

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
FISCAL COURT**

**For The Year Ended
June 30, 2020**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jim Martin, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Fulton County Fiscal Court, for the year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Fulton County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Fulton County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Fulton County Fiscal Court as of June 30, 2020, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Fulton County Fiscal Court as of June 30, 2020, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Fulton County Fiscal Court. The Budgetary Comparison Schedules (supplementary information) and Schedule of Capital Assets (other information) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules are fairly stated in all material respects in relation to the financial statement as a whole.

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

To the People of Kentucky
The Honorable Andy Beshear, Governor
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2022, on our consideration of the Fulton County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 the Fulton County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2020-001 The Fulton County Fiscal Court Lacks Adequate Segregation Of Duties Over Accounting Functions And Financial Reporting
- 2020-002 The Fulton County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained
- 2020-003 Debt Balances Do Not Agree With The Long-Term Liabilities Section Of The Fourth Quarter Financial Statement
- 2020-004 The Fulton County Fiscal Court Lacks Proper Oversight Of The Payroll Revolving Account

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

May 5, 2022

FULTON COUNTY OFFICIALS**For The Year Ended June 30, 2020****Fiscal Court Members:**

Jim Martin	County Judge/Executive
Wade Adams	Magistrate
Hugh Caldwell	Magistrate
Jim Paitsel	Magistrate
Shaun Parks	Magistrate

Other Elected Officials:

Richard Major, Jr.	County Attorney
Steven Williams	Jailer
Naomi Jones	County Clerk
Jaime Matthews	Circuit Court Clerk
Derek Goodson	Sheriff
Pete Morgan	Property Valuation Administrator
Matt Moss	Coroner

Appointed Personnel:

Leslie Woods	County Treasurer
Carol Parker	Finance Officer

FULTON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2020

FULTON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2020

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	LGEA Fund
RECEIPTS				
Taxes	\$ 755,460	\$	\$	\$
In Lieu Tax Payments	46,252			
Excess Fees	747			
Licenses and Permits	4,624			
Intergovernmental	479,194	1,459,719	6,100,975	
Charges for Services	2,000		3,278	
Miscellaneous	302,174	29,509	296,918	
Interest	20,663	34,049	14,852	
Total Receipts	<u>1,611,114</u>	<u>1,523,277</u>	<u>6,416,023</u>	
DISBURSEMENTS				
General Government	1,007,051			
Protection to Persons and Property	283,694		4,525,860	
General Health and Sanitation	3,600	3,600		
Social Services	1,462			
Recreation and Culture	1,462			
Transportation Facility and Services		4,744		
Roads		1,521,678		
Airports	3,000			
Other Transportation Facilities and Services		31,542		
Debt Service		30,701	355,540	
Capital Projects	6,589			
Administration	718,883	127,385	1,302,419	
Total Disbursements	<u>2,025,741</u>	<u>1,719,650</u>	<u>6,183,819</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(414,627)</u>	<u>(196,373)</u>	<u>232,204</u>	
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		199,000		
Change in Payroll Revolving Account	21,250			
Transfers From Other Funds	27,000			
Transfers To Other Funds			(523,540)	
Total Other Adjustments to Cash (Uses)	<u>48,250</u>	<u>199,000</u>	<u>(523,540)</u>	
Net Change in Fund Balance	(366,377)	2,627	(291,336)	
Fund Balance - Beginning (Restated)	715,486	1,328,492	1,312,488	
Fund Balance - Ending	<u>\$ 349,109</u>	<u>\$ 1,331,119</u>	<u>\$ 1,021,152</u>	<u>\$ 0</u>
Composition of Fund Balance				
Bank Balance	\$ 304,529	\$ 1,331,766	\$ 1,022,729	\$
Payroll Account Reconciled Balance	89,313			
Less: Outstanding Checks	(44,733)	(647)	(1,577)	
Fund Balance - Ending	<u>\$ 349,109</u>	<u>\$ 1,331,119</u>	<u>\$ 1,021,152</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statement.

FULTON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2020
(Continued)

Budgeted Funds				Unbudgeted Fund	
Federal Grants Fund	Disaster Emergency Services Fund	Jail Construction Fund	Ambulance Reserve Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$	\$ 755,460
					46,252
					747
					4,624
	11,458		63,290		8,114,636
					5,278
				166,432	795,033
		37			69,601
	11,458	37	63,290	166,432	9,791,631
					1,007,051
	11,518				4,821,072
					7,200
					1,462
				69,929	71,391
					4,744
					1,521,678
					3,000
					31,542
					386,241
2					6,591
					2,148,687
2	11,518			69,929	10,010,659
(2)	(60)	37	63,290	96,503	(219,028)
					199,000
					21,250
			507,703		534,703
		(11,163)			(534,703)
		(11,163)	507,703		220,250
(2)	(60)	(11,126)	570,993	96,503	1,222
2	5,776	11,126	73,062	136,293	3,582,725
\$ 0	\$ 5,716	\$ 0	\$ 644,055	\$ 232,796	\$ 3,583,947
\$	\$ 5,716	\$	\$ 644,055	\$ 240,181	\$ 3,548,976
					89,313
				(7,385)	(54,342)
\$ 0	\$ 5,716	\$ 0	\$ 644,055	\$ 232,796	\$ 3,583,947

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**FULTON COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2020

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Fulton County includes all budgeted and unbudgeted funds under the control of the Fulton County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Federal Grants Fund - The primary purpose of this fund is to account for federal grant proceeds and grant disbursements.

Disaster Emergency Services Fund - The primary purpose of this fund is to account for some emergency management expenses of the county. The primary source of receipts for this fund is state government.

Jail Construction Fund - The primary purpose of this fund is to account for receipts and disbursements related to construction of a new jail by the county. The primary sources of receipts for this fund are financing proceeds.

Ambulance Reserve Fund - The primary purpose of this fund is to hold funds that will be used to pay the jail's debt upon maturity and to account for the receivable from Twin Cities Ambulance Service. The primary source of receipts is inter-fund transfers.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Fulton County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Fulton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Fulton County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of the *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2020.

	Jail Fund	Jail Construction Fund	Total Transfers In
General Fund	\$ 27,000		\$ 27,000
Ambulance Reserve Fund	496,540	11,163	507,703
Total Transfers Out	<u>\$ 523,540</u>	<u>\$ 11,163</u>	<u>\$ 534,703</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Custodial Funds

Custodial funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following custodial funds:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2020, was \$27,356.

Jail Escrow Fund - This fund accounts for funds of former inmates that the jailer is unable to locate. The balance in the jail escrow account as of June 30, 2020, was \$8,241.

Note 5. Receivable

On December 15, 2017, the Fulton County Fiscal Court executed a note receivable from Twin City Ambulance, Inc., dba Ken-Tenn EMS, in the amount of \$373,186 for the purchase of two ambulances. The note is to be repaid in monthly installments of \$3,710 including interest at 3.61 percent over 120 months. The maturity date of the note is February 15, 2028. Fulton County Fiscal Court has set up the ambulance reserve fund to record the payments it receives on the note. In addition to the scheduled monthly payments, the ambulance service remits additional payments it receives to expedite paying off the note. As of June 30, 2020, the outstanding balance of the note was \$274,000.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 6. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Detention Center Refinance

In 2015, Fulton County entered into an agreement with the Kentucky Association of Counties Leasing Trust for the purpose of refinancing the Fulton County Detention Facility Annex #1 and Annex #2 and constructing Annex #3. In 2018, Fulton County refinanced the existing agreement for a total principal amount of \$2,710,000 with an interest rate of 2.4 percent. Monthly payments are due to maturity on December 20, 2034. In the event of default, the lessor will take legal title to, and sell or re-lease the project or any portion thereof. The principal balance on June 30, 2020, was \$2,427,500. Future interest and principal requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2021	\$ 137,500	\$ 93,930
2022	142,500	88,086
2023	150,000	82,030
2024	157,500	75,655
2025	162,500	68,961
2026-2030	910,000	243,368
2031-2035	767,500	75,650
Totals	<u>\$ 2,427,500</u>	<u>\$ 727,680</u>

2. Grader

On November 12, 2015, Fulton County entered into a lease agreement with Deere Credit in the amount of \$248,052 for the use of a grader. Principal and interest, which is calculated at a fixed rate of 3 percent, was due monthly beginning November 12, 2015. A final balloon payment of \$208,000 was due November 12, 2019. After making the balloon payment, the county was to have the option to purchase grader for one dollar. In the event of default, the principal balance would be due, and the grader would be repossessed by the lessor. The ending principal balance on June 30, 2020, was \$207,481. Future principal and interest requirements are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2021	\$ 207,481	519
Totals	<u>\$ 207,481</u>	<u>\$ 519</u>

The Fulton County Fiscal Court did not make the required balloon payment and entered into a lawsuit with Deere Credit. See subsequent event as discussed in Note 11.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 6. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

3. Detention Center Kitchen

On November 1, 2017, the Fulton County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust in the amount of \$1,720,000. The primary purpose of the lease was for the construction of a new kitchen facility at the Fulton County Detention Center. The lease has a variable interest rate of approximately 3.1406 percent. Principal and interest payments are due monthly beginning December 1, 2017. In the event of default, the lessor will take legal title to, and sell or re-lease the project or any portion thereof. The ending principal balance on June 30, 2020, was \$1,570,000. Future principal and interest requirements are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2021	\$ 62,500	\$ 60,929
2022	67,500	58,273
2023	70,000	55,404
2024	72,500	52,429
2025	75,000	49,348
2026-2030	425,000	196,613
2031-2035	507,500	115,170
2036-2038	290,000	23,960
Totals	<u>\$ 1,570,000</u>	<u>\$ 612,126</u>

4. Fulton County Detention Center Facility HVAC System

Fulton County entered into a lease agreement with a third party for the purpose of financing HVAC packages for the Fulton County Detention Facility. The lease agreement, entered into on December 2, 2015, was for a total principal of \$415,000 at a fixed interest rate of 5.32 percent. In the event of default, the lessee shall have the right to declare an amount equal to the then applicable purchase price under the terms of all schedules to be immediately due and payable. In the event of default, the lessee shall also have the right to take repossession of the equipment. The ending principal balance on June 30, 2020, was \$46,629. Future principal and interest requirements are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2021	\$ 46,629	\$ 726
Totals	<u>\$ 46,629</u>	<u>\$ 726</u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 6. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

5. Dump Truck and Road Grader

On November 13, 2019, the Security Bank and Trust Company issued a fixed rate loan in the amount of \$199,000 for the purpose of purchasing a dump truck and road grader. Principal and interest, which is calculated at a fixed rate of 3.050 percent, is due monthly beginning December 13, 2019. The loan is secured by the dump truck and road grader being purchased. In the event of default, the lender may declare all indebtedness of the county to the lender immediately due and payable. In the event of default the dump truck and road grader will be repossessed by the financial institution. The ending principal balance on June 30, 2020, was \$177,287. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 38,132	4,877
2022	39,311	3,698
2023	40,527	2,482
2024	41,781	1,228
2025	17,536	133
Totals	<u>\$ 177,287</u>	<u>\$ 12,418</u>

B. Aggregate Debt Schedule

The amounts of required principal and interest payments on long-term obligations on June 30, 2020, are as follows:

Fiscal Year Ended June 30	Direct Borrowings and Direct Placements	
	Principal	Interest
2021	\$ 492,242	\$ 160,981
2022	249,312	150,056
2023	260,527	139,916
2024	271,781	129,312
2025	255,035	118,441
2026-2030	1,335,000	439,981
2031-2035	1,275,000	190,819
2036-2038	290,000	23,960
	<u>\$ 4,428,897</u>	<u>\$ 1,353,466</u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 6. Long-term Debt (Continued)

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2020, was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 4,549,877	\$ 199,000	\$ 319,980	\$ 4,428,897	\$ 492,242
Total Long-term Debt	\$ 4,549,877	\$ 199,000	\$ 319,980	\$ 4,428,897	\$ 492,242

Note 7. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2018 was \$532,526, FY 2019 was \$636,921, and FY 2020 was \$688,020.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, 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. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 24.06 percent.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 78.5536.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, they earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 78.5536. Tier 3 members are not covered by the same provisions.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 8. Deferred Compensation

The Fulton County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 8. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

Note 9. Health Reimbursement Account/Flexible Spending Account

The Fulton County Fiscal Court established a flexible spending account on September 26, 2013, to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee, providing \$3,000 each year for employees who have single coverage and \$5,400 each year for employees who have a family plan. Employees may also contribute additional pre-tax funds through payroll deduction. The balance of the plan is \$213,297.

Note 10. Insurance

For the fiscal year ended June 30, 2020, the Fulton County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Subsequent Event

On March 18, 2021, the Fulton County Fiscal Court settled a lawsuit with Deere Credit, Inc. As described in Note 6, the lawsuit derived from a dispute regarding lease payment requirements for the John Deere Grader. To settle the claim and finalize the lease agreement, the fiscal court agreed to pay Deere Credit, Inc. \$10,000. As of May 5, 2022, the balance owed on the John Deere Grader is \$0.

Note 12. Payroll Revolving Account

The change in the payroll revolving account balance of \$21,250 as of June 30, 2020, was added to the general fund cash balance for financial reporting purposes.

Note 13. Conduit Debt

From time to time, the county has issued bonds to provide financial assistance to various entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Fulton County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2020, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 14. Prior Period Adjustments

	General Fund	Jail Construction Fund
Ending Fund Balance Prior Year	\$ 1,064,523	\$ 909
Adjustments:		
Prior Years Payroll Posting Errors	(417,100)	
Prior Year Omission of Accounts		10,217
Beginning Fund Balance - Restated	<u>\$ 647,423</u>	<u>\$ 11,126</u>

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

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FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 690,450	\$ 690,450	\$ 755,460	\$ 65,010
In Lieu Tax Payments	42,000	42,000	46,252	4,252
Excess Fees	1,800	1,800	747	(1,053)
Licenses and Permits	5,000	5,000	4,624	(376)
Intergovernmental	493,800	493,800	479,194	(14,606)
Charges for Services	500	500	2,000	1,500
Miscellaneous	162,500	162,500	302,174	139,674
Interest	9,000	9,000	20,663	11,663
Total Receipts	1,405,050	1,405,050	1,611,114	206,064
DISBURSEMENTS				
General Government	910,272	1,158,887	1,007,051	151,836
Protection to Persons and Property	355,665	399,215	283,694	115,521
General Health and Sanitation	30,600	30,600	3,600	27,000
Social Services	4,000	4,000	1,462	2,538
Recreation and Culture	1,500	1,500	1,462	38
Airports	3,000	3,000	3,000	
Capital Projects	10,000	10,000	6,589	3,411
Administration	1,199,500	907,335	718,883	188,452
Total Disbursements	2,514,537	2,514,537	2,025,741	488,796
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,109,487)	(1,109,487)	(414,627)	694,860
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	97,596	97,596	27,000	(70,596)
Total Other Adjustments to Cash (Uses)	97,596	97,596	27,000	(70,596)
Net Change in Fund Balance	(1,011,891)	(1,011,891)	(387,627)	624,264
Fund Balance - Beginning (Restated)	1,011,891	1,011,891	647,423	(364,468)
Fund Balance - Ending	\$ 0	\$ 0	\$ 259,796	\$ 259,796

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,543,714	\$ 1,543,714	\$ 1,459,719	\$ (83,995)
Miscellaneous	16,000	16,000	29,509	13,509
Interest	12,000	12,000	34,049	22,049
Total Receipts	1,571,714	1,571,714	1,523,277	(48,437)
DISBURSEMENTS				
General Health and Sanitation		3,600	3,600	
Transportation Facilities and Services	5,000	5,000	4,744	256
Roads	991,830	1,618,875	1,521,678	97,197
Other Transportation Facilities and Services	33,500	39,747	31,542	8,205
Debt Service	83,540	282,540	30,701	251,839
Capital Projects	80,000	80,000		80,000
Administration	1,644,542	1,007,650	127,385	880,265
Total Disbursements	2,838,412	3,037,412	1,719,650	1,317,762
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	(1,266,698)	(1,465,698)	(196,373)	1,269,325
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		199,000	199,000	
Transfers To Other Funds	(97,596)	(97,596)		97,596
Total Other Adjustments to Cash (Uses)	(97,596)	101,404	199,000	97,596
Net Change in Fund Balance	(1,364,294)	(1,364,294)	2,627	1,366,921
Fund Balance - Beginning	1,364,294	1,364,294	1,328,492	(35,802)
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,331,119	\$ 1,331,119

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 6,699,200	\$ 6,699,200	\$ 6,100,975	\$ (598,225)
Charges for Services	13,000	13,000	3,278	(9,722)
Miscellaneous	410,000	410,000	296,918	(113,082)
Interest	1,000	1,000	14,852	13,852
Total Receipts	<u>7,123,200</u>	<u>7,123,200</u>	<u>6,416,023</u>	<u>(707,177)</u>
DISBURSEMENTS				
Protection to Persons and Property	5,376,457	5,499,168	4,525,860	973,308
Debt Service	915,512	915,512	355,540	559,972
Administration	<u>2,053,609</u>	<u>1,930,898</u>	<u>1,302,419</u>	<u>628,479</u>
Total Disbursements	<u>8,345,578</u>	<u>8,345,578</u>	<u>6,183,819</u>	<u>2,161,759</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,222,378)</u>	<u>(1,222,378)</u>	<u>232,204</u>	<u>1,454,582</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			<u>(523,540)</u>	<u>(523,540)</u>
Total Other Adjustments to Cash (Uses)			<u>(523,540)</u>	<u>(523,540)</u>
Net Change in Fund Balance	(1,222,378)	(1,222,378)	(291,336)	931,042
Fund Balance - Beginning	<u>1,222,378</u>	<u>1,222,378</u>	<u>1,312,488</u>	<u>90,110</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,021,152</u>	<u>\$ 1,021,152</u>

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 500	\$ 500	\$	\$ (500)
Total Receipts	500	500		(500)
DISBURSEMENTS				
Roads	500	500		500
Total Disbursements	500	500		500
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

FEDERAL GRANTS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Total Receipts	\$	\$	\$	\$
DISBURSEMENTS				
Capital Projects	3	3	2	1
Total Disbursements	3	3	2	1
Net Change in Fund Balance	(3)	(3)	(2)	1
Fund Balance - Beginning	3	3	2	(1)
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

DISASTER EMERGENCY SERVICES FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 10,000	\$ 10,000	\$ 11,458	\$ 1,458
Miscellaneous	1,000	1,000		(1,000)
Total Receipts	11,000	11,000	11,458	458
DISBURSEMENTS				
Protection to Persons and Property	16,776	16,776	11,518	5,258
Total Disbursements	16,776	16,776	11,518	5,258
Net Change in Fund Balance	(5,776)	(5,776)	(60)	5,716
Fund Balance - Beginning	5,776	5,776	5,776	
Fund Balance - Ending	\$ 0	\$ 0	\$ 5,716	\$ 5,716

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

JAIL CONSTRUCTION FUND				
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Total Receipts	\$	\$	\$ 37	\$ 37
DISBURSEMENTS				
Total Disbursements				
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			37	37
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(11,163)	(11,163)
Total Other Adjustments to Cash (Uses)			(11,163)	(11,163)
Net Change in Fund Balance			(11,126)	(11,126)
Fund Balance - Beginning (Restated)			11,126	11,126
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

AMBULANCE RESERVE FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 44,515	\$ 44,515	\$ 63,290	\$ 18,775
Total Receipts	44,515	44,515	63,290	18,775
DISBURSEMENTS				
Debt Service	113,868	113,868		113,868
Total Disbursements	113,868	113,868		113,868
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(69,353)	(69,353)	63,290	132,643
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			507,703	507,703
Total Other Adjustments to Cash (Uses)			507,703	507,703
Net Change in Fund Balance	(69,353)	(69,353)	570,993	640,346
Fund Balance - Beginning	69,353	69,353	73,062	3,709
Fund Balance - Ending	\$ 0	\$ 0	\$ 644,055	\$ 644,055

FULTON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2020

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ 27,000
To adjust for Payroll Revolving Account	<u>21,250</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ 48,250</u>
Fund Balance - Beginning - Budgetary Basis (Restated)	\$ 647,423
To adjust for Payroll Revolving Account	<u>68,063</u>
Total Fund Balance - Beginning - Regulatory Basis	<u>\$ 715,486</u>
Fund Balance - Ending - Budgetary Basis	\$ 259,796
To adjust for Payroll Revolving Account	<u>89,313</u>
Total Fund Balance - Ending - Regulatory Basis	<u>\$ 349,109</u>

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FULTON COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2020

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FULTON COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2020

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 113,354	\$ 30,000	\$ 13,000	\$ 130,354
Buildings	16,237,855	216,690	638,172	15,816,373
Vehicles and Equipment	4,478,288	431,424	1,477,235	3,432,477
Infrastructure	28,385,714	1,036,824		29,422,538
 Total Capital Assets	 <u>\$ 49,215,211</u>	 <u>\$ 1,714,938</u>	 <u>\$ 2,128,407</u>	 <u>\$ 48,801,742</u>

FULTON COUNTY
NOTES TO OTHER INFORMATION - REGULATORY BASIS
SCHEDULE OF CAPITAL ASSETS

June 30, 2020

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 2,500	15-30
Buildings	\$ 2,500	10-60
Vehicles and Equipment	\$ 2,500	3-25
Infrastructure	\$ 2,500	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Martin, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, 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, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Fulton County Fiscal Court for the fiscal year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Fulton County Fiscal Court's financial statement and have issued our report thereon dated May 5, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Fulton County Fiscal Court's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Fulton County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fulton County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2020-001 and 2020-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2020-003 and 2020-004 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Fiscal Court's financial statement is free of 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 financial statement. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2020-002.

Views of Responsible Official and Planned Corrective Action

Fulton County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

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.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

May 5, 2022

**FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2020

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**FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2020

FINANCIAL STATEMENT FINDINGS:

2020-001 The Fulton County Fiscal Court Lacks Adequate Segregation Of Duties Over Accounting Functions And Financial Reporting

This is a repeat finding and was included in the prior year audit report as finding 2019-001. The Fulton County Fiscal Court lacks adequate segregation of duties over accounting functions and financial reporting of fund balances, cash balances, and debt service. The Fulton County Treasurer was responsible for preparing monthly, quarterly, and annual reports, financial reports, preparing debt schedules, and reconciling bank accounts.

The following control deficiencies occurred due to the lack of segregation of duties over these areas:

- As reported in finding 2020-002, beginning and ending fund balances were overstated, and a large variance was noted between the total unencumbered cash balance and the total reconciled cash balance.
- As reported in finding 2020-003, outstanding debt balances do not agree with the long-term liabilities section of the fourth quarter financial statement.
- As reported in finding 2020-004, the payroll revolving account does not properly reconcile to zero.

While it may be customary for the county treasurer to perform these functions, the fiscal court failed to adequately segregate the duties involved. The fiscal court also failed to establish adequate management oversight to ensure receipts and disbursements were properly recorded and that completed bank reconciliations were accurate. Furthermore, the fiscal court failed to establish adequate management oversight to ensure fund balances, cash balances, and outstanding debt balances were accurately reported.

The lack of adequate segregation of duties, coupled with a lack of adequate management oversight, provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds.

The segregation of duties over various accounting functions such as recording receipts and disbursements, performing bank reconciliations, and preparing monthly, quarterly, and annual financial reports is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the fiscal court segregate the duties involved in recording receipts and disbursements, reconciling bank accounts, and preparing monthly, quarterly, and annual financial reports. If segregation of duties is not possible due to the limited number of staff, appropriate management oversight should be provided to ensure the completion of accurate, timely financial reports. This oversight should include a documented review of financial reports by management.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Although state law requires the Treasurer to perform certain duties, it appears these duties, purely interpreted, may be in conflict with general account practices. Segregations of duties in a small office environment is difficult due to limited staff. Going forward, the County Judge and Administrative Assistant will add additional interactions relative to internal controls of the accounting process by reviewing work performed by the Treasurer and Finance Officer.

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2020
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Fulton County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained

This is a repeat finding and was included in the prior year audit report as finding 2019-002. There were no functioning internal controls in place over the work performed by the county treasurer. The fiscal court failed to provide adequate oversight, allowing the county treasurer control over the accounting and reporting functions. The following deficiencies and errors were noted during the performance of the audit:

- The fourth quarter financial report was inaccurate:
 - The beginning fund balance of the general fund was overstated by \$417,798.
 - The ending fund balances of the general fund and jail fund were overstated by \$659,104 and \$605, respectively.
 - There was a \$692,990 variance noted between the total reported unencumbered cash balance and total reconciled cash balance.
- There was no record in the fiscal court minutes that the quarterly reports for the second and fourth quarters were presented to the fiscal court as required by KRS 68.360.

The Fulton County Fiscal Court failed to implement a strong internal control system or provide proper oversight to ensure complete and accurate accounting records were maintained. Instead, the county placed reliance on the county treasurer, and chose not to scrutinize the discrepancies noted on the quarterly reports. The overstatement of beginning and ending fund balances of the general fund was primarily related to the fact that the amounts recorded for payroll expenditures did not agree with the amounts transferred to the payroll fund. The overstatement of the ending balance of the jail fund was the result of posting errors.

According to the county judge/executive, the quarterly reports for the second and fourth quarters were not approved by the fiscal court due to an oversight.

Due to the fiscal court's lack of effective oversight of the treasury functions, the deficiencies, noncompliances, and undetected errors noted above pertaining to required record-keeping occurred without detection. Additionally, the fiscal court was unable to properly budget and plan for the following fiscal year due to inaccurate financial information being presented.

Strong internal controls over the reporting process are vital in ensuring the financial reports accurately reflect the financial activity of the fiscal court as well as ensuring adherence to applicable laws and regulations.

KRS 68.360(1) states, "[t]he county treasurer shall balance his books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made, and shall within ten (10) days file with the county judge/executive and members of the fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all cash receipts and the cash balance at the beginning and at the end of the month, and certifying that each warrant or contract is within the budget appropriation." Additionally, KRS 68.360(2) states, "[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund. The county judge/executive shall post the statement in a conspicuous place in the courthouse near the front door for at least ten (10) consecutive days, and transmit a copy to the fiscal court and to the state-local finance officer. The statement shall be read at the next meeting of the fiscal court."

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2020
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Fulton County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained (Continued)

KRS 65.905(2) requires, “[t]he final quarterly report filed by a county within fifteen (15) days after the end of the last quarter of the fiscal year, in accordance with KRS 68.360(2), shall be deemed the uniform financial information report for that county for purposes of compliance with KRS 65.900 to 65.925.”

KRS 68.020(4) states that county treasurer, “shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of account of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer.”

We recommend the Fulton County Fiscal Court strengthen oversight and internal controls in order to ensure complete and accurate accounting records are maintained and that no one individual has control over the accounting functions without establishing checks and balances to verify amounts recorded and reported are accurate. We also recommend the fiscal court scrutinize any unusual amounts or variances noted on the quarterly reports.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Same response as 1 above. It is difficult to separate the nature of finding 1 and 2 since they appear to be closely related in worked being preformed in a small government office. Additionally, the county will discontinue the use of consolidated bank account. The Fiscal Court has ordered that all funds be maintained in independent bank accounts making reconciling accounts less cumbersome. This is scheduled to begin July 1, 2022.

2020-003 Debt Balances Do Not Agree With The Long-Term Liabilities Section Of The Fourth Quarter Financial Statement

This is a repeat finding and was included in the prior year audit report as finding 2019-003. On the liabilities section of the June 30, 2020 quarterly financial statement, the Fulton County Fiscal Court reported outstanding debt principal in the amount of \$4,202,694 and outstanding interest in the amount of \$1,297,536. However, the confirmed outstanding principal balance was \$4,428,897, and the outstanding interest balance was \$1,353,467 thereby resulting in variances of \$226,203 and \$55,931, respectively.

According to the county treasurer, the misstatement occurred due to clerical errors that were not caught. This condition is also the result of the lack of segregation of duties and fiscal court’s failure to establish adequate management oversight as reported in finding 2020-001.

As a result, the fourth quarter financial statement was materially understated. Additionally, by not accurately reporting outstanding liabilities, the fiscal court cannot make effective management decisions relating to debt service.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires accurate financial records be maintained, which includes the schedule of liabilities. Furthermore, good internal controls require accurate information be presented in order for the fiscal court to make informed financial decisions during budget preparation or when making large purchases.

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2020
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-003 Debt Balances Do Not Agree With The Long-Term Liabilities Section Of The Fourth Quarter Financial Statement (Continued)

We recommend the Fulton County Fiscal Court review debt schedules and the debt liabilities section of the quarterly financial statements to ensure that accurate outstanding principal and interest is reported.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Often amortization charts indicating debt will shift as interest rates change or prepayment, etc. occur creating the demand for revised amortizations charts. When this happens, county financial records may not have indicated the shift at any given time. Therefore, we will increase our efforts to maintain in our files any updated long term debt documentation.

2020-004 The Fulton County Fiscal Court Lacks Proper Oversight Of The Payroll Revolving Account

As of June 30, 2020, the payroll revolving account had a reconciled balance of \$89,313. This was due to incorrect amounts being transferred from the operating funds to the payroll revolving account. Because there are no internal controls verifying payments to and from the payroll account, as well as no review of the payroll revolving account activity to verify transactions were properly handled and recorded, the payroll revolving account does not reconcile to zero.

As a result, individual operating fund disbursements and ending balances were misstated on the fourth quarter financial statement.

Good internal controls over the payroll account require oversight by fiscal court to protect employees while performing duties and to protect county assets against misappropriation. The payroll account is a revolving account and should reconcile to zero.

We recommend the fiscal court implement strong internal controls over the payroll revolving account. These controls should include having someone independent of the payroll function verify proper amounts are transferred to the payroll revolving account from the corresponding operating funds. These controls should also include verifying that any accumulated balance is properly allocated and reflected on the county's financial statement.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: One of the issues that has driven this finding is due to the way Fulton County has always done payroll. The County operates from a single payroll account. The payroll account supports payroll activity for offices that pay weekly, bi-weekly, monthly and the County Attorney's office. When examining balances in the account at a given point, there may be differences because some of the contributors to the account may not have transferred their portion of withholdings to the account creating misstated balances. This could be corrected by requiring the Sheriff, County Clerk and others to maintain their own payroll account. This will be discussed with the Fiscal Court for corrective action.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

FULTON COUNTY FISCAL COURT

For The Year Ended June 30, 2020


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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
COUNTY FISCAL COURT

For The Year Ended June 30, 2020

The Fulton County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


County Judge/Executive


County Treasurer