

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

**For The Year Ended
June 30, 2021**



**MIKE HARMON
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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, 2021, 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.



To the People of Kentucky
The Honorable Andy Beshear, Governor
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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, 2021, 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, 2021, 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 as 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
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jim Martin, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 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 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 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:

- 2021-001 The Fulton County Fiscal Court Does Not Have Adequate Segregation Of Duties Over Accounting Functions And Financial Reporting
- 2021-002 The Fulton County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained
- 2021-003 The Fulton County Fiscal Court's Purchase Order System Did Not Function As Designed
- 2021-004 Pledged Securities Were Insufficient To Cover Deposits And The Pledge Agreement Was Not Properly Signed
- 2021-005 Debt Balances Do Not Agree With The Long-Term Liabilities Section Of The Fourth Quarter Financial Statement
- 2021-006 The Fulton County Fiscal Court Does Not Have Proper Oversight Of The Payroll Revolving Account
- 2021-007 Cash Transfers Were Not Properly Approved By The Fiscal Court

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

July 13, 2022

FULTON COUNTY OFFICIALS**For The Year Ended June 30, 2021****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, 2021

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

For The Year Ended June 30, 2021

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 839,059	\$	\$
In Lieu Tax Payments	41,548		
Excess Fees	84,561		
Licenses and Permits	5,080		
Intergovernmental	637,214	970,405	4,655,421
Charges for Services			4,373
Miscellaneous	415,685	4,179	240,154
Interest	11,365	26,753	6,605
Total Receipts	<u>2,034,512</u>	<u>1,001,337</u>	<u>4,906,553</u>
DISBURSEMENTS			
General Government	902,176		
Protection to Persons and Property	290,048		3,416,492
General Health and Sanitation	18,806		
Social Services	5,583		
Recreation and Culture			
Transportation Facility and Services		1,984	
Roads		338,435	
Airports	3,000		
Other Transportation Facilities and Services		24,196	
Debt Service		43,009	354,859
Capital Projects	71,006	109,910	
Administration	719,480	98,466	999,011
Total Disbursements	<u>2,010,099</u>	<u>616,000</u>	<u>4,770,362</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>24,413</u>	<u>385,337</u>	<u>136,191</u>
Other Adjustments to Cash (Uses)			
Change in Payroll Revolving Account	(1,934)		
Transfers From Other Funds			
Transfers To Other Funds			(324,931)
Total Other Adjustments to Cash (Uses)	<u>(1,934)</u>		<u>(324,931)</u>
Net Change in Fund Balance	22,479	385,337	(188,740)
Fund Balance - Beginning (Restated)	<u>348,913</u>	<u>1,331,119</u>	<u>1,021,152</u>
Fund Balance - Ending	<u>\$ 371,392</u>	<u>\$ 1,716,456</u>	<u>\$ 832,412</u>
Composition of Fund Balance			
Bank Balance	\$ 293,967	\$ 1,716,534	\$ 832,929
Payroll Account Reconciled Balance	87,379		
Less: Outstanding Checks	<u>(9,954)</u>	<u>(78)</u>	<u>(517)</u>
Fund Balance - Ending	<u>\$ 371,392</u>	<u>\$ 1,716,456</u>	<u>\$ 832,412</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, 2021
(Continued)

Budgeted Funds				Unbudgeted Fund	
LGEA Fund	Disaster Emergency Services Fund	Ambulance Reserve Fund	American Recovery Plan Act Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$	\$ 839,059
					41,548
					84,561
					5,080
	6,812	59,676	579,704		6,909,232
					4,373
	200			197,800	858,018
		12,813	219	119	57,874
	7,012	72,489	579,923	197,919	8,799,745
					902,176
	10,405				3,716,945
					18,806
					5,583
				105,392	105,392
					1,984
					338,435
					3,000
					24,196
					397,868
					180,916
					1,816,957
	10,405			105,392	7,512,258
	(3,393)	72,489	579,923	92,527	1,287,487
					(1,934)
		324,931			324,931
					(324,931)
		324,931			(1,934)
	(3,393)	397,420	579,923	92,527	1,285,553
	5,716	644,055		232,796	3,583,751
\$ 0	\$ 2,323	\$ 1,041,475	\$ 579,923	\$ 325,323	\$ 4,869,304
\$	\$ 2,323	\$ 1,041,475	\$ 579,923	\$ 332,947	\$ 4,800,098
					87,379
				(7,624)	(18,173)
\$ 0	\$ 2,323	\$ 1,041,475	\$ 579,923	\$ 325,323	\$ 4,869,304

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, 2021

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, 2021
(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.

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.

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. The primary source of receipts is inter-fund transfers.

American Recovery Plan Act Fund - The primary purpose of this fund is to account for funds received from the federal government.

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, 2021
(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.

H. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on this criteria, the following are considered related organizations of the Fulton County Fiscal Court:

Fulton County Levee Board
 New Madrid Levee Board

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

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 not met, as the fiscal court did not have a written agreement with the bank.

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 fiscal court 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*. On June 30, 2021, the fiscal court's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$611,503

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2021.

	Jail Fund	Total Transfers In
Ambulance Reserve Fund	\$ 324,931	\$ 324,931
Total Transfers Out	\$ 324,931	\$ 324,931

Reason for transfers:

To move resources from the jail fund to the ambulance reserve fund to be used to pay the jail's debt.

Note 4. Custodial Funds

Custodial funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. In accordance with the regulatory basis of accounting, custodial funds are not presented on the financial statement.

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, 2021 was \$121,934.

Jail Escrow Fund - This fund accounts for funds of former inmates that the jailer is unable to locate. The balance in the jail escrow fund as of June 30, 2021 was \$8,241.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 5. Receivable

On December 15, 2017, 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, 2021, the outstanding balance of the note was \$222,852.

Note 6. Long-term Debt

A. Direct Borrowings and Direct Placements

1. 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. In the event of default, the principal balance would be due, and the grader would be repossessed by the lessor. 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. The Fulton County Fiscal Court did not make the required balloon payment and entered into a lawsuit with Deere Credit. On March 15, 2021, the fiscal court agreed to pay Deere Credit \$10,000 to settle the lawsuit. As of June 30, 2021, the lawsuit had been settled and the lease agreement had been closed.

2. Detention Center Refinance

In 2015, Fulton County entered into an agreement with a third party 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 ending principal balance at June 30, 2021, was \$2,290,000.

Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 142,500	\$ 88,086
2023	150,000	82,030
2024	157,500	75,655
2025	162,500	68,961
2026	170,000	62,055
2027-2031	940,000	210,736
2032-2035	567,500	46,225
Totals	<u>\$ 2,290,000</u>	<u>\$ 633,748</u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(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 a third party 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 at June 30, 2021 was \$1,507,500.

Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 67,500	\$ 58,273
2023	70,000	55,404
2024	72,500	52,429
2025	75,000	49,348
2026	77,500	46,160
2027-2031	442,500	179,926
2032-2036	525,000	98,276
2037-2038	177,500	11,381
Totals	<u>\$ 1,507,500</u>	<u>\$ 551,197</u>

4. Fulton County Detention 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. As of June 30, 2021, this lease had been paid in full.

5. Dump Truck and Road Grader

On November 13, 2019, 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 at June 30, 2021 was \$139,155.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 6. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

6. Dump Truck and Road Grader (Continued)

Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 39,311	\$ 3,698
2023	40,527	2,482
2024	41,781	1,228
2025	17,536	132
Totals	<u>\$ 139,155</u>	<u>\$ 7,540</u>

B. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 4,428,897		\$ 492,242	\$ 3,936,655	\$ 249,311
Total Long-term Debt	<u>\$ 4,428,897</u>	<u>\$ 0</u>	<u>\$ 492,242</u>	<u>\$ 3,936,655</u>	<u>\$ 249,311</u>

C. Aggregate Debt Schedule

The amount of required principal and interest payments on long-term obligations at June 30, 2021, were as follows:

Fiscal Year Ended June 30	Direct Borrowings and Direct Placements	
	Principal	Interest
2022	\$ 249,311	\$ 150,057
2023	260,527	139,916
2024	271,781	129,312
2025	255,036	118,441
2026	247,500	108,215
2027-2031	1,382,500	390,662
2032-2036	1,092,500	144,501
2037-2038	177,500	11,381
	<u>\$ 3,936,655</u>	<u>\$ 1,192,485</u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

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. Effective April 1, 2021, the Kentucky Public Pensions Authority (KPPA) was created by KRS 61.505 to provide staffing and daily administrative needs for CERS and KRS. The nine (9) member board of trustees is responsible for the governance of the CERS pension and insurance plans.

The county's contribution for FY 2019 was \$636,921, FY 2020 was \$688,020, and FY 2021 was \$601,118.

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.

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:

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

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.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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, KPPA 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 Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KPPA 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.

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.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

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 \$156,703.

Note 10. Insurance

For the fiscal year ended June 30, 2021, 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. Payroll Revolving Account

The change in the payroll revolving account balance of (\$1,934) as of June 30, 2021, was added to the general fund cash balance for financial reporting purposes.

Note 12. 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 revenue 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, 2021, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 13. Prior Period Adjustments

	General Fund
Ending Fund Balance Prior Year	\$ 349,109
Adjustments:	
Prior Year Error	(196)
Beginning Fund Balance - Restated	<u>\$ 348,913</u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 14. Subsequent Event

On December 10, 2021, Fulton County experienced a powerful tornado which resulted in significant damage throughout the county. On March 14, 2022, the fiscal court voted to participated in a bond anticipation note along with other counties through the Kentucky Association of Counties (KACo). The county was expecting to possibly borrow \$2,000,000, but later voted to reduce the amount to \$1,000,000 to finance FEMA reimbursement.

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2021

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FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2021

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 725,400	\$ 725,400	\$ 839,059	\$ 113,659
In Lieu Tax Payments	46,000	46,000	41,548	(4,452)
Excess Fees	1,100	1,100	84,561	83,461
Licenses and Permits	3,000	3,000	5,080	2,080
Intergovernmental	480,500	1,073,204	637,214	(435,990)
Charges for Services	1,000	1,000		(1,000)
Miscellaneous	205,000	192,000	415,685	223,685
Interest	20,000	20,000	11,365	(8,635)
Total Receipts	1,482,000	2,061,704	2,034,512	(27,192)
DISBURSEMENTS				
General Government	880,439	1,047,046	902,176	144,870
Protection to Persons and Property	373,341	415,463	290,048	125,415
General Health and Sanitation	21,100	21,244	18,806	2,438
Social Services	10,500	10,500	5,583	4,917
Recreation and Culture	1,500	1,500		1,500
Airports	3,000	3,000	3,000	
Capital Projects	10,000	90,000	71,006	18,994
Administration	1,195,840	906,967	719,480	187,487
Total Disbursements	2,495,720	2,495,720	2,010,099	485,621
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,013,720)	(434,016)	24,413	458,429
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	115,374	115,374		(115,374)
Transfers To Other Funds		(579,704)		579,704
Total Other Adjustments to Cash (Uses)	115,374	(464,330)		464,330
Net Change in Fund Balance	(898,346)	(898,346)	24,413	922,759
Fund Balance - Beginning (Restated)	898,346	898,346	259,600	(638,746)
Fund Balance - Ending	\$ 0	\$ 0	\$ 284,013	\$ 284,013

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 955,580	\$ 955,580	\$ 970,405	\$ 14,825
Miscellaneous	4,500	4,500	4,179	(321)
Interest	25,000	25,000	26,753	1,753
Total Receipts	985,080	985,080	1,001,337	16,257
DISBURSEMENTS				
Transportation Facilities and Services	6,000	6,000	1,984	4,016
Roads	431,077	481,938	338,435	143,503
Other Transportation Facilities and Services	35,000	35,230	24,196	11,034
Debt Service	43,100	43,100	43,009	91
Capital Projects	155,000	155,000	109,910	45,090
Administration	1,546,158	1,495,067	98,466	1,396,601
Total Disbursements	2,216,335	2,216,335	616,000	1,600,335
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,231,255)	(1,231,255)	385,337	1,616,592
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(88,374)	(88,374)		88,374
Total Other Adjustments to Cash (Uses)	(88,374)	(88,374)		88,374
Net Change in Fund Balance	(1,319,629)	(1,319,629)	385,337	1,704,966
Fund Balance - Beginning	1,319,629	1,319,629	1,331,119	11,490
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,716,456	\$ 1,716,456

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 6,464,233	\$ 6,464,233	\$ 4,655,421	\$ (1,808,812)
Charges for Services	4,000	4,000	4,373	373
Miscellaneous	245,500	245,500	240,154	(5,346)
Interest	15,000	15,000	6,605	(8,395)
Total Receipts	6,728,733	6,728,733	4,906,553	(1,822,180)
DISBURSEMENTS				
Protection to Persons and Property	5,005,565	5,020,938	3,416,492	1,604,446
Debt Service	714,000	714,000	354,859	359,141
Administration	1,776,933	1,761,560	999,011	762,549
Total Disbursements	7,496,498	7,496,498	4,770,362	2,726,136
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(767,765)	(767,765)	136,191	903,956
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(27,000)	(27,000)	(324,931)	(297,931)
Total Other Adjustments to Cash (Uses)	(27,000)	(27,000)	(324,931)	(297,931)
Net Change in Fund Balance	(794,765)	(794,765)	(188,740)	606,025
Fund Balance - Beginning	794,765	794,765	1,021,152	226,387
Fund Balance - Ending	\$ 0	\$ 0	\$ 832,412	\$ 832,412

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
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, 2021
(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	\$ 6,812	\$ (3,188)
Miscellaneous	1,000	1,000	200	(800)
Total Receipts	11,000	11,000	7,012	(3,988)
DISBURSEMENTS				
Protection to Persons and Property	13,230	13,230	10,405	2,825
Administration	3,494	3,494		3,494
Total Disbursements	16,724	16,724	10,405	6,319
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(5,724)	(5,724)	(3,393)	2,331
Net Change in Fund Balance	(5,724)	(5,724)	(3,393)	2,331
Fund Balance - Beginning	5,724	5,724	5,716	(8)
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,323	\$ 2,323

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

AMBULANCE RESERVE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 405,600	\$ 405,600	\$ 59,676	\$ (345,924)
Interest			12,813	12,813
Total Receipts	405,600	405,600	72,489	(333,111)
DISBURSEMENTS				
Debt Service	1,107,187	1,107,187		1,107,187
Total Disbursements	1,107,187	1,107,187		1,107,187
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(701,587)	(701,587)	72,489	774,076
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			324,931	324,931
Total Other Adjustments to Cash (Uses)			324,931	324,931
Net Change in Fund Balance	(701,587)	(701,587)	397,420	1,099,007
Fund Balance - Beginning	701,587	701,587	644,055	(57,532)
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,041,475	\$ 1,041,475

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

AMERICAN RECOVERY PLAN ACT FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$	\$	\$ 579,704	\$ 579,704
Interest			219	219
Total Receipts			579,923	579,923
DISBURSEMENTS				
Administration		579,704		579,704
Total Disbursements		579,704		579,704
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(579,704)	579,923	1,159,627
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		579,704		(579,704)
Total Other Adjustments to Cash (Uses)		579,704		(579,704)
Net Change in Fund Balance			579,923	579,923
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 579,923	\$ 579,923

FULTON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2021

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	\$	
To adjust for Change in Payroll Revolving Account		<u>(1,934)</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$</u>	<u>(1,934)</u>
Fund Balance - Beginning - Budgetary Basis (Restated)	\$	259,600
To adjust for Payroll Revolving Account		<u>89,313</u>
Total Fund Balance - Beginning - Regulatory Basis	<u>\$</u>	<u>348,913</u>
Fund Balance - Ending - Budgetary Basis	\$	284,013
To adjust for Payroll Revolving Account		<u>87,379</u>
Total Fund Balance - Ending - Regulatory Basis	<u>\$</u>	<u>371,392</u>

FULTON COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2021

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FULTON COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2021

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 130,354	\$ 7,749	\$	\$ 138,103
Buildings	15,816,373	50,628		15,867,001
Vehicles and Equipment	3,432,477	79,133		3,511,610
Infrastructure	29,422,538	80,000		29,502,538
 Total Capital Assets	 <u>\$ 48,801,742</u>	 <u>\$ 217,510</u>	 <u>\$ 0</u>	 <u>\$ 49,019,252</u>

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

June 30, 2021

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, 2021, 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 July 13, 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 have not been 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 2021-001, 2021-002, and 2021-003 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 2021-005, 2021-006, and 2021-007 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2021-002, 2021-003, and 2021-004.

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

July 13, 2022

**FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2021

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**FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2021

FINANCIAL STATEMENT FINDINGS:

2021-001 The Fulton County Fiscal Court Does Not Have 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 2020-001. The Fulton County Fiscal Court does not have 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 2021-002, beginning and ending fund balances were misstated, and a large variance was noted between the total unencumbered cash balance and the total reconciled cash balance.
- As reported in finding 2021-005, outstanding debt balances do not agree with the long-term liabilities section of the fourth quarter financial statement.
- As reported in finding 2021-006, 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: The County Judge and Administrative Assistant has developed a system to reconcile accounts for reporting purposes which will be in force for the monthly reporting as of July 2022. The system will be used to reconcile accounting records with bank statements and identify differences for reconciliation. Additionally, we are seeking outside professionals to evaluate our process and improve the process which should eliminate this finding.

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 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 2020-002. 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 \$658,100.
 - The beginning fund balance of the jail fund was overstated by \$605.
 - The ending fund balances of the general fund and jail fund were overstated by \$904,407 and \$400 respectively.
 - On the fourth quarter financial report, there was a \$1,688,359 variance noted between the total reported cash balance and total reconciled cash balance.
- The total budgeted amounts per the original budget and budget amendment do not agree with the budgeted amounts reported on the fourth quarter report for the American Recovery Plan Act (ARPA) Fund. Total budgeted amounts on the fourth quarter financial report were \$1,167,978, while actual budgeted amounts were \$579,704 for a variance of \$588,274.
- There was no record in the fiscal court minutes that the quarterly reports 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 treasurer, the quarterly reports were not presented to and/or approved by the fiscal court because it was believed that quarterly reports were not required to be presented to the court.

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."

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Fulton County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained (Continued)

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.”

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: The Fiscal Court has requested the County Judge employ an accounting firm to assist with evaluating the accounting and financial record keeping system used by the county and to recommend modifications of the system aimed at corrective actions requested by the audit. The evaluation is to consider provisions for staffing, internal controls procedures, and accounting technology necessary to streamline the process and effectiveness of the accounting system. This finding involves an accounting (posting) error that has accumulated over the past 10+ years. It is a function of the complexity of the payroll system. The payroll system, which operates in the General Fund, has five separate payroll entities with three separate pay periods. Making the system more complex is the fact that three of the initiates perform their own payroll but remit all withholdings to the county payroll system where their local, state, and federal taxes are paid. The Sheriff’s Office has contributed greatly to the accounting error in question. The Sheriff runs his own payroll. For reporting purposes, he remits his withholding to the Treasurer for the reporting and payment of Sheriff’s Department payroll. Often the Sheriff, being a Fee Office, does not have the cash to remit to the Treasurer. When that happens, the Treasurer must report Sheriffs withholding and make remittance to local, state, and federal authorities the withholding reported by the sheriff. Without the actual remittance from the Sheriff, the Treasurer must then make that payment out of the General Fund subject to the Sheriff catching up on his payment to the county at a later time. According to the auditor, this is a major contributor to the accounting issue.

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Fulton County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained (Continued)

Views of Responsible Official and Planned Corrective Action: (Continued)

County Judge/Executive's Response (Continued): The accounting firm to be employed will examine payroll records to the extent the beginning of this accumulative accounting error can be located and corrected allowing us to move all data forward in order to correct the error. The current Treasurer, County Judge and Fiscal Court did not create this problem; however, the problem has continued during the current term in office. It was difficult to detect and address the problem over the past 8 years because due to several issues, audits were delayed outside the control of the Treasurer and the Fiscal Court. It would be difficult to correct an audit finding before we knew the finding existed. For example, during the previous 12-month period the county will have had audits presented for the past 5 years. How could we address an audit finding for the FY 2017-2018 when the audit report for that year was not presented to the county until FY 2021-2022?

This finding also involved an ARPA deposit which was posted incorrectly, adding to the volume of the error. The ARPA posting has already been corrected.

Once the work is completed by the proposed CPA firm, this finding should be corrected. However, the likelihood of it reoccurring is good if we do not reinvent the payroll system used. The current recommendation by the County Judge is that the fee offices take complete control of their payroll, including reporting and remitting to the various taxing organizations.

Auditor's Reply: The amounts transferred to the payroll account for all entities, including the sheriff were not properly recorded by the treasurer, resulting in a materially incorrect general fund balance. As discussed with the county judge/executive, a CPA firm, which the county hired, did not release the FY 2017, 2018, and 2019 audit reports until 2022. The delay in completing the FY 2017 through 2019 audits did not allow timely completion of the FY 2020 and 2021 audits. As a result, we completed the FY 2020 and 2021 audits consecutively to expedite their release.

2021-003 The Fulton County Fiscal Court's Purchase Order System Did Not Function As Designed

The Fulton County Fiscal Court's purchase order system did not function as designed. Purchase orders were either not issued for all purchases or in other instances were issued after the purchase had been made and the invoice was received.

We tested 64 transactions totaling \$1,653,883. Four of these transactions totaling \$2,566 did not have a purchase order prepared for the purchase. Fifty-four of these transactions totaling \$1,554,429 had purchase orders prepared after the invoice was received from the vendor. Furthermore, one transaction for \$3,936 did not have an itemized invoice, but had a purchase order, and one transaction was paid after 30 days. Due to the purchase order system not working as designed, encumbrances listed on the fourth quarter financial statement were not accurate. Outstanding invoices dated for the 2021 fiscal year were not reported as encumbrances but were instead included in the 2022 fiscal year. According to the county treasurer, individuals sometimes make purchases prior to requesting purchase orders. In these instances, the fiscal court will prepare purchase orders when invoices are received.

The issues noted above could result in line-items being over budget, claims being paid which are not valid obligations of the fiscal court, inaccurate reporting, and misappropriation of assets.

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-003 The Fulton County Fiscal Court's Purchase Order System Did Not Function As Designed
 (Continued)

KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* states, "[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made."

Additionally, according to a memorandum from the Department for Local Government (DLG) dated August 4, 2016, "[t]he main purpose of this system is to ensure that purchases can be made if there are sufficient appropriations available within the amount of line items in the county's budget. Because of this, it is a requirement by the State Local Finance Officer that all counties have a purchase order system and follow the guidelines prescribed on Page 54 of the *County Budget Preparation and State Local Finance Officer Policy Manual*." Furthermore, DLG highly recommends that counties accept the practice of issuing purchase orders for payroll and utility claims.

Lastly, strong internal controls dictate the purchase orders be issued and approved prior to items being ordered and expenses being incurred, in order to ensure available line-item appropriation exists.

We recommend the Fulton County Fiscal Court strengthen internal controls over disbursements by ensuring that purchase orders are issued prior to all purchases being made. We further recommend that the fiscal court use these purchase orders to keep an accurate list of encumbrances.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding is about 4 purchases that did not have a PO attached. The treasurer stated that the POs could have been displaced during the audit or when claims were copied for magistrate review, but she was not sure. She is sure that an effort is always made to make sure POs are attached to each claim. Another part of this finding was several POs were dated after the purchases were approved or made. Going forward a renewed effort will be made to assure POs are used for their intended purpose and are dated before purchases are made.

2021-004 Pledged Securities Were Insufficient To Cover Deposits And The Pledge Agreement Was Not Properly Signed

Fulton County's deposits as of June 30, 2021, were undercollateralized by \$611,503. Additionally, the county failed to sign the pledge agreement with one banking institution bringing into question the validity of the pledged securities. Also, the Fulton County Detention Center failed to obtain a written pledge agreement with the banking institution used for the jail commissary.

The county and the depository institution had a written agreement stating the depository institution would provide adequate collateral to protect the county's deposits. In this case, the bank pledged a \$3,500,000 line of credit. As of June 30, 2021, this pledged line of credit was not sufficient to cover the deposits of the county. The validity of the agreement is uncertain because, according to the bank, the county failed to return a copy of the agreement that was signed by the county judge/executive.

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-004 Pledged Securities Were Insufficient To Cover Deposits And The Pledge Agreement Was Not Properly Signed (Continued)

The detention center wasn't covered by the county's pledge agreement because they used a different banking institution. They failed to get a pledge agreement because the commissary balance is usually less than FDIC coverage.

Because the pledged line of credit was insufficient, the pledge agreement was not signed by both parties, and the detention center failed to obtain a written agreement, the county's deposits could be exposed to risk in the event of bank failure or insolvency.

The Fulton County 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. Pledged securities should be sufficient enough to cover the amount of funds that exceed FDIC coverage.

We recommend the county provide the bank with a signed copy of the pledge agreement and monitor deposits and bank balances and notify banking institutions to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the detention center enter into a perfected pledge agreement with the depository institution and obtain pledged securities, which are sufficient enough to cover the amount of deposits in excess of FDIC coverage.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding was because, according to the auditor, the pledge agreement was not signed by the county. During the audit exit meeting the Treasurer provided evidence that she requested the bank send us a pledge agreement. In reviewing the Treasurer's file on this subject, the bank sent a signature card used to authorize changes in the pledge. The Treasurer had the card signed by the appropriate parties and ask if the bank wanted the card returned. The bank said "no," just maintain the cards for county use if the level of the pledge were to be released by the county. The Treasurer may have assumed this was the document required by DLG. The Treasurer's file did contain an irrevocable letter of credit dated September 19, 2019, which increased the LOC to \$4,500,000, which expired September 18, 2020. The LOC in the file for September 18, 2020, through September 17, 2021, was for \$3,500,000 and from May 26, 2021, through May 25, 2022, is \$5,000,000. The issues I have with the finding is, if the LOC covering the security deposit for the balance on June 30, 2021, was \$611,503 short based on the bank pledge of \$3,500,000, that would mean our balance on that date would have been \$4,111,503. If that balance is correct, the finding may be incorrect because according to the LOC providing for the \$3,500,000 was amended on May 26, 2021, through May 25, 2022, in the amount of \$5,000,000. I request this part of the find be reevaluated.

Another issue is the security agreement indicates the bank will keep the county security arrangement at 102% of deposits. That being the case, the bank did not maintain its commitment if the finding is current. If the finding is incorrect and the \$5,000,000 LOC was in effect, the banks obligation was met.

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-004 Pledged Securities Were Insufficient To Cover Deposits And The Pledge Agreement Was Not Properly Signed (Continued)

Views of Responsible Official and Planned Corrective Action: (Continued)

County Judge/Executive's Response: (Continued) On the issue of the unsigned security agreement. It appears that the bank may have sent a contract to be signed on behalf of the county in September of 2019. They have emails that indicate such but evidence of that is not present on any of our emails. There is evidence that the Treasurer was asking for an agreement. I now have a copy of the 2019 agreement, which is still in effect and is now signed by myself and a copy has been placed in our files as well as returned to the bank. In the future, we will keep closer watch on deposits and security arrangements to make sure the county is not at risk in this matter.

Auditor's Reply: This finding is based on a third-party confirmation obtained from the county's banking institution. According to the banking institution, a copy of the collateral security agreement signed by the bank was sent to the county. However, a copy of the agreement signed by the county was never returned to the bank. As stated in the finding, in order to be perfected in the event of failure or insolvency of the depository institution, the 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. Given that all of the criteria were not met, the validity of the line of credit pledged to cover the county's deposits is in question. Regardless of the validity, the \$3,500,000 line of credit, as confirmed by the banking institution, was not sufficient to cover the county's deposits as of June 30, 2021.

2021-005 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 2020-003. On the liabilities section of the June 30, 2021 quarterly financial statement, the Fulton County Fiscal Court reported outstanding debt principal in the amount of \$3,946,280 and outstanding interest in the amount of \$1,155,736. However, the confirmed outstanding principal balance was \$3,936,655, and the outstanding interest balance was \$1,192,486 thereby resulting in variances of \$9,625 and \$36,750, 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 2021-001. As a result, the fourth quarter financial statement was understated. Additionally, because outstanding liabilities were not accurately reported, 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.

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

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-005 Debt Balances Do Not Agree With The Long-Term Liabilities Section Of The Fourth Quarter Financial Statement (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: I have examined the Long-Range Liabilities contained in the quarterly financial statement mentioned in this finding. I note the balances mentioned in this finding and concur with the amounts in the financial report. The amounts mentioned in the finding which were reported as the amount confirmed by the lender is also believed to be true. The difference as mentioned in the finding as the variances (\$9,625 and \$36,750) are likely since the lender for the \$199,000 loan did not provide an amortization chart for that loan. I found evidence where the Treasurer requested the amortization chart in order to post to her ledger which would track the liability for the purpose of reporting. The lender's response was "we do not do amortization charts; we only do payment history." The reason for the variances is likely because the anticipated amortization was not posted to the Treasurer ledger, therefore creating the differences. I did not extend my review to verify the exact amount but believe this to be the reason for the difference in long term liabilities in the financial report and that reported by the lender. The loan in question was paid off shortly after the audit period which would correct the finding going forward. Furthermore, I have instructed the Treasurer to correspond with debt holders in the future monthly to assure this finding does not persist.

2021-006 The Fulton County Fiscal Court Does Not Have Proper Oversight Of The Payroll Revolving Account

This is a repeat finding and was included in the prior year audit report as finding 2020-004. As of June 30, 2021, the payroll revolving account had a reconciled balance of \$87,379. 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 account activity to verify transactions were properly handled and recorded, the payroll account does not reconcile to zero.

Because the payroll account does not reconcile to a zero balance, 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 the 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: The Fiscal court has requested that I employ a CPA firm to assist in isolating audit issues and particularly the payroll audit issues and come to a solution of payroll fund audit findings. This process is already under way and hopefully we can track down years of accounting errors in the payroll system. This is a systemic issue which has been going on for several years. Multi years delays in audits and changing Treasurers has hindered our ability to correct this issue before now.

FULTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-006 The Fulton County Fiscal Court Does Not Have Proper Oversight Of The Payroll Revolving Account (Continued)

Auditor's Reply: As discussed with the county judge/executive, a CPA firm, which the county hired, did not release the FY 2017, 2018, and 2019 audit reports until 2022. The delay in completing the FY 2017 through 2019 audits did not allow timely completion of the FY 2020 and 2021 audits. As a result, we completed the FY 2020 and 2021 audits consecutively to expedite their release.

2021-007 Cash Transfers Were Not Properly Approved By The Fiscal Court

Three cash transfers in the amount of \$206,644 were transferred from the jail fund to the ambulance reserve fund without being approved by the fiscal court. According to the county judge/executive, these transfers were approved by a blanket order approved by the fiscal court. However, the actual fiscal court order only approved transfers up to \$30,000. Because the cash transfers were not approved by fiscal court, the county's funds were at an increased risk of being misappropriated.

Strong internal controls dictate that the fiscal court oversee the movement of funds in order to decrease the risk of misappropriation. It is also the responsibility of the fiscal court to make financial decisions for the county, such as, transferring cash between funds.

We recommend that all cash transfers be presented to, and approved by, the Fulton County Fiscal Court prior to being made.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding involves three transfers from the Jail Fund to the Ambulance Reserve Fund, now called the Jail Sinking Fund. The fact is that these transfers were approved by the Fiscal Court on several occasions. The Fiscal Court gave the Treasurer a standing order to transfer funds from the Jail Fund to the Jail Sinking Fund on a monthly basis. This was a second monthly debt payment the Fiscal Court wanted to make to accomplish early retirement of jail debt. The audit is saying that the Fiscal Court cannot give the Treasurer a standing order, but the order has to be given monthly. The Treasurer and I believed the standing orders were appropriate and made the transfer when appropriate. The standing order was to make a second monthly debt payment by transferring money from the Jail Fund to the Sinking Fund. No one had ever suggested that it could not be a standing order but had to come before the Fiscal Court monthly for monthly approval. The monthly Treasurer report always stated when this transfer was made. In fact, on several occasions the Treasurer did not make the transfer because funds were not available in the Jail Fund and on those occasions the Fiscal Court was critical of the Treasurer for not making the transfers. In other words, the Fiscal Court said they wanted to make the transfer and the Treasurer had to explain why the transfers were not made. As far as correcting this finding, the Treasurer has been instructed to have all transfers approved and such approvals reflected in the minutes of Fiscal Court minutes, even standing orders.

Auditor's Reply: The fiscal court order referenced in the county judge/executive's response, as documented in the fiscal court minutes, allowed the county treasurer to transfer \$30,000 to the sinking fund monthly if funds were available. The three transfers in question exceeded the \$30,000 threshold, therefore, the blanket order was not considered valid in these instances.

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

FULTON COUNTY FISCAL COURT

For The Year Ended June 30, 2021

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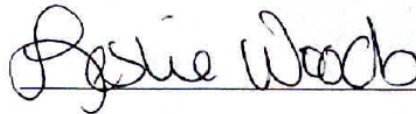
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
FULTON COUNTY FISCAL COURT

For The Year Ended June 30, 2021

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.

A handwritten signature in blue ink, appearing to read "John Martin", is written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to read "Jessie Wood", is written over a horizontal line.

County Treasurer