

CITY OF FULTON, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2018

**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.....	44

Supplementary and Other Information Section

Combining and Individual Nonmajor Fund Statements and Schedules	
Combining Balance Sheet – Nonmajor Governmental Funds	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	49
Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
Municipal Aid Fund	50
Tourism Fund	51
Schedule of State Assistance	52
Schedule of Debt Service Requirements to Maturity by Individual Issue	53

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>	54
Schedule of Findings	56

FINANCIAL SECTION



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fulton, Kentucky, as of and for the year ended June 30, 2018, 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, 2018, 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 and other postemployment benefits on pages 44 and 47 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, 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, Schedule of State Assistance, and Schedule of Debt Service Requirements to Maturity by Individual Issue are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Nonmajor Fund Statements and Schedules, Schedule of State Assistance, and Schedule of Debt Service Requirements to Maturity by Individual Issue are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the City of Fulton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

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

Alexander Thompson Arnold PLLC

Martin, Tennessee
December 21, 2018

City of Fulton

P.O. Box 1350
Fulton, Kentucky 42041

City Hall
Fax

270-472-1320
270-472-0686



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, 2018.

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 \$6.3 million (*net position*). This represents a decrease of \$1.4 million from the prior year. This decrease was due to a \$554 thousand net loss from current year operations and an \$888 thousand adjustment charged directly to net position for implementing the new other postemployment benefits (OPEB) standards. Of the total net position, \$6.5 million represents the City's investment in capital assets, net of related debt, and \$782 thousand is restricted, resulting in negative unrestricted net position of \$1 million as of June 30, 2018.
- As of the close of the current fiscal year, the City's general fund reported an ending fund balance of \$1.5 million, an increase of \$200 thousand in comparison with the prior year. Of the total fund balance, \$1.1 million is available for spending at the City's discretion (*unassigned fund balance*).
- The City's governmental activities had a net decrease of \$230 thousand, and business-type activities had a net decrease of \$324 thousand, for a total decrease of \$554 thousand from operations for the current fiscal year.
- The City reported a new liability for other postemployment benefits as required by GASB this year. The balance of this noncurrent liability at year end was \$1,026,923.

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

- Continued to review, correct and update of all City ordinances
- Continued improvements of our Public Works department
- Continued to implement systems to maintain consistencies in day to day operations of the City
- Demolished 4 blighted properties
- Waiting on final inspection from the DOW on the Agreed Order.

- Collected over \$4,500 in delinquent taxes
- Placed liens on multiple properties in regards to absentee owners neglecting to maintain their properties or pay taxes.
- Waiting on date to foreclose on 35 properties
- Reduced manning by 1 unit of labor in the Public Works Department
- Added one clerk to cover the PD/FD/CH

The City continues to be financially sound. Our local economy continues to recover from the closing of our local hospital. The City has seen several new retail shops locate here. We have also had one existing industry to continue to expand their current workforce. However, one of our longest corporate citizens has announced that they will be ceasing production on June 30, 2018 (loss of 52 jobs), but retaining 12 jobs for a distribution center. Our reserve funds remain sound. The 2017/18 budget had a deficit of approximately \$100,000 in the General Fund and a deficit of approximately \$400,000 in the Utility Fund, which was due mostly to depreciation and pension reform.

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 13 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 43 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 \$6.3 million at the close of the most recent fiscal year. The largest portion of the City’s net position 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 (12%) represents resources that are subject to external restriction on how they may be used. The remaining balance of net position representing unrestricted net position is used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City of Fulton reported a negative balance in the unrestricted category of net position due to the large increase in capital assets and increases in long-term liabilities related to pension and other postemployment benefit liabilities.

CONDENSED STATEMENT OF NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 2,202,191	\$ 2,021,517	\$ 1,491,711	\$ 3,394,233	\$ 3,693,902	\$ 5,415,750
Capital assets	3,207,717	3,395,410	10,954,487	9,296,244	14,162,204	12,691,654
Total assets	5,409,908	5,416,927	12,446,198	12,690,477	17,856,106	18,107,404
Deferred outflows of resources	592,590	305,735	553,807	301,150	1,146,397	606,885
Long-term liabilities	2,815,600	2,012,550	8,921,528	8,388,379	11,737,128	10,400,929
Other liabilities	71,277	46,429	529,952	297,201	601,229	343,630
Total liabilities	2,886,877	2,058,979	9,451,480	8,685,580	12,338,357	10,744,559
Deferred inflows of resources	315,000	238,000	66,790	7,323	381,790	245,323
Net investment in capital assets	2,524,952	2,640,057	3,981,492	2,119,554	6,506,444	4,759,611
Restricted net position	781,775	679,902	261,843	-	1,043,618	679,902
Unrestricted net position	(506,106)	105,724	(761,600)	2,179,170	(1,267,706)	2,284,894
Total net position	\$ 2,800,621	\$ 3,425,683	\$ 3,481,735	\$ 4,298,724	\$ 6,282,356	\$ 7,724,407

Statement of Activities – Expenditures from governmental activities exceeded revenues by \$230 thousand during the current year. The main difference in revenue from the prior year was the increase in miscellaneous revenue of \$101,962. Expenditures increased by \$166 thousand, with the largest increase in Public Safety due to increased pension expense. Expenditures in highways and streets decreased by \$27 thousand, mainly due to a large decrease in utility expenditures.

In the business-type activities, expenses exceeded revenues by \$324 thousand. Service revenues increased by 12%, while expenditures increased by only 4% from the prior year, mainly attributable to personnel costs and depreciation. No capital grants were received during the current year.

The prior period adjustments were mainly from recording other postemployment benefit obligations accumulated over previous years and required to be reported during the current year by new GASB pronouncements.

A condensed statement of activities for the years ended June 30, 2018 and 2017, is presented below.

CONDENSED STATEMENT OF ACTIVITIES

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program revenues						
Charges for services	\$ 45,132	\$ 39,519	\$ 2,293,952	\$ 2,041,798	\$ 2,339,084	\$ 2,081,317
Operating grants/contributions	105,662	109,976	-	-	105,662	109,976
Capital grants/contributions	-	16,800	-	-	-	16,800
	150,794	166,295	2,293,952	2,041,798	2,444,746	2,208,093
Expenses						
General government	301,924	280,004	-	-	301,924	280,004
Public safety	1,567,935	1,394,255	-	-	1,567,935	1,394,255
Public works - general	68,297	68,329	-	-	68,297	68,329
Highways and streets	79,311	106,602	-	-	79,311	106,602
Parks and cemeteries	89,714	83,185	-	-	89,714	83,185
Utilities	-	-	2,442,855	2,343,441	2,442,855	2,343,441
Non-departmental	136,260	145,086	-	-	136,260	145,086
Total expenses	2,243,441	2,077,461	2,442,855	2,343,441	4,686,296	4,420,902
Net program revenue (expense)	(2,092,647)	(1,911,166)	(148,903)	(301,643)	(2,241,550)	(2,212,809)
General revenues						
Taxes	1,506,318	1,392,477	-	-	1,506,318	1,392,477
Other	172,129	103,452	8,881	12,077	181,010	115,529
Transfers	184,435	199,744	(184,435)	(199,744)	-	-
Change in net assets	(229,765)	(215,493)	(324,457)	(489,310)	(554,222)	(704,803)
Beginning net assets	3,425,683	3,641,176	4,298,724	4,788,034	7,724,407	8,429,210
Prior period adjustments	(395,297)	-	(492,532)	-	(887,829)	-
Beginning net assets as restated	3,030,386	3,641,176	3,806,192	4,788,034	6,836,578	8,429,210
Ending net assets	\$ 2,800,621	\$ 3,425,683	\$ 3,481,735	\$ 4,298,724	\$ 6,282,356	\$ 7,724,407

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 97% of governmental fund revenues. Accordingly, this discussion will focus on the General Fund. General fund balance was \$1.5 million at the end of the current fiscal year. Of that balance, \$1.1 million is available to meet the day-to-day needs of the City.

Revenues in the General Fund were approximately \$194 thousand more than last year due mainly to increased payroll taxes received and miscellaneous income reported. In total, General Fund expenditures decreased by \$7 thousand, with all departments reporting decreases except the Police Department.

Proprietary funds – Unrestricted net position in the proprietary fund at the end of the year was a deficit of \$766 thousand due to increased restricted net position and investment in capital assets. The City’s utility department operated at a profit of approximately \$34 thousand before interest on the new bond

issue of \$183 thousand, and the in-lieu-of-tax transfer to the General Fund of \$184 thousand. In total, net position decreased \$324 thousand from the prior year due to operations and \$493 thousand due to reporting OPEB liability and related activity. There was an increase in personnel and administrative costs from the prior year of \$69 thousand, which includes pension and OPEB expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

Final Budgeted and Actual Amounts

Actual revenues were \$290 thousand more than budgeted amounts. This was mainly attributable to increased payroll tax and miscellaneous revenue received. Total expenditures were \$13 thousand less than budgeted amounts, which was spread across the majority of the departments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – As of June 30, 2018, the City had invested approximately \$14.1 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 3C beginning on page 33 of this report.

Long-term debt – At the end of the current fiscal year, the City of Fulton had bonds payable of \$6.5 million and a note payable for a new fire truck with an outstanding balance of \$42 thousand. During the prior year, a loan was executed with Kentucky Infrastructure Authority to finance new utility construction. The balance as of June 30, 2018, was \$1.06 million. Additional information on the City’s long-term debt can be found in Note 3D 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 2018/19 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 (as needed)
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. Continue to purchase a new patrol car for the police department each year
11. Finalize installing a new computer system for City Hall
12. Finalize in the 3rd quarter the lagoon upgrade project with Harshaw Trane, which will enhance the operation of the WWTP. This is part of the energy savings contract that we signed with Harshaw Trane in 2016.
13. Upgrading of City parks, i.e., Wi-Fi, equipment, bathrooms, etc.

14. Explore additional means of becoming a more energy efficient City
15. Achieve status of an “Ethics Certified” City
16. Evaluate and upgrade sidewalks throughout the City
17. Strive to reduce workers comp claims and costs

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, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash	\$ 1,371,959	\$ 1,025,256	\$ 2,397,215
Taxes receivable, net of allowance	243,491	-	243,491
Accounts receivable, net of allowance	-	193,185	193,185
Other taxes receivable	208,605	-	208,605
Internal balances	(13,175)	13,175	-
Inventory	-	26,252	26,252
Restricted assets:			
Cash and cash equivalents	391,311	233,843	625,154
Capital assets not being depreciated			
Land and improvements	269,920	-	269,920
Construction in progress	629,455	5,091,250	5,720,705
Capital assets, net of accumulated depreciation			
Buildings	1,703,276	-	1,703,276
Vehicles and equipment	605,066	-	605,066
Utility plant in service	-	5,863,237	5,863,237
Total assets	<u>5,409,908</u>	<u>12,446,198</u>	<u>17,856,106</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	440,526	411,454	851,980
Deferred outflows related to other postemployment benefits	152,064	142,353	294,417
Total deferred outflows of resources	<u>592,590</u>	<u>553,807</u>	<u>1,146,397</u>
Liabilities			
Accounts payable	30,197	341,159	371,356
Payroll-related liabilities	4,513	-	4,513
Other accrued liabilities	-	9,632	9,632
Due to fiduciary funds	16,080	5,854	21,934
Customer deposits	11,073	173,307	184,380
Unearned revenue - grants	9,414	-	9,414
Noncurrent liabilities:			
Net pension liability	1,546,008	1,443,979	2,989,987
Net other postemployment benefits liability	530,980	495,943	1,026,923
Long-term liabilities due within one year	53,839	207,842	261,681
Long-term liabilities due in more than one year	684,773	6,773,764	7,458,537
Total liabilities	<u>2,886,877</u>	<u>9,451,480</u>	<u>12,338,357</u>
Deferred Inflows of Resources			
Deferred revenue - property taxes	243,491	-	243,491
Deferred inflows related to pensions	43,709	40,824	84,533
Deferred inflows related to other postemployment benefits	27,800	25,966	53,766
Total deferred inflows	<u>315,000</u>	<u>66,790</u>	<u>381,790</u>
Net Position			
Net investment in capital assets	2,524,952	3,981,492	6,506,444
Restricted for:			
Drug and Police Evidence Funds	391,311	261,843	653,154
Ambulance Fund	133,529	-	133,529
Municipal Aid	256,935	-	256,935
Unrestricted	(506,106)	(761,600)	(1,267,706)
Total net position	<u>\$ 2,800,621</u>	<u>\$ 3,481,735</u>	<u>\$ 6,282,356</u>

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

CITY OF FULTON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)/Revenues and Changes in Net Position</u>		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 281,850	\$ -	\$ -	\$ -	\$ (281,850)	\$ -	\$ (281,850)
Public safety	1,567,935	11,967	56,341	-	(1,499,627)	-	(1,499,627)
Public works - general	68,297	50	-	-	(68,247)	-	(68,247)
Highways and streets	79,311	-	49,321	-	(29,990)	-	(29,990)
Parks and cemeteries	89,714	33,115	-	-	(56,599)	-	(56,599)
Non-departmental	136,260	-	-	-	(136,260)	-	(136,260)
Debt service expenses	20,074	-	-	-	(20,074)	-	(20,074)
Total governmental activities	2,243,441	45,132	105,662	-	(2,092,647)	-	(2,092,647)
Business-type activities:							
Public utilities	2,442,855	2,293,952	-	-	-	(148,903)	(148,903)
Total	<u>\$ 4,686,296</u>	<u>\$ 2,339,084</u>	<u>\$ 105,662</u>	<u>\$ -</u>	<u>(2,092,647)</u>	<u>(148,903)</u>	<u>(2,241,550)</u>
General revenues:							
Property taxes					323,823	-	323,823
Franchise taxes					18,033	-	18,033
Alcoholic beverage control regulatory fees					293,033	-	293,033
Payroll taxes					828,341	-	828,341
Business and other licenses					43,088	-	43,088
Interest					14,111	8,881	22,992
Miscellaneous					158,018	-	158,018
Transfers					184,435	(184,435)	-
Total general revenues and transfers					<u>1,862,882</u>	<u>(175,554)</u>	<u>1,687,328</u>
Change in net position					(229,765)	(324,457)	(554,222)
Net position - beginning					3,425,683	4,298,724	7,724,407
Prior period adjustments					<u>(395,297)</u>	<u>(492,532)</u>	<u>(887,829)</u>
Net position - beginning, as restated					<u>3,030,386</u>	<u>3,806,192</u>	<u>6,836,578</u>
Net position - ending					<u>\$ 2,800,621</u>	<u>\$ 3,481,735</u>	<u>\$ 6,282,356</u>

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

CITY OF FULTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 972,081	\$ 399,878	\$ 1,371,959
Property taxes receivable, net	243,491	-	243,491
Other taxes receivable	208,605	-	208,605
Restricted cash	391,311	-	391,311
Total assets	<u>\$1,815,488</u>	<u>\$ 399,878</u>	<u>\$ 2,215,366</u>
Liabilities			
Accounts payable	\$ 30,197	\$ -	\$ 30,197
Payroll-related liabilities	4,513	-	4,513
Due to utility fund	13,175	-	13,175
Due to fiduciary funds	16,080	-	16,080
Unearned revenue	-	9,414	9,414
Customer deposits	11,073	-	11,073
Total liabilities	<u>75,038</u>	<u>9,414</u>	<u>84,452</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	<u>243,491</u>	<u>-</u>	<u>243,491</u>
Fund Balances			
Restricted	391,311	390,464	781,775
Unassigned	<u>1,105,648</u>	<u>-</u>	<u>1,105,648</u>
Total fund balances	<u>1,496,959</u>	<u>390,464</u>	<u>1,887,423</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,815,488</u>	<u>\$ 399,878</u>	<u>\$ 2,215,366</u>

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

CITY OF FULTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2018

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

Total fund balances of governmental funds	\$ 1,887,423
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,207,717
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 and OPEB liabilities are not recognized as inflows or outflows of resources until a future period and, therefore, are not reported in the fund financial statements.	
Bonds payable	682,765
Compensated absences	55,847
Net pension liability	1,546,008
Net other postemployment benefit liability	530,980
Deferred inflows	71,509
Deferred outflows	<u>(592,590)</u>
Total	<u>(2,294,519)</u>
Net position of governmental activities	<u>\$ 2,800,621</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, 2018

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local taxes	\$ 1,463,230	\$ -	\$ 1,463,230
Intergovernmental revenue	96,545	49,321	145,866
Charges for services	33,165	-	33,165
Grant revenue	11,000	-	11,000
Fines, forfeitures and penalties	3,851	-	3,851
Interest	10,653	3,458	14,111
Other revenues	158,018	-	158,018
Total revenues	<u>1,776,462</u>	<u>52,779</u>	<u>1,829,241</u>
Expenditures			
Current:			
General government	154,371	-	154,371
Public safety	1,147,838	80,000	1,227,838
Public works - general	32,035	-	32,035
Highways and streets	62,327	9,192	71,519
Parks and cemeteries	65,680	-	65,680
Non-departmental	136,260	-	136,260
Debt service:			
Principal	72,697	-	72,697
Interest	19,517	-	19,517
Bond fees	2,282	-	2,282
Capital outlay:			
Public safety	66,183	-	66,183
Total expenditures	<u>1,759,190</u>	<u>89,192</u>	<u>1,848,382</u>
Revenues over (under) expenditures	17,272	(36,413)	(19,141)
Other financing sources (uses)			
Transfers in	184,435	-	184,435
Net change in fund balances	<u>201,707</u>	<u>(36,413)</u>	<u>165,294</u>
Fund balances - July 1, 2017	1,293,511	451,011	1,744,522
Prior period adjustments	1,741	(24,134)	(22,393)
Fund balances - July 1, 2017, as restated	<u>1,295,252</u>	<u>426,877</u>	<u>1,722,129</u>
Fund balances - June 30, 2018	<u>\$ 1,496,959</u>	<u>\$ 390,464</u>	<u>\$ 1,887,423</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, 2018

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

Net change in fund balances of governmental funds \$ 165,294

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

Capital outlay expenditures	66,183	
Depreciation expense	<u>(253,876)</u>	
Net effect		(187,693)

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

Contributions made	123,256	
Pension and OPEB expense	<u>(383,165)</u>	
Net effect		(259,909)

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

Payments on bond principal		72,697
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Governmental funds report the effect of premiums and discounts on debt when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the bond discount amortization for this year. (109)

Expenses reported in the statement of activities for accrued compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (20,045)

Change in net position of governmental activities \$ (229,765)

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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Revenues				
Local taxes				
Property taxes	\$ 341,000	\$ 289,550	\$ 297,020	\$ 7,470
Interest and penalties	2,700	4,100	4,296	196
Payments in lieu of tax	21,000	23,000	22,507	(493)
Franchise taxes	18,000	18,022	18,033	11
Alcoholic beverage control regulatory fee	330,000	285,350	293,033	7,683
Payroll taxes	710,000	710,000	828,341	118,341
Total local taxes	<u>1,422,700</u>	<u>1,330,022</u>	<u>1,463,230</u>	<u>133,208</u>
Intergovernmental revenues				
Business licenses	33,000	35,500	35,588	88
Alcoholic beverage control licenses	6,200	7,500	7,500	-
County court fees	3,100	4,510	4,510	-
Fire department revenue	2,000	305	305	-
State grant funds	11,000	11,000	11,000	-
State incentive revenue	44,000	37,000	39,158	2,158
Law enforcement fees	9,500	8,000	5,878	(2,122)
Code enforcement revenue	8,500	3,581	3,606	25
Total intergovernmental revenues	<u>117,300</u>	<u>107,396</u>	<u>107,545</u>	<u>149</u>
Charges for services				
Rent	9,500	13,175	14,125	950
Building permits	500	50	50	-
Cemetery lots	4,500	4,700	5,200	500
Cemetery openings and upkeep	11,500	12,300	13,790	1,490
Total charges for services	<u>26,000</u>	<u>30,225</u>	<u>33,165</u>	<u>2,940</u>
Fines, forfeitures and penalties				
Base court revenue	5,500	3,850	3,851	1
Other revenues				
Sale of property	25,000	2,900	2,900	-
Interest income	11,000	9,800	10,653	853
Miscellaneous income	2,000	1,960	155,118	153,158
Total other revenues	<u>38,000</u>	<u>14,660</u>	<u>168,671</u>	<u>154,011</u>
Total revenues	<u>1,609,500</u>	<u>1,486,153</u>	<u>1,776,462</u>	<u>290,309</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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Expenditures				
Administrative				
Salaries	111,400	113,000	128,411	15,411
Retirement/pension	18,029	16,000	16,073	73
Hospitalization	86	86	1,244	1,158
Life/dental	190	187	202	15
Social security	7,421	7,300	8,518	1,218
Other benefits	812	200	216	16
Office supplies	900	831	1,259	428
Technical supplies	500	1,679	1,616	(63)
Dues and subscriptions	500	449	411	(38)
Motor fuel/oil	2,000	2,300	2,084	(216)
Telephone	1,000	900	846	(54)
Advertising/printing	2,000	2,843	3,153	310
Travel	2,000	1,000	1,015	15
Professional/technical services	500	110	205	95
Training	1,250	1,300	1,206	(94)
Miscellaneous	750	10	3	(7)
Duplicate charges	(68,969)	(68,386)	(75,969)	(7,583)
Total administrative	<u>80,369</u>	<u>79,809</u>	<u>90,493</u>	<u>10,684</u>
Finance Department				
Salaries	161,364	165,000	162,899	(2,101)
Overtime/help	1,620	1,700	1,746	46
Retirement/pension	31,260	31,100	30,983	(117)
Hospitalization	39,609	34,300	31,912	(2,388)
Life/dental insurance	760	815	747	(68)
Social security	11,387	11,100	11,230	130
Other benefits	2,636	933	895	(38)
Maintenance - fixtures	1,200	2,500	2,019	(481)
Utilities	8,000	7,850	7,410	(440)
Technical supplies	600	143	149	6
Office supplies	900	1,232	1,121	(111)
Cleaning supplies	500	725	679	(46)
Dues/subscriptions	150	93	70	(23)
Postage	1,500	1,271	954	(317)
Telephone	900	800	851	51
Travel	800	1,100	1,111	11
Professional/technical services	400	-	-	-
Training/registration	800	900	769	(131)
Miscellaneous	200	-	-	-
Duplicate charges	(198,909)	(195,958)	(191,667)	4,291
Total finance department	<u>65,677</u>	<u>65,604</u>	<u>63,878</u>	<u>(1,726)</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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Code Compliance				
Salaries	28,371	31,500	29,421	(2,079)
Retirement/pension	5,442	5,500	5,290	(210)
Health/vision	2,305	900	893	(7)
Life/dental	190	187	187	-
Social security	2,062	2,200	2,202	2
Other benefits	308	64	85	21
Clothing	500	-	-	-
Maintenance - vehicles/equipment	500	334	250	(84)
Office supplies	1,500	600	640	40
Technical supplies	1,500	2,354	1,913	(441)
Dues and subscriptions	2,500	2,500	2,050	(450)
Motor fuel/oil	400	252	266	14
Postage	1,300	667	500	(167)
Telephone	-	251	-	(251)
Advertising/printing	250	-	-	-
Travel	3,500	1,000	853	(147)
Professional/technical services	5,000	6,000	6,494	494
Training	1,000	500	385	(115)
Code enforcement	25,000	15,000	8,347	(6,653)
Miscellaneous	250	-	-	-
Total code compliance	<u>81,878</u>	<u>69,809</u>	<u>59,776</u>	<u>(10,033)</u>
Police Department				
Salaries	332,648	322,000	321,464	(536)
Overtime/help	65,000	68,000	67,193	(807)
Retirement/pension	80,002	76,000	76,708	708
Hospitalization	75,914	72,000	72,324	324
Life/dental insurance	1,853	1,550	1,550	-
Social security	31,147	30,000	30,017	17
Workers' compensation	17,000	17,781	17,781	-
Clothing	3,500	7,000	5,543	(1,457)
Incentive	36,000	26,000	26,024	24
Other benefits	4,227	1,103	1,316	213
Maintenance - fixtures	3,000	1,300	1,401	101
Maintenance - vehicles/equipment	16,000	14,028	14,076	48
Utilities	8,500	6,800	6,540	(260)
Alcoholic beverage control expenses	2,500	11,000	12,159	1,159
Technical supplies	9,000	8,500	8,436	(64)
Office supplies	4,000	3,700	3,760	60
Cleaning supplies	1,000	390	374	(16)
Dues and subscriptions	600	350	304	(46)
Motor fuel/oil	18,000	28,000	25,294	(2,706)
Postage	600	600	519	(81)
Telephone	8,000	6,281	6,606	325
Advertising/printing	500	273	271	(2)
Travel	6,000	7,734	7,668	(66)

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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Insurance	29,700	29,700	29,698	(2)
Professional/technical services	400	900	836	(64)
Training	800	1,000	833	(167)
Program implements	600	265	199	(66)
Animal control	2,000	4,268	4,020	(248)
Dispatch expense	30,000	30,000	30,000	-
Drug fund expenditures	7,000	7,000	7,798	798
Miscellaneous	1,000	411	1,380	969
Capital expenditures	37,000	37,433	37,433	-
Total Police Department	<u>833,491</u>	<u>821,367</u>	<u>819,525</u>	<u>(1,842)</u>
Fire Department				
Salaries	113,280	110,000	110,461	461
Retirement/pension	23,262	22,500	22,695	195
Hospitalization	25,637	26,446	24,972	(1,474)
Life/dental insurance	427	440	393	(47)
Social security	8,358	8,400	8,354	(46)
Workers' compensation	5,700	6,243	6,243	-
Clothing	1,800	600	526	(74)
Incentive	8,000	8,000	8,000	-
Other benefits	4,444	500	304	(196)
Maintenance - fixtures	1,500	2,216	1,757	(459)
Maintenance - vehicles/equipment	15,500	13,503	13,112	(391)
Utilities	8,200	7,000	6,540	(460)
State Aid expense	11,000	11,000	11,000	-
Volunteer fire expenditures	50,000	50,000	50,000	-
Fire prevention	1,000	306	580	274
Technical supplies	14,100	4,000	3,446	(554)
Office supplies	1,200	1,556	1,358	(198)
Cleaning supplies	750	768	576	(192)
Dues and subscriptions	1,500	760	620	(140)
Motor fuel/oil	2,800	2,781	3,067	286
Grant expense	-	416	312	(104)
Postage	350	265	265	-
Telephone	3,200	2,100	2,234	134
Advertising/printing	350	100	75	(25)
Travel	3,500	1,000	1,123	123
Insurance	19,000	19,105	19,000	(105)
Professional/technical services	10,000	10,000	8,070	(1,930)
Training	3,900	2,401	1,801	(600)
Dispatch expense	10,000	10,000	10,000	-
Fire truck loan payments	63,600	63,496	63,496	-
Miscellaneous	200	115	86	(29)
Capital expenditures	-	17,750	17,750	-
Total Fire Department	<u>412,558</u>	<u>403,767</u>	<u>398,216</u>	<u>(5,551)</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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Public Works Department				
Salaries	439,595	437,570	434,035	(3,535)
Overtime/help	25,000	29,217	27,868	(1,349)
Retirement/pension	89,109	87,297	86,613	(684)
Hospitalization	84,545	74,000	73,118	(882)
Life/dental insurance	2,470	2,287	2,190	(97)
Social security	32,510	34,660	34,284	(376)
Workers' compensation	27,600	33,627	33,627	-
Clothing	6,300	6,300	5,619	(681)
Other benefits	4,860	1,500	1,633	133
Duplicate charges	(676,390)	(671,135)	(666,952)	4,183
Total Public Works	<u>35,599</u>	<u>35,323</u>	<u>32,035</u>	<u>(3,288)</u>
Street Department				
Maintenance - buildings/grounds	1,000	200	63	(137)
Maintenance - fixtures	1,000	1,748	1,341	(407)
Maintenance - vehicles/equipment	11,500	23,000	25,093	2,093
Utilities	27,000	17,250	16,306	(944)
Technical supplies	4,000	4,000	4,617	617
Office supplies	500	200	157	(43)
Motor fuel/oil	8,000	9,343	10,155	812
Insurance	2,380	2,380	2,380	-
Professional/technical services	1,500	1,500	1,430	(70)
Street markers	1,500	500	213	(287)
Miscellaneous	500	572	572	-
Total Street Department	<u>58,880</u>	<u>60,693</u>	<u>62,327</u>	<u>1,634</u>
Parks and Cemeteries Department				
Maintenance - buildings/grounds	4,000	8,500	8,708	208
Maintenance - fixtures	1,500	1,482	1,416	(66)
Maintenance - vehicles/equipment	8,000	8,529	9,215	686
Utilities	12,500	17,029	16,177	(852)
Technical supplies	2,200	4,700	4,911	211
Office supplies	250	150	120	(30)
Women's club expenditures	500	400	284	(116)
Community center expenditures	14,000	12,000	13,071	1,071
Motor fuel/oil	3,000	2,800	2,961	161
Insurance	6,680	6,680	6,680	-
Professional/technical services	1,500	1,500	1,545	45
Miscellaneous	500	757	592	(165)
Total Parks and Cemeteries	<u>54,630</u>	<u>64,527</u>	<u>65,680</u>	<u>1,153</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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Over (Under)</u>
Non-Departmental				
Maintenance - buildings/grounds	4,000	-	-	-
Shop expense	14,000	14,000	14,656	656
Postage	300	456	456	-
Delinquent property tax lawsuit expense	40,000	16,000	15,170	(830)
PVA - tax roll	5,300	5,300	4,762	(538)
Service contracts	21,000	24,665	19,971	(4,694)
Audit	7,000	7,000	7,000	-
General liability insurance	45,500	44,000	43,932	(68)
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	14,000	10,000	10,281	281
Kentucky Municipal League	850	850	850	-
Purchase area development	500	500	500	-
Contingency	2,500	2,500	3,712	1,212
Economic development	7,500	7,500	7,500	-
Total Non-Departmental	<u>169,920</u>	<u>140,241</u>	<u>136,260</u>	<u>(3,981)</u>
Debt Service				
Debt payment	-	-	11,035	11,035
Interest on debt	-	-	17,683	17,683
Bond fees	-	-	2,282	2,282
Total Debt Service	<u>-</u>	<u>31,000</u>	<u>31,000</u>	<u>-</u>
Total expenditures	<u>1,793,002</u>	<u>1,772,140</u>	<u>1,759,190</u>	<u>(12,950)</u>
Revenues over (under) expenditures	<u>(183,502)</u>	<u>(285,987)</u>	<u>17,272</u>	<u>303,259</u>
Other financing sources (uses)				
Transfers in - payments in lieu of tax	<u>184,435</u>	<u>184,435</u>	<u>184,435</u>	<u>-</u>
Net change in fund balance	<u>\$ 933</u>	<u>\$(101,552)</u>	<u>201,707</u>	<u>\$ 303,259</u>
Fund balance - July 1, 2017			1,293,511	
Prior period adjustment			<u>1,741</u>	
Fund balance - July 1, 2017, as restated			<u>1,295,252</u>	
Fund balance - June 30, 2018			<u>\$ 1,496,959</u>	

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

CITY OF FULTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2018

ASSETS

Current assets	
Cash	\$ 1,025,256
Accounts receivable (net)	193,185
Due from general fund	13,175
Inventory	<u>26,252</u>
Total current assets	1,257,868
Noncurrent assets	
Restricted assets:	
Cash in bond-related accounts	233,843
Capital assets, net of accumulated depreciation:	
Utility plant in service	5,863,237
Construction in progress	<u>5,091,250</u>
Total capital assets	<u>10,954,487</u>
Total assets	<u>12,446,198</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	411,454
Deferred outflows related to other postemployment benefits	<u>142,353</u>
Total deferred outflows of resources	<u>553,807</u>

LIABILITIES

Current liabilities	
Accounts payable	341,159
Accrued expenses	9,632
Due to fiduciary funds	5,854
Customer deposits	173,307
Noncurrent liabilities due within one year	<u>207,842</u>
Total current liabilities	<u>737,794</u>
Noncurrent liabilities	
Accrued vacation and sick leave	8,611
Net pension liability	1,443,979
Net other postemployment benefit liability	495,943
Bonds and notes payable, net of current portion	<u>6,765,153</u>
Total noncurrent liabilities	<u>8,713,686</u>
Total liabilities	<u>9,451,480</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	40,824
Deferred inflows related to other postemployment benefits	<u>25,966</u>
Total deferred inflows of resources	<u>66,790</u>

NET POSITION

Net investment in capital assets	3,981,492
Restricted for debt service	261,843
Unrestricted	<u>(761,600)</u>
Total net position	<u>\$ 3,481,735</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, 2018

Operating revenues	
Utility sales	\$ 2,199,110
Miscellaneous	94,842
Total operating revenues	<u>2,293,952</u>
Operating expenses	
Personnel/administrative costs	1,110,931
Maintenance	40,592
Utilities	147,436
Maintenance to system	102,088
Technical supplies	33,361
Office and cleaning supplies	6,316
Dues and subscriptions	1,478
Motor fuel and oil	25,247
Postage	7,793
Gas purchases	412,892
Equipment rental	1,926
Telephone	3,160
Advertising and printing	163
Travel and registrations	708
Insurance	37,573
Professional services	109,684
Training	400
Audit expense	7,500
Depreciation	171,334
Dispatch expense	20,000
Miscellaneous	19,450
Total operating expenses	<u>2,260,032</u>
Operating income	33,920
Non-operating revenue (expense)	
Interest earnings	8,881
Interest expense	<u>(182,823)</u>
Total non-operating revenue (expense)	<u>(173,942)</u>
Income (loss) before capital contributions and transfers	(140,022)
Transfer out - payment in lieu of taxes	<u>(184,435)</u>
Change in net position	(324,457)
Net position - July 1, 2017	4,298,724
Prior period adjustments	<u>(492,532)</u>
Net position - July 1, 2017, as restated	<u>3,806,192</u>
Net position - June 30, 2018	<u>\$ 3,481,735</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, 2018

Cash Flows from Operating Activities		
Cash received from customers		\$ 2,338,791
Cash payments for employees services and benefits		(934,588)
Cash payments to suppliers		<u>(775,062)</u>
Net cash provided by operating activities		629,141
Cash Flows from Non-Capital Financing Activities		
Interfund transfers	\$ (184,435)	
Increase in due to/from other funds	<u>8,543</u>	
Net cash used by non-capital financing activities		(175,892)
Cash Flows from Capital and Related Financing Activities		
Additions to utility plant	(1,829,577)	
Payments on principal of long-term debt	(199,266)	
Interest payments on long-term debt	<u>(187,252)</u>	
Net cash used by capital and related financing activities		(2,216,095)
Cash Flows from Investing Activities		
Interest received		<u>8,881</u>
Net decrease in cash		(1,753,965)
Cash - July 1, 2017		<u>3,013,064</u>
Cash - June 30, 2018		<u>\$ 1,259,099</u>

Cash is reported in the statement of net position as follows:	Cash	\$ 1,025,256
	Restricted cash	<u>233,843</u>
		<u>\$ 1,259,099</u>

Reconciliation of Cash Flows from Operating Activities		
Operating income		\$ 33,920
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	\$ 171,334	
Deferred outflows	(252,657)	
Deferred inflows	59,467	
Decrease in accounts receivable	20,647	
Increase in accounts payable	202,705	
Increase in accrued expenses	7,469	
Increase in customer deposits	16,723	
Increase in net pension liability	240,901	
Increase in net other postemployment benefit liability	<u>128,632</u>	
Total adjustments		<u>595,221</u>
Net cash provided by operating activities		<u>\$ 629,141</u>

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

CITY OF FULTON, KENTUCKY
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
June 30, 2018

	<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	\$ 245,230	\$ -	\$ 3,262	\$ 42,098
Due from general fund	-	4,569	11,511	-
Due from utility fund	-	5,854	-	-
Due from payroll fund	-	1,636	-	-
Total assets	<u>245,230</u>	<u>12,059</u>	<u>14,773</u>	<u>42,098</u>
Liabilities				
Bank overdraft	-	4,361	-	-
Due to expenditure revolving fund	-	-	1,636	-
Perpetual care contributions	-	-	-	650
Accounts payable	-	-	6,086	-
Total liabilities	<u>-</u>	<u>4,361</u>	<u>7,722</u>	<u>650</u>
Net position				
Held in trust for tourism and other purposes	<u>\$ 245,230</u>	<u>\$ 7,698</u>	<u>\$ 7,051</u>	<u>\$ 41,448</u>

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

CITY OF FULTON, KENTUCKY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2018

	<u>Private Purpose Trust Cemetery Trust Fund</u>
Additions	
Interest	\$ 78
Miscellaneous	1,500
Total additions	1,578
Deductions	-
Change in net position	1,578
Net position - July 1, 2017	39,870
Net position - June 30, 2018	\$ 41,448

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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018

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, 2018

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.

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. 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

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 pensions and other postemployment benefits that qualified for reporting in this category. See Note 4 for details related to these items.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

Compensated Absences

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

Pensions

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

Other Postemployment Benefits

City of Fulton adopted GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the current year, including the amendments in GASB Statement No. 85. The primary objective of Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB) and replaces the requirements of Statement No. 45 and No. 57. The new pronouncements establish standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, GASB identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed. The adoption of these new standards resulted in the restatement of certain beginning balances to record OPEB amounts as of July 1, 2017. Net OPEB liability was increased by \$805,488 and deferred outflows of resources related to OPEB was increased by \$65,273. As a result, beginning net position decreased by \$740,215.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Kentucky Retirement Systems' Insurance Fund (KRS Insurance Fund) and additions to/deductions from KRS Insurance Fund's fiduciary net position have been determined on the same basis as they

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

are reported by KRS Insurance Fund. For this purpose, KRS Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for short-term investments that are reported at cost, which approximates fair value.

Long-Term Obligations

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

Fund Balance/Net Position

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

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

As of June 30, 2018, the City had restricted fund balance of \$30,272 for Drug and Police Evidence Funds, \$361,039 for alcoholic beverage funds, \$133,529 for the Ambulance Fund and \$256,935 for municipal aid funds.

In the Utility Fund, restricted net position of \$28,000 is reported for the replacement reserve fund required by the 2016 Kentucky Infrastructure loan agreement and \$233,843 is restricted for the 2017 bond cash accounts.

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (gaap). 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.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Invested Funds

Prior year outstanding checks in the General Fund were written off through a prior period adjustment during the current year in the amount of \$1,741. Beginning cash was increased by this amount and beginning fund balance was increased by the same amount.

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, 2018, all bank deposits were insured or collateralized. All funds are classified as public funds.

B. Receivables

Receivables are presented in the financial statements net of allowances for uncollectible accounts. The Utility Fund has an allowance of \$8,000 as of June 30, 2018. The allowance for uncollectible property taxes was \$35,418 at June 30, 2018. During the current year, certain prior year receivables were determined to be uncollectible and were written off through prior period adjustments. Accounts receivable in the Utility Fund was decreased by \$125,221 and beginning net position by the same amount. In the General Fund, a grant receivable was written off for \$24,133 and beginning fund balance was reduced by the same amount.

C. Capital Assets

Governmental capital asset activity for the year ended June 30, 2018, is shown below.

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets, not being depreciated				
Land	\$ 269,920	\$ -	\$ -	\$ 269,920
Construction in process	<u>629,455</u>	<u>-</u>	<u>-</u>	<u>629,455</u>
Total capital assets not being depreciated	<u>899,375</u>	<u>-</u>	<u>-</u>	<u>899,375</u>
Capital assets, being depreciated				
Buildings	3,844,415	-	-	3,844,415
Vehicles and equipment	<u>4,605,959</u>	<u>66,183</u>	<u>-</u>	<u>4,672,142</u>
Total capital assets being depreciated	8,450,374	66,183	-	8,516,557
Less accumulated depreciation for:				
Buildings	2,076,470	64,670	-	2,141,140
Vehicles and equipment	<u>3,877,869</u>	<u>189,206</u>	<u>-</u>	<u>4,067,075</u>
Total accumulated depreciation	<u>5,954,339</u>	<u>253,876</u>	<u>-</u>	<u>6,208,215</u>
Net capital assets being depreciated	<u>2,496,035</u>	<u>(187,693)</u>	<u>-</u>	<u>2,308,342</u>
Governmental activities capital assets, net	<u>\$ 3,395,410</u>	<u>\$ (187,693)</u>	<u>\$ -</u>	<u>\$ 3,207,717</u>

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Depreciation expense was charged to governmental functions as follows:

General	\$ 89,920
Public safety	114,258
Public works	17,873
Highways and streets	7,792
Parks and cemeteries	<u>24,034</u>
Total - governmental activities	<u>\$ 253,877</u>

Business-type capital asset activity for the year ended June 30, 2018, is summarized below:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Construction in process	\$ 3,329,323	\$ 1,761,927	\$ -	5,091,250
Capital assets, being depreciated				
Utility plant in operation	11,254,179	67,650	-	11,321,829
Less accumulated depreciation	<u>5,287,258</u>	<u>171,334</u>	<u>-</u>	<u>5,458,592</u>
Utility plant in operation, net	<u>5,966,921</u>	<u>(103,684)</u>	<u>-</u>	<u>5,863,237</u>
Business-type capital assets, net	<u>\$ 9,296,244</u>	<u>\$ 1,658,243</u>	<u>\$ -</u>	<u>\$ 10,954,487</u>

D. 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, 2018, was \$41,813.

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

Utility Fund

In conjunction with the issuance of Kentucky Rural Water Finance Corporation (KRWFC) Public Projects Refunding and Improvement Revenue Bonds, Series 2013C, the City amended its assistance agreement with KRWFC effective March 27, 2013, in order to effect substantial debt service savings regarding the original loan used for major water system improvements completed in 2006. The balance outstanding at the time of the amendment was \$903,000. The revised principal amount of the loan as a result of this amendment is \$840,000. This refunding was undertaken to reduce total debt service payments over the next 14 years by \$179,182 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$145,695. The premium associated with the new debt was \$79,966. This amount is being amortized over the life of the new debt, and is included in bonds payable in the statements of net position. Amortization for the year ended June 30, 2018, was \$5,331.

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018, was \$578,000.

On January 1, 2016, the City entered into an assistance agreement with the Kentucky Infrastructure Authority for a loan in the amount of \$1,139,000 for wastewater treatment plant improvements. The interest rate is .75% and the term is 20 years. Annual debt service is \$61,467 plus an administrative fee of \$2,278. Semi-annual payments of principal and interest are due June 1 and December 1 each year. The amount outstanding as of June 30, 2018, was \$1,059,916. In conjunction with this loan, a replacement reserve account was required to be established for \$28,000. This reserve shall be maintained for the life of the loan.

On October 20, 2016, the City entered into a lease agreement with the Kentucky Bond Corporation in conjunction with the Series 2016C bond issue in the amount of \$6,090,000 for acquisition and installation of the energy savings project more particularly described in the PACT Agreement dated August 22, 2016, between City of Fulton and Trane U.S. Inc. The term of the lease is 20 years. Monthly payments of principal and interest are due, plus an administrative fee. The amount outstanding as of June 30, 2018, was \$5,946,250. The lease payments are being paid 89.19% from the Water Fund and 10.81% from the General Fund.

The following is a summary of estimated future debt service requirements as of June 30, 2018:

Year Ending June 30,	Government Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 53,839	\$ 17,846	\$ 207,842	\$ 175,876
2020	13,648	17,222	221,622	171,125
2021	15,494	16,949	242,265	166,101
2022	17,656	16,639	265,512	160,555
2023	19,818	16,286	283,762	154,436
2024-2028	135,125	74,320	1,675,402	663,242
2029-2033	212,507	52,667	2,046,628	448,568
2034-2037	216,646	15,602	1,998,213	131,925
Totals	<u>\$ 684,733</u>	<u>\$ 227,531</u>	<u>\$ 6,941,246</u>	<u>\$ 2,071,828</u>

Changes in long-term liabilities for the year ended June 30, 2018, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental activities:					
Note payable - fire truck	\$ 103,475	\$ -	\$ 61,662	\$ 41,813	\$ 41,813
KY Bond Corporation, 2016C series	653,955	-	11,035	642,920	12,026
Bond discount, net of amortization	(2,077)	-	(109)	(1,968)	n/a
Compensated absences	35,802	20,045	-	55,847	n/a
Total for governmental activities	<u>\$ 791,155</u>	<u>\$ 20,045</u>	<u>\$ 72,588</u>	<u>\$ 738,612</u>	<u>\$ 53,839</u>

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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Business-type activities:					
KRWFC bonds, 2013B series	\$ 633,000	\$ -	\$ 55,000	\$ 578,000	\$ 55,000
Bond premium being amortized	53,311	-	5,331	47,980	n/a
KIA Infrastructure loan	1,113,134	-	53,218	1,059,916	53,618
KY Bond Corporation, 2016C series	5,394,378	-	91,048	5,303,330	99,224
Bond discount being amortized	(17,133)	-	(902)	(16,231)	n/a
Compensated absences	8,611	-	-	8,611	n/a
Total for business-type activities	<u>\$ 7,185,301</u>	<u>\$ -</u>	<u>\$ 203,695</u>	<u>\$ 6,981,606</u>	<u>\$ 207,842</u>

E. Interfund Receivables, Payables, and Transfers

Various due to/due from amounts at June 30, 2018, were temporary balances regarding expenditure revolving fund transactions or payroll transfers. There was also \$13,175 due from the General Fund to the Utility Fund for interest on 2016 bonds. The transfer of \$184,435 from the Utility Fund to the General Fund is the annual in-lieu-of-tax payment.

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. Kentucky Revised Statute Section 61.645 grants the authority to establish and amend the benefit terms to the CERS Board of Trustees. 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.

Benefits provided. The Plan provides for retirement, disability, and death benefits to Plan members. Retirement benefits may be extended to beneficiaries of members under certain circumstances.

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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Cost of living adjustments are provided at the discretion of the General Assembly. Effective July 1, 2009, COLA for retirees are set by statute at 1.5% each July 1.

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 2018 were adopted by the Board of KRS based on actuarially recommended rates. For the year ended June 30, 2018, the City's covered payroll was \$1,242,844. 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, 2018, was 14.48%. The City's contributions to the Plan for the year ended June 30, 2018, were \$179,964.

Pension Liabilities. At June 30, 2018, the City reported a liability of \$2,989,987 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, based on an expected total pension liability calculated as of that date using standard roll forward techniques applied to the total pension liability determined by an actuarial valuation as of June 30, 2016. 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, 2017, the City's proportion was 0.051082 percent. At June 30, 2016, the City's proportion was 0.049242 percent.

Pension Expense. For the year ended June 30, 2018, the City recognized pension expense of \$570,160.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Plan investments	\$ 36,982	\$ -
Changes in assumptions	551,734	-
Differences between expected and actual experience	3,709	75,899
Changes in proportion and differences between City contributions and proportionate share of contributions	79,591	8,634
Contributions subsequent to the measurement date of June 30, 2017	179,964	<i>(not applicable)</i>
Total	\$ 851,980	\$ 84,533

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 measurement period ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense in the following measurement periods:

Year Ending June 30:	
2018	\$267,715
2019	246,428
2020	111,733
2021	(38,393)

Actuarial Methods and Assumptions. The total pension liability, net pension liability, and sensitivity information as of June 30, 2017, were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. The current actuary did not perform the actuarial valuation as of June 30, 2016, but did replicate the prior actuary's valuation results on the same assumption, methods, and data as of that date. The roll-forward is based on the results of that replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board adopted the following updated actuarial assumptions that were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017, for the plan as a whole.

Inflation	2.30 percent
Salary increases	2.00 percent
Investment rate of return	6.25 percent

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.

In general, the actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. Regular experience studies are prepared every five years.

The long-term expected rate of return on plan investments for the June 30, 2017, valuation was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
U.S. equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash	<u>2.00%</u>	1.88%
Total	100.00%	

Discount Rate. The projection of cash flows used to determine the 2017 discount rate of 6.25% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	<u>Discount rate</u>	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 3,771,019
Current discount rate	6.25%	\$ 2,989,987
1% increase	7.25%	\$ 2,336,658

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, 2017.

B. Risk Management

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

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

C. Other Postemployment Benefits

The County Employees Retirement System also contains an OPEB plan. Employees covered under this plan are provided with other postemployment benefits through the CERS Non-hazardous Insurance Fund, a cost-sharing, multiple-employer defined benefit OPEB plan that covers all regular full-time members employed in non-hazardous duty positions of any state department, county, city, and any additional eligible local agencies electing to participate. Participation in the insurance program is optional and requires the completion of the proper forms at the time of retirement and each year during open enrollment in order to obtain insurance coverage. KRS provides access to group health insurance coverage through the Kentucky Employees Health Plan for recipients until they reach age 65 and/or become Medicare eligible. After a retired or disabled retired member becomes eligible for Medicare, coverage is available through a Medicare eligible plan offered by KRS. OPEB may be extended to beneficiaries of plan members under certain circumstances. The Insurance Fund is administered by the County Employees Retirement System. Kentucky Revised Statute Section 61.645 grants the authority to establish and amend the benefit terms to the CERS Board of Trustees. Section 61.701 provides for the administration of the Kentucky Retirement Systems Insurance Fund.

CERS issues a publicly available financial report that can 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.

Benefits provided. The Insurance Fund provides healthcare benefits through payment of insurance premiums for retirees. The percentage of premiums paid is determined by a retiree's date of participation in the plan.

Tier 1	Participation date Benefit eligibility Benefit	Before July 1, 2003 Recipient of a retirement allowance Percentage of premium paid by KRS <u>Years of Service</u> Less than 4 years..... 0% 4 – 9 years 25% 10 – 14 years 50% 15 – 19 years 75% 20 or more years..... 100%
Tier 2	Participation date Benefit eligibility Benefit	After 7/1/2003 but before September 1, 2008 Recipient of a retirement allowance with at least 120 months of service at retirement Monthly contribution of \$10 for each year of earned service increased by 1.5% each July 1.
Tier 3	Participation date Benefit eligibility Benefit	After September 1, 2008 Recipient of a retirement allowance with at least 180 months of service at retirement Monthly contribution of \$10 for each year of earned service increased by 1.5% each July 1.

The benefit amount as of 7/1/17 for Tier 2 and Tier 3 members is \$13.18 per year of service. Upon retiree's death, the surviving spouse of Tier 2 and Tier 3 members may continue coverage but will be

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

responsible for 100% of premiums. Tier 1 surviving spouses will continue to receive retiree's benefits. There are also benefits for disability and death while in service.

Contributions. OPEB contributions are actuarially determined and set by the KRS Board. The City's actuarially determined contribution rate for the year ended June 30, 2018, was 4.70 percent of covered payroll. Contributions paid to the OPEB plan were \$58,414 for the year ended June 30, 2018. However, the fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to all participants, there is an implicit employer subsidy for the non-Medicare eligible retirees. In order to account for the employer provided OPEB benefit in accordance with GASB 75, employer contributions need to be adjusted to reflect the cost of the implicit subsidy. For the year ended June 30, 2018, the implicit subsidy on current year contributions was \$12,551.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of \$1,026,923 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on employers' actual contributions for FY 2017. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2017, the City's proportion was 0.051082 percent. Since GASB 75 is effective for the City's 2018 fiscal year, KRS has not provided prior year information.

For the year ended June 30, 2018, the City recognized CERS OPEB expense of \$117,022.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 48,532
Changes in assumptions	223,452	-
Differences between expected and actual experience	-	2,852
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	2,382
Contributions subsequent to the measurement date ¹	70,965	-
Total	\$ 294,417	\$ 53,766

¹ must include implicit subsidy of \$12,551 per KRS

The amount reported above as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the measurement period ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in the following measurement periods:

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Year ended June 30:		
2018	\$29,196	
2019	29,196	
2020	29,196	
2021	29,196	
2022	41,329	
Thereafter	11,573	

Actuarial assumptions. The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.30 percent
Salary increases	0.00 percent
Investment rate of return	6.25 percent, net of OPEB plan investment expense
Healthcare cost trend rates	
Pre-65	7.5 percent, decreasing gradually to an ultimate rate of 5.0 percent over a period of 5 years
Post-65	5.5 percent, decreasing gradually to an ultimate rate of 5.0 percent over a period of 2 years

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013, with Scale BB (set back 1 year for females).

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. However, subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted the following updated actuarial assumptions reflected in the actuarial valuation as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The salary increase assumption was changed from 4.0% to zero.
- The single discount rate changed from 6.90% to 5.84%.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
U.S. equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%

CITY OF FULTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Asset Class	Target Allocation	Long- term Expected Real Rate of Return
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	

Discount rate. The discount rate used to measure the total OPEB liability was 5.84 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made at statutorily required rates, actuarially determined. Based on this assumption, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84 percent) or 1-percentage-point higher (6.84 percent) than the current discount rate:

	1% Decrease (4.84%)	Current Discount Rate (5.84%)	1% Increase (6.84%)
Net OPEB liability	<u>\$1,306,702</u>	<u>\$1,026,923</u>	<u>\$ 794,102</u>

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Lower	Current Healthcare Trend Rate	1% Higher
Net OPEB liability	<u>\$ 787,703</u>	<u>\$1,026,923</u>	<u>\$1,337,895</u>

OPEB plan fiduciary net position. Detailed information about the OPEB 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, 2017.

CITY OF FULTON, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

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

	2014	2015	2016	2017
City of Fulton's proportion of the collective net pension liability	.045510%	.049792%	.049242%	.051082%
City of Fulton's proportionate share of the net pension liability	\$1,477,000	\$2,140,836	\$2,424,473	\$2,989,987
City of Fulton's covered payroll	\$1,043,418	\$1,162,279	\$1,177,546	\$1,243,734
City of Fulton's proportionate share of the net pension liability as a percentage of its covered payroll	141.55%	184.19%	205.89%	240.40%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.30%

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

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

	2014	2015	2016	2017	2018
Actuarially determined contributions	\$ 143,366	\$ 148,663	\$ 146,734	\$ 173,501	\$ 179,964
Contributions in relation to the actuarially determined contribution	143,366	148,663	146,734	173,501	179,964
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City of Fulton's covered payroll	\$1,043,418	\$1,162,279	\$1,177,546	\$1,243,734	\$1,242,844
City of Fulton's contributions as a percentage of covered payroll	13.74%	12.75%	12.42%	13.95%	14.48%

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

See independent auditor's report

CITY OF FULTON, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Notes to Schedules

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions. However, subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted the following updated actuarial assumptions reflected in the actuarial valuation as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of salary increases was reduced from 4.0% to 2.0%
- The assumed rate of inflation was reduced from 3.25% to 2.30%.

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.
- 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, and on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule:

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

See independent auditor's report

CITY OF FULTON, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
 June 30, 2018

**Schedule of City of Fulton's Proportionate Share of the
 Net Other Postemployment Benefit Liability – County Employees Retirement System of
 Kentucky Retirement Systems**
 Plan Years Ending June 30,

	2017
District's proportion of the collective net OPEB liability	.051082%
District's proportionate share of the net OPEB liability	\$ 1,026,923
District's covered-employee payroll	\$ 1,243,734
District's proportionate share of net OPEB liability as a percent of its covered-employee payroll	82.57%
Plan fiduciary net position as a percent of total OPEB liability	52.40%

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

	2017	2018
Actuarially determined contributions	\$ 58,829	\$ 58,414
Contributions in relation to the actuarially determined contribution	58,829	58,414
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$1,243,734	\$1,242,844
District's contributions as a percentage of covered-employee payroll	4.73%	4.70%

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

See independent auditor's report

CITY OF FULTON, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Notes to CERS Other Postemployment Benefits Schedules

Changes of assumptions. There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions. However, subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted the following updated actuarial assumptions reflected in the actuarial valuation as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The salary increase assumption was changed from 4.0% to zero.
- The single discount rate changed from 6.90% to 5.83%.

Method and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates effective for fiscal year ending 2017 that are documented in the schedule on the previous page are calculated as of June 30, 2015, using the following actuarial methods and assumptions:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	28 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Salary increase	4.0 percent, average
Investment rate of return	7.5 percent, net of plan investment expense
Mortality rates	RP-2000 Combined Mortality Table projected to 2013, with Scale BB (set back 1 year for females).
Healthcare cost trend rates	
Pre-65	7.5 percent, decreasing gradually to an ultimate rate of 5.0 percent over a period of 5 years
Post-65	5.5 percent, decreasing gradually to an ultimate rate of 5.0 percent over a period of 2 years

SUPPLEMENTARY AND OTHER INFORMATION SECTION

**CITY OF FULTON, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2018**

	Special Revenue Funds		
	Municipal Aid Fund	Ambulance Fund	Total
Assets			
Cash in banks	\$ 266,349	\$ 133,529	\$ 399,878
Total assets	\$ 266,349	\$ 133,529	\$ 399,878
Liabilities			
Unearned revenue	\$ 9,414	\$ -	\$ 9,414
Fund balances			
Restricted	<u>256,935</u>	<u>133,529</u>	<u>390,464</u>
Total liabilities and fund balances	\$ 266,349	\$ 133,529	\$ 399,878

See independent auditor's report

CITY OF FULTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	<u>Special Revenue Funds</u>		
	<u>Municipal Aid Fund</u>	<u>Ambulance Fund</u>	<u>Total</u>
Revenues			
Intergovernmental revenue	\$ 49,321	\$ -	\$ 49,321
Interest income	1,986	1,472	3,458
Total revenues	<u>51,307</u>	<u>1,472</u>	<u>52,779</u>
Expenditures			
Repair and maintenance	5,671	-	5,671
Professional/technical services	-	80,000	80,000
Sidewalk repair	3,521	-	3,521
Total expenditures	<u>9,192</u>	<u>80,000</u>	<u>89,192</u>
Net change in fund balances	<u>42,115</u>	<u>(78,528)</u>	<u>(36,413)</u>
Fund balances - July 1, 2017	238,954	212,057	451,011
Prior period adjustment	(24,134)	-	(24,134)
Fund balances - July 1, 2017, as restated	<u>214,820</u>	<u>212,057</u>	<u>426,877</u>
Fund balances - June 30, 2018	<u>\$ 256,935</u>	<u>\$ 133,529</u>	<u>\$ 390,464</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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
State municipal aid	\$ 49,000	\$ 49,320	\$ 49,321	\$ 1
Interest	1,100	1,950	1,986	36
Total revenues	<u>50,100</u>	<u>51,270</u>	<u>51,307</u>	<u>37</u>
Expenditures				
Maintenance - streets	5,000	175,000	5,671	(169,329)
Professional/technical services	30,000	-	-	-
Sidewalk repair	<u>10,000</u>	<u>5,000</u>	<u>3,521</u>	<u>(1,479)</u>
Total expenditures	<u>45,000</u>	<u>180,000</u>	<u>9,192</u>	<u>(170,808)</u>
Net change in fund balance	5,100	(128,730)	42,115	170,845
Fund balance - July 1, 2017			238,954	
Prior period adjustment			<u>(24,134)</u>	
Fund balance - July 1, 2017, as restated	<u>214,820</u>	<u>214,820</u>	<u>214,820</u>	<u>-</u>
Fund balance - June 30, 2018	<u>\$219,920</u>	<u>\$ 86,090</u>	<u>\$ 256,935</u>	<u>\$ 170,845</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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
Hotel tax - City of Fulton	\$ 6,000	\$ 6,200	\$ 7,065	\$ 865
Restaurant tax	78,000	80,500	86,996	6,496
Interest	1,000	1,600	1,735	135
Festival income	45,000	42,000	47,963	5,963
Total revenues	<u>130,000</u>	<u>130,300</u>	<u>143,759</u>	<u>13,459</u>
Expenditures				
Clerical services	13,800	13,800	13,800	-
Special projects	7,000	-	-	-
Lohaus Field	12,500	6,000	7,092	1,092
Office supplies	200	60	3,346	3,286
Fourth of July/Christmas	16,500	19,000	14,475	(4,525)
Telephone	2,100	2,000	1,866	(134)
Advertising/printing	1,000	100	-	(100)
Travel	2,000	500	450	(50)
Festival expenses	72,000	77,000	76,072	(928)
Miscellaneous	2,700	2,100	-	(2,100)
Postage	200	150	186	36
Total expenditures	<u>130,000</u>	<u>120,710</u>	<u>117,287</u>	<u>(3,423)</u>
Net change in fund balance	-	9,590	26,472	16,882
Fund balance - July 1, 2017			218,171	
Prior period adjustment			587	
Fund balance - July 1, 2017, as restated	<u>218,758</u>	<u>218,758</u>	<u>218,758</u>	<u>-</u>
Fund balance - June 30, 2018	<u>\$218,758</u>	<u>\$228,348</u>	<u>\$245,230</u>	<u>\$ 16,882</u>

See independent auditor's report

CITY OF FULTON, KENTUCKY
SCHEDULE OF STATE ASSISTANCE
For the Year Ended June 30, 2018

<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	<u>\$ 11,000</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, 2018

GOVERNMENTAL LONG-TERM DEBT					
Year Ended	KRWFC Flexible Term Program Series 2013 B		Kentucky Bond Corporation Financing Program Revenue Bonds - Series 2016C		Total Debt Service
	Principal	Interest	Principal	Interest	
2019	\$ 41,813	\$ 384	\$ 12,026	\$ 17,462	\$ 71,685
2020			13,648	17,222	30,870
2021			15,494	16,949	32,443
2022			17,656	16,639	34,295
2023			19,818	16,286	36,104
2024			21,980	15,889	37,869
2025			24,368	15,450	39,818
2026			26,845	14,949	41,794
2027			29,457	14,364	43,821
2028			32,475	13,668	46,143
2029			35,403	12,821	48,224
2030			38,646	11,809	50,455
2031			42,114	10,649	52,763
2032			46,123	9,386	55,509
2033			50,221	8,002	58,223
2034			54,455	6,495	60,950
2035			59,320	4,862	64,182
2036			63,959	3,082	67,041
2037			38,912	1,163	40,075
Totals	\$ 41,813	\$ 384	\$ 642,920	\$ 227,147	\$ 912,264

WATER AND SEWER FUND							
Year Ended	Bonds Payable Kentucky Rural Water Finance Corporation		Kentucky Bond Corporation Financing Program Revenue Bonds - Series 2016C		Note Payable Kentucky Infrastructure Authority		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2019	\$ 55,000	\$ 23,952	\$ 99,224	\$ 144,075	\$ 53,618	\$ 7,849	\$ 383,718
2020	55,000	21,588	112,602	142,091	54,020	7,446	392,747
2021	60,000	19,222	127,839	139,839	54,426	7,040	408,366
2022	65,000	16,642	145,677	137,282	54,835	6,631	426,067
2023	65,000	13,848	163,515	134,369	55,247	6,219	438,198
2024	65,000	10,728	181,353	131,098	55,662	5,804	449,645
2025	70,000	7,608	201,049	127,471	56,081	5,386	467,595
2026	75,000	4,598	221,489	123,339	56,502	4,964	485,892
2027	68,000	2,310	243,043	118,511	56,927	4,540	493,331
2028			267,942	112,773	57,354	4,112	442,181
2029			292,097	105,782	57,785	3,681	459,345
2030			318,854	97,429	58,220	3,247	477,750
2031			347,469	87,863	58,657	2,810	496,799
2032			380,544	77,439	59,098	2,369	519,450
2033			414,362	66,023	59,542	1,925	541,852
2034			449,295	53,592	59,989	1,477	564,353
2035			489,430	40,113	60,440	1,027	591,010
2036			527,707	25,430	60,894	572	614,603
2037			319,839	9,599	30,619	115	360,172
Totals	\$ 578,000	\$ 120,496	\$ 5,303,330	\$ 1,874,118	\$ 1,059,916	\$ 77,214	\$ 9,013,074

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INTERNAL CONTROL AND COMPLIANCE SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fulton, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 21, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2018-001 and 2018-002, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
December 21, 2018

CITY OF FULTON, KENTUCKY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2018

2018-001 Segregation of Duties

Condition: The City is not adequately segregating duties related to the receiving, reconciling, and depositing of cash.

Criteria: Generally accepted accounting principles require that management design internal controls to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or detected and corrected in a timely manner. A fundamental concept in a good system of internal controls is separating duties so that one person cannot receive, record, reconcile, and deposit cash.

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: Management and the board should develop policies and procedures that adequately segregate accounting functions. This policy should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets.

Response: *We continue to make sure no one does their own deposit. With our new system, we post the payments as customers are waited on.*

2018-002 Payroll Tax Revenue Not Reconciled

Condition: During our testing of local taxes receivable, the City was unable to provide an explanation or reconciliation for the difference between payroll tax revenue of \$725,733 reported in the cash receipts system and payroll tax revenue of \$804,275 reported in the general ledger for the year ended June 30, 2018.

Criteria: The Kentucky Cities Financial Manual states that monthly reports should be reconciled to source documents and to receipt and disbursement ledgers.

Effect: We were unable to determine if the City's payroll tax revenue as reported in the financial statements was materially correct.

Recommendation: The City should reconcile payroll tax revenue to source documents and to the general ledger account at least monthly. Any reconciling items should be investigated and appropriate adjustments made when necessary to keep all the City's financial records in balance.

Response: *We have a new computer system in place. We are reconciling payroll tax revenue to the GL monthly.*