulated depreciation for:				
Buildings	1,947,130	64,670	-	2,011,800
Vehicles and equipment	<u>3,450,609</u>	<u>213,373</u>	<u>-</u>	<u>3,663,982</u>
Total accumulated depreciation	<u>5,397,739</u>	<u>278,043</u>	<u>-</u>	<u>5,675,782</u>
Total capital assets being depreciated, net	<u>2,937,122</u>	<u>(214,887)</u>	<u>-</u>	<u>2,722,235</u>
Governmental activities capital assets, net	<u>\$ 3,207,042</u>	<u>\$ (214,887)</u>	<u>\$ -</u>	<u>\$ 2,992,155</u>
Business-type activities:				
Construction in process	\$ -	\$ 499,536	\$ -	\$ 499,536
Capital assets, being depreciated				
Utility plant in operation	9,942,705	264,390	-	10,207,095
Less accumulated depreciation	<u>4,995,049</u>	<u>142,928</u>	<u>-</u>	<u>5,137,977</u>
Utility plant in operation, net	<u>4,947,656</u>	<u>121,462</u>	<u>-</u>	<u>5,069,118</u>
Business-type activities capital assets, net	<u>\$ 4,947,656</u>	<u>\$ 620,998</u>	<u>\$ -</u>	<u>\$ 5,568,654</u>

Depreciation expense was charged to governmental functions as follows:

General	\$ 89,856
Public safety	137,995
Public works	17,591
Highways and streets	8,567
Parks and cemeteries	<u>24,034</u>
Total - governmental activities	<u>\$ 278,043</u>

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016, was \$163,656.

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, 2016, 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, 2016, was \$685,000.

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. Estimated annual debt service is \$61,435 plus an administrative fee of \$2,278. Interest payments were due within six months from the first draw of funds with full principal and interest payments commencing within one year of operation, estimated to be December 1, 2016. The balance drawn as of June 30, 2016, was \$430,343. 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.

The following is a summary of estimated future debt service requirements as of June 30, 2016:

Year Ending June 30,	Government Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 60,180	\$ 3,315	\$ 50,000	\$ 27,392
2018	61,662	1,835	109,948	25,135
2019	41,814	384	110,154	22,770
2020	-	-	110,360	20,405
2021	-	-	115,568	17,935
2022-2026	-	-	549,313	46,257
2027	-	-	70,000	1,155
Totals	\$ 163,656	\$ 5,534	\$ 1,115,343	\$ 161,049

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Changes in long-term liabilities for the year ended June 30, 2016, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental activities:					
Note payable - fire truck	\$ 222,379	\$ -	\$ 58,723	\$ 163,656	\$ 60,180
Compensated absences	<u>35,802</u>	-	-	<u>35,802</u>	n/a
Total for governmental activities	<u>\$ 258,181</u>	<u>\$ -</u>	<u>\$ 58,723</u>	<u>\$ 199,458</u>	<u>\$ 60,180</u>
Business-type activities:					
KY Rural Water Finance Corp. - refunding	\$ 735,000	\$ -	\$ 50,000	\$ 685,000	\$ 50,000
Bond premium, reduced by amortization	63,973	-	5,331	58,642	n/a
KIA Infrastructure loan	-	430,343	-	430,343	-
Compensated absences	<u>8,611</u>	-	-	<u>8,611</u>	n/a
Total for business-type activities	<u>\$ 807,584</u>	<u>\$ 430,343</u>	<u>\$ 55,331</u>	<u>\$ 1,182,596</u>	<u>\$ 50,000</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.

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. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 2016 were adopted by the Board of KRS based on actuarially recommended rates. For the year ended June 30, 2016, the City's covered payroll was \$1,177,546. 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, 2016, was 12.42%. The City's contributions to the Plan for the year ended June 30, 2016, were \$146,734.

Pension Liabilities. At June 30, 2016, the City reported a liability of \$2,140,836 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's proportion was 0.049792 percent. At June 30, 2014, the City's proportion was 0.045510 percent.

Actuarial Assumptions. The total pension liability in the June 30, 2015, 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 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.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- 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 assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 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>	City's proportionate share of net pension liability
1% decrease	6.50%	\$ 2,733,022
Current discount rate	7.50%	\$ 2,140,836
1% increase	8.50%	\$ 1,633,651

Pension Expense. For the year ended June 30, 2016, the City recognized pension expense of \$284,860.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on Plan investments	\$ 19,191	\$ -
Changes in assumptions	215,880	-
Differences between expected and actual experience	17,791	-
Changes in proportion and differences between City contributions and proportionate share of contributions	110,440	-
Contributions subsequent to the measurement date of June 30, 2015	146,734	<i>(not applicable)</i>
Total	\$ 510,036	\$ -

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

Year Ending June 30:	
2017	\$130,623
2018	130,623
2019	63,446
2020	38,610

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2015.

B. Risk Management

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

C. Prior Period Adjustments

The City received information while preparing the current year financial statements that Kentucky Retirement Systems had changed the contribution amounts used in its pension calculations. In the prior year, total contributions to KRS were used in determining certain pension amounts. However, these contributions contain a portion attributable to insurance rather than pensions. This resulted in a prior period adjustment which decreased governmental activities beginning net position by \$19,979 and decreased beginning deferred outflows related to pensions by this same amount. The prior period adjustment in the proprietary funds was a decrease of \$36,554 for this same issue.

CITY OF FULTON, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

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

	2014	2015
City of Fulton's proportion of the collective net pension liability	.045510%	.049792%
City of Fulton's proportionate share of the net pension liability	\$ 1,477,000	\$ 2,140,836
City of Fulton's covered payroll	\$ 1,043,418	\$ 1,177,546
City of Fulton's proportionate share of the net pension liability as a percentage of its covered payroll	141.55%	181.80%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%

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

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

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

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

CITY OF FULTON, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

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 are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. 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	28 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, 2016**

	<u>Special Revenue Funds</u>		
	<u>Municipal Aid Fund</u>	<u>Ambulance Fund</u>	<u>Total</u>
Assets			
Cash in banks	\$ 189,011	\$ 178,675	\$ 367,686
Grants receivable	<u>24,134</u>	<u>-</u>	<u>24,134</u>
Total assets	<u>\$ 213,145</u>	<u>\$ 178,675</u>	<u>\$ 391,820</u>
Liabilities			
Unearned revenue	\$ 9,414	\$ -	\$ 9,414
Fund balances			
Restricted	<u>203,731</u>	<u>178,675</u>	<u>382,406</u>
Total liabilities and fund balances	<u>\$ 213,145</u>	<u>\$ 178,675</u>	<u>\$ 391,820</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, 2016

	<u>Special Revenue Funds</u>		
	<u>Municipal</u>	<u>Ambulance</u>	<u>Total</u>
	<u>Aid Fund</u>	<u>Fund</u>	
Revenues			
Intergovernmental revenue	\$ 53,146	\$ 33,477	\$ 86,623
Interest income	1,332	1,155	2,487
Total revenues	<u>54,478</u>	<u>34,632</u>	<u>89,110</u>
Expenditures			
Repair and maintenance	8,938	-	8,938
Professional/technical services	347	-	347
Sidewalk repair	<u>7,669</u>	<u>-</u>	<u>7,669</u>
Total expenditures	<u>16,954</u>	<u>-</u>	<u>16,954</u>
Net change in fund balances	37,524	34,632	72,156
Fund balances - July 1, 2015	<u>166,207</u>	<u>144,043</u>	<u>310,250</u>
Fund balances - June 30, 2016	<u>\$ 203,731</u>	<u>\$ 178,675</u>	<u>\$ 382,406</u>

See independent auditor's report

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

For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
State municipal aid	\$ 55,000	\$ 48,500	\$ 53,146	\$ 4,646
Interest	1,500	1,200	1,332	132
Total revenues	<u>56,500</u>	<u>49,700</u>	<u>54,478</u>	<u>4,778</u>
Expenditures				
Maintenance - streets	5,000	10,000	8,938	(1,062)
Professional/technical services	35,000	5,000	347	(4,653)
Sidewalk repair	<u>15,000</u>	<u>10,225</u>	<u>7,669</u>	<u>(2,556)</u>
Total expenditures	<u>55,000</u>	<u>25,225</u>	<u>16,954</u>	<u>(8,271)</u>
 Net change in fund balance	 1,500	 24,475	 37,524	 13,049
 Fund balance - July 1, 2015	 <u>166,207</u>	 <u>166,207</u>	 <u>166,207</u>	 <u>-</u>
 Fund balance - June 30, 2016	 <u>\$167,707</u>	 <u>\$190,682</u>	 <u>\$203,731</u>	 <u>\$ 13,049</u>

See independent auditor's report

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

For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
Hotel tax - City of Fulton	\$ 2,000	\$ 2,400	\$ 2,856	\$ 456
Restaurant tax	73,000	75,000	84,476	9,476
Interest	1,000	1,213	1,404	191
Festival income	30,000	42,413	51,038	8,625
Miscellaneous	100	-	-	-
Total revenues	<u>106,100</u>	<u>121,026</u>	<u>139,774</u>	<u>18,748</u>
Expenditures				
Clerical services	12,600	11,900	13,000	1,100
Special projects	7,000	7,300	5,000	(2,300)
Lohaus Field	6,500	5,200	5,720	520
Office supplies	500	250	68	(182)
Fourth of July/Christmas	13,000	17,000	16,940	(60)
Telephone	1,000	793	620	(173)
Advertising/printing	1,000	460	346	(114)
Travel	1,000	480	360	(120)
Festival expenses	60,000	67,000	67,676	676
Miscellaneous	3,000	150	2,314	2,164
Postage	500	100	212	112
Total expenditures	<u>106,100</u>	<u>110,633</u>	<u>112,256</u>	<u>1,623</u>
Net change in fund balance	-	10,393	27,518	17,125
Fund balance - July 1, 2015	<u>169,452</u>	<u>169,452</u>	<u>169,452</u>	-
Fund balance - June 30, 2016	<u>\$ 169,452</u>	<u>\$ 179,845</u>	<u>\$ 196,970</u>	<u>\$ 17,125</u>

See independent auditor's report

CITY OF FULTON, KENTUCKY
SCHEDULE OF STATE ASSISTANCE
For the Year Ended June 30, 2016

<u>Grantor Agency/ Pass-through Entity/ Program Name</u>	<u>Grant Number</u>	<u>Disbursements</u>
Kentucky State Fire Commission Fire Rescue Training	n/a	8,250
Kentucky Infrastructure Authority Federally Assisted Wastewater Revolving Loan Fund Program	A15-097	41,383
Infrastructure for Economic Development Fund for Tobacco/Coal Producing Counties	HB380 (WX21075007) HB608 (WX21075007)	11,527 18,206
Infrastructure for Economic Development Fund for Tobacco/Coal Producing Counties	SX21075006	<u>69,635</u>
Total state assistance		<u>\$ 149,001</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, 2016

<u>Grantor Agency/ Pass-through Entity Program Name</u>	<u>CFDA #</u>	<u>Grant Number</u>	<u>Disbursements</u>
U.S. Department of Homeland Security Assistance to Firefighters Program	97.044	EMW-2014-FO-02258	\$ 45,334
Kentucky Office of Homeland Security Homeland Security Grant Program	97.067	EMW-2015-SS-00032	18,980
Environmental Protection Agency/ Kentucky Infrastructure Authority Capitalization Grants for Clean Water State Revolving Funds	66.458	A15-097	<u>388,960</u>
Total federal awards			<u>\$ 453,274</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, 2016

GENERAL FUND

<u>Year Ended</u>	<u>KRWFC Flexible Term Program Series 2013 B</u>		<u>TOTAL DEBT SERVICE</u>
	<u>Principal</u>	<u>Interest</u>	
2017	\$ 60,180	\$ 3,315	\$ 63,495
2018	61,662	1,835	63,497
2019	41,814	384	42,198
Totals	\$ 163,656	\$ 5,534	\$ 169,190

WATER AND SEWER FUND

<u>Year Ended</u>	<u>Bonds Payable Kentucky Rural Water Finance Corporation</u>		<u>TOTAL DEBT SERVICE</u>
	<u>Principal</u>	<u>Interest</u>	
2017	\$ 50,000	\$ 27,392	\$ 77,392
2018	55,000	25,135	80,135
2019	55,000	22,770	77,770
2020	55,000	20,405	75,405
2021	60,000	17,935	77,935
2022	65,000	15,245	80,245
2023	65,000	12,288	77,288
2024	65,000	9,168	74,168
2025	70,000	6,102	76,102
2026	75,000	3,454	78,454
2027	70,000	1,155	71,155
Totals	\$ 685,000	\$ 161,049	\$ 846,049

The KIA construction loan has not been finalized and, therefore, has not been included here.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fulton, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2016-001 and 2016-002, 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 2016-002.

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
November 17, 2016

CITY OF FULTON, KENTUCKY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2016

2016-001 Segregation of Duties

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

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

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

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

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

2016-002 Expenditures Not Budgeted

Condition: The City had expenditures that exceeded the amount appropriated in the annual budget. For the year ended June 30, 2016, the General Fund had expenditures in excess of appropriations in the amount of \$52,718.

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 grant expenditures not budgeted. The Kentucky Cities Financial Manual states “This includes **all federal grant programs, local contributions, and state financial assistance.**”

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: The City will do budget amendments for all expenditures in excess of the original budget.