

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

**For The Fiscal Year Ended
June 30, 2016**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
CARTER COUNTY FISCAL COURT

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Carter County Fiscal Court for the fiscal year ended June 30, 2016.

We have issued an unmodified opinion, based on our audit of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Carter County Fiscal Court.

Financial Condition:

The Carter County Fiscal Court had total receipts of \$8,716,850, disbursements of \$11,017,477, and financing obligation proceeds of \$2,328,054 in fiscal year 2016. This resulted in a total ending fund balance of \$883,405, which is an increase of \$27,427 from the prior year.

Findings:

- 2016-001 The Carter County Fiscal Court Did Not Follow Procedures For Approving Budget Amendments On An Emergency Basis
- 2016-002 The Carter County Fiscal Court Did Not Properly Budget For And Record All Debt-Related Disbursements
- 2016-003 The Carter County Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement
- 2016-004 The Carter County Treasurer Did Not Correctly Record All Receipts
- 2016-005 The Carter County Fiscal Court Did Not Comply With Purchase Order Procedures
- 2016-006 The Carter County Fiscal Court Did Not Maintain A Complete And Accurate Fixed Assets Schedule
- 2016-007 The Carter County Fiscal Court Did Not Prepare A Justice Center Corporation Fund Financial Statement
- 2016-008 The Carter County Jailer Made Purchases From The Commissary Account That Did Not Comply With State Law
- 2016-009 The Carter County Jail Commissary Uses A Debit Card For Purchases
- 2016-010 The Carter County Jail Commissary Did Not Make Daily Deposits
- 2016-011 The Carter County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll Processing
- 2016-012 The Carter County Fiscal Court Did Not Completely Reconcile Revolving Account Balances

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Mike Malone, Carter County Judge/Executive
Members of the Carter 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 Carter County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Carter 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
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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 Carter 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 Carter County Fiscal Court as of June 30, 2016, 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 Carter County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Carter County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule 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 and Capital Asset Schedule 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 and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky
 The Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
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 Members of the Carter County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017, on our consideration of the Carter County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Carter 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:

- 2016-001 The Carter County Fiscal Court Did Not Follow Procedures For Approving Budget Amendments On An Emergency Basis
- 2016-002 The Carter County Fiscal Court Did Not Properly Budget For And Record All Debt-Related Disbursements
- 2016-003 The Carter County Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement
- 2016-004 The Carter County Treasurer Did Not Correctly Record All Receipts
- 2016-005 The Carter County Fiscal Court Did Not Comply With Purchase Order Procedures
- 2016-006 The Carter County Fiscal Court Did Not Maintain A Complete And Accurate Fixed Assets Schedule
- 2016-007 The Carter County Fiscal Court Did Not Prepare A Justice Center Corporation Fund Financial Statement
- 2016-008 The Carter County Jailer Made Purchases From The Commissary Account That Did Not Comply With State Law
- 2016-009 The Carter County Jail Commissary Uses A Debit Card For Purchases
- 2016-010 The Carter County Jail Commissary Did Not Make Daily Deposits
- 2016-011 The Carter County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll Processing
- 2016-012 The Carter County Fiscal Court Did Not Completely Reconcile Revolving Account Balances

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

December 14, 2017

CARTER COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Mike Malone	County Judge/Executive
Chris Huddle	Magistrate
Mark Miller	Magistrate
James Wilburn	Magistrate
Nicholas Barker	Magistrate
Brandon Burton	Magistrate

Other Elected Officials:

Brian Bayes	County Attorney
R.W. Boggs	Jailer
Mike Johnston	County Clerk
Larry Thompson	Circuit Court Clerk
Jeffrey May	Sheriff
Leslie Kiser Roseberry	Property Valuation Administrator
William Waddell	Coroner

Appointed Personnel:

Beth Justice	County Treasurer
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**CARTER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,696,289	\$	\$
In Lieu Tax Payments	24,942		
Excess Fees	86,426		
Licenses and Permits	57,093		
Intergovernmental	611,919	2,153,502	1,988,668
Charges for Services	1,294		71,711
Miscellaneous	149,404	53,260	38,601
Interest	151	184	39
Total Receipts	<u>2,627,518</u>	<u>2,206,946</u>	<u>2,099,019</u>
DISBURSEMENTS			
General Government	2,803,901		
Protection to Persons and Property	11,500		1,793,909
General Health and Sanitation	54,873		
Recreation and Culture	18,000		
Roads		1,915,392	
Debt Service	549,094	290,489	
Administration	651,359	295,124	478,990
Total Disbursements	<u>4,088,727</u>	<u>2,501,005</u>	<u>2,272,899</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,461,209)</u>	<u>(294,059)</u>	<u>(173,880)</u>
Other Adjustments to Cash (Uses)			
Financing Obligations Proceeds	2,180,000	68,010	
Transfers From Other Funds	340,000	466,843	639,500
Transfers To Other Funds	(1,106,515)	(340,000)	(348,353)
Total Other Adjustments to Cash (Uses)	<u>1,413,485</u>	<u>194,853</u>	<u>291,147</u>
Net Change in Fund Balance	(47,724)	(99,206)	117,267
Fund Balance - Beginning	132,441	236,384	39,040
Fund Balance - Ending	<u>\$ 84,717</u>	<u>\$ 137,178</u>	<u>\$ 156,307</u>
Composition of Fund Balance			
Bank Balance	\$ 100,524	\$ 138,797	\$ 164,264
Less: Outstanding Checks	(15,807)	(1,619)	(7,957)
Fund Balance - Ending	<u>\$ 84,717</u>	<u>\$ 137,178</u>	<u>\$ 156,307</u>

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

CARTER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

Local Government Economic Assistance Fund	Budgeted Funds		Unbudgeted Funds		Total Funds
	Forestry Fund	Enhanced 911 Fund	Justice Center Corporation Fund	Jail Commissary Fund	
\$	\$ 3,655	\$ 303,195	\$	\$	\$ 2,003,139
					24,942
					86,426
					57,093
437,683		30,737	585,356		5,807,865
85,540				132,134	290,679
111,276		93,646			446,187
56		23	66		519
<u>634,555</u>	<u>3,655</u>	<u>427,601</u>	<u>585,422</u>	<u>132,134</u>	<u>8,716,850</u>
14,807					2,818,708
351,096	3,397	286,946			2,446,848
98,798					153,671
				151,479	169,479
					1,915,392
111,051		28,773	930,209		1,909,616
138,879		37,911	1,500		1,603,763
<u>714,631</u>	<u>3,397</u>	<u>353,630</u>	<u>931,709</u>	<u>151,479</u>	<u>11,017,477</u>
<u>(80,076)</u>	<u>258</u>	<u>73,971</u>	<u>(346,287)</u>	<u>(19,345)</u>	<u>(2,300,627)</u>
80,044					2,328,054
	172		348,353		1,794,868
					(1,794,868)
<u>80,044</u>	<u>172</u>		<u>348,353</u>		<u>2,328,054</u>
(32)	430	73,971	2,066	(19,345)	27,427
143,654	15,534	33,590	193,277	62,058	855,978
<u>\$ 143,622</u>	<u>\$ 15,964</u>	<u>\$ 107,561</u>	<u>\$ 195,343</u>	<u>\$ 42,713</u>	<u>\$ 883,405</u>
\$ 143,906	\$ 15,964	\$ 107,576	\$ 195,343	\$ 43,342	\$ 909,716
(284)		(15)		(629)	(26,311)
<u>\$ 143,622</u>	<u>\$ 15,964</u>	<u>\$ 107,561</u>	<u>\$ 195,343</u>	<u>\$ 42,713</u>	<u>\$ 883,405</u>

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

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TO THE FINANCIAL STATEMENT**

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CARTER COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Carter County includes all budgeted and unbudgeted funds under the control of the Carter 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.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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.

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.

Forestry Fund - The primary purpose of this fund is to account for money collected for forest protection.

Enhanced 911 Fund - The primary purpose of this fund is to account for the dispatch services provided for the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

The Justice Center Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund the construction of public buildings.

Jail Commissary Fund - The commissary operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer 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.

The State Local Finance Officer does not require the justice center corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Carter County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Carter 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 Carter 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. Jointly Governed Organization

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The Eastpark Industrial Park meets the criteria notes above and is disclosed as an organization jointly governed by the Kentucky counties of Carter, Boyd, Elliott Greenup, and Lawrence.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

	General Fund	Road Fund	Jail Fund	Total Transfers In
General Fund	\$	\$ 340,000	\$	\$ 340,000
Road Fund	466,843			466,843
Jail Fund	639,500			639,500
Forestry Fund	172			172
Justice Center Corporation Fund			348,353	348,353
Total Transfers Out	<u>\$ 1,106,515</u>	<u>\$ 340,000</u>	<u>\$ 348,353</u>	<u>\$ 1,794,868</u>

Reason for transfers:

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

Note 4. Agency Trust Funds

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

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2016 was \$62,914.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Lease Agreement

On December 21, 2015, the Carter County Fiscal Court entered into a lease agreement for multiple vehicles, as part of an energy savings program. The agreement plans for the replacement of a varying number of county-owned vehicles with fleet-managed leased vehicles each year through 2025. The addition of more leased vehicles in future years will change the payment schedule. The lease agreement contains a buy option and the county will not have right, title, or interest in or to the vehicles except for the use of the vehicles as described in the agreement. The lease term commences on the delivery date of the vehicle and ends 60 months after the first full month's rental payment date, with an option to continue month-to-month for an unlimited period of time. The vendor delivered two vehicles in April and May for which fiscal court paid \$2,339. The vendor delivered seven more vehicles in June, but no payment was due until next fiscal year. Scheduled lease payments as of June 30, 2016, were as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Payment</u>
2017	\$ 70,244
2018	70,244
2019	70,244
2020	70,244
2021	<u>67,905</u>
Totals	<u>\$ 348,881</u>

Note 6. Short-term Debt

A. Courthouse Energy Efficiency Improvements

On February 22, 2016, Carter County entered into a \$430,000 lease with the Kentucky Association of Counties for the purpose of financing the courthouse energy efficiency improvements until long-term financing was in place. Terms of the agreement stipulated one payment of principal and interest due on August 20, 2016. The balance was paid in full as of June 30, 2016.

B. Changes In Short-term Debt

Short-term Debt activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Financing Obligation	\$ _____	\$ 430,000	\$ 430,000	\$ _____
Total Short-term Debt	<u>\$ 0</u>	<u>\$ 430,000</u>	<u>\$ 430,000</u>	<u>\$ 0</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt

A. General Obligation Refunding Bonds, Series 2012 - Detention Center

On March 1, 2012, the Carter County Fiscal Court issued \$5,460,000 General Obligation Refunding Bonds for the purpose of defeasance of the outstanding General Obligation Bonds, Series 2001, which were used for the construction of the Carter County Detention Center. Principal payments are due on May 1, and interest payments are due on May 1 and November 1 of each year. As of June 30, 2016, the principal outstanding was \$4,485,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 230,000	\$ 121,954
2018	235,000	117,354
2019	235,000	112,654
2020	235,000	107,954
2021	245,000	103,254
2022-2026	1,340,000	418,647
2027-2031	1,600,000	211,672
2032	365,000	11,862
Totals	<u>\$ 4,485,000</u>	<u>\$ 1,205,351</u>

B. First Mortgage Refunding Revenue Bonds, Series 2010 - Justice Center

On November 1, 2010, the Carter County Justice Center Corporation (the Corporation) issued \$5,300,000 First Mortgage Refunding Revenue Bonds for the purpose of defeasance of the outstanding First Mortgage Revenue Bonds, Series 2002, which were used for the construction of the Carter County Justice Center. The Corporation is acting as agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Justice Center. The Corporation expects annual rentals from AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, AOC has agreed to pay directly to the paying agent bank the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Corporation is in reliance upon the use allowance payment in order to meet the debt service for the bonds. The use allowance payment commenced with occupancy of the Justice Center by AOC. AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until March 1, 2022, but the lease does not legally obligate AOC to do so. Principal payments are due on March 1, and interest payments are due on March 1 and September 1 of each year. As of June 30, 2016, the principal outstanding was \$3,580,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 465,000	\$ 109,893
2018	480,000	95,943
2019	495,000	81,543
2020	510,000	66,693
2021	525,000	51,392
2022-2023	1,105,000	54,004
Totals	<u>\$3,580,000</u>	<u>\$459,468</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

C. Kentucky Area Development District Financing Trust - Justice Center

On October 9, 2003, the Carter County Justice Center Corporation entered into a 20-year lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$380,000. The proceeds of the lease were used to fund a portion of the construction costs associated with the new Justice Center. Principal payments are due on November 20 and interest payments are due on May 20 and November 20 of each year. The Administrative Office of the Courts is expected to pay the full amount of the principal and interest payments. As of June 30, 2016, the principal outstanding was \$75,000. Future principal and interest requirements are:

Fiscal Year Ended		
June 30	Principal	Interest
2017	\$ 15,000	\$ 3,101
2018	10,000	2,575
2019	10,000	2,140
2020	10,000	1,680
2021	10,000	1,200
2022-2023	20,000	960
	<u>\$ 75,000</u>	<u>\$ 11,656</u>
Totals		

D. Grahn Fire Department - Fire Truck

On March 7, 2005, Carter County entered into a \$93,000 financing obligation agreement with the Kentucky Association of Counties Leasing Trust for the purpose of financing the purchase of a fire truck for the Grahn Fire Department. The Grahn Fire Department agreed to make payments for the term of the lease, but was not legally obligated to do so. Terms of the agreement stipulated a ten-year repayment schedule, with payments ending on July 20, 2015. As of June 30, 2016, the balance was paid in full.

E. Hitchins Fire Department - Fire Truck

On June 22, 2006, Carter County entered into a \$140,000 financing obligation agreement with the Kentucky Association of Counties Leasing Trust for the purpose of financing the purchase of a fire truck for the Hitchins Fire Department. The Hitchins Fire Department agreed to make payments for the term of the lease, but was not legally obligated to do so. Terms of the agreement stipulated a 12-year repayment schedule, with payments ending on July 20, 2017. As of June 30, 2016, the balance was paid in full.

F. Norton Branch Fire Department - Fire Truck

On June 30, 2006, Carter County entered into a \$148,000 financing obligation agreement with the Kentucky Association of Counties Leasing Trust for the purpose of financing the purchase of a fire truck for Norton Branch Fire Department. The Norton Branch Fire Department agreed to make the payments for the term of the lease, but is not legally obligated to do so. Terms of the agreement stipulate a 14-year repayment schedule, with payments ending on December 20, 2020. As of June 30, 2016, the principal outstanding was \$53,000. Future debt service requirements are:

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

F. Norton Branch Fire Department - Fire Truck (Continued)

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 10,000	\$ 2,052
2018	10,000	1,620
2019	10,000	1,194
2020	10,000	768
2021	13,000	276
Totals	<u>\$ 53,000</u>	<u>\$ 5,910</u>

G. Grayson Fire Department - Fire Truck

On June 1, 2007, Carter County entered into a \$95,000 financing obligation agreement with the Kentucky Association of Counties Leasing Trust for the purpose of financing the purchase of a fire truck for Grayson Fire Department. The Grayson Fire Department agreed to make the payments for the term of the lease, but is not legally obligated to do so. Terms of the agreement stipulate a ten-year repayment schedule, with principal and interest payments ending on July 20, 2017. As of June 30, 2016, the principal outstanding was \$30,382. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 8,868	\$ 1,166
2018	21,514	96
Totals	<u>\$ 30,382</u>	<u>\$ 1,262</u>

H. Fire And Police Equipment

On October 8, 2010, Carter County entered into a \$135,000 loan with First National Bank of Grayson for the purpose of financing the purchase of fire and police equipment. Terms of the agreement stipulated a five-year repayment schedule with payments ending on October 15, 2015. As of June 30, 2016, the balance was paid in full.

I. Emergency Management Services Equipment

On August 10, 2012, Carter County entered into a \$130,823 loan with First National Bank of Grayson for the purpose of financing the purchase of 911 equipment. Terms of the agreement stipulate a five-year repayment schedule with payments ending on August 10, 2017. As of June 30, 2016, the principal outstanding was \$32,783. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 28,010	\$ 763
2018	4,773	23
Totals	<u>\$ 32,783</u>	<u>\$ 786</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

J. Backhoe

On October 3, 2012, Carter County entered into a \$110,420 loan with First National Bank of Grayson for the purpose of financing the purchase of a backhoe. Terms of the agreement stipulate a five-year repayment schedule with payments ending on October 3, 2017. As of June 30, 2016, the principal outstanding was \$47,073. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 23,100	\$ 1,790
2018	23,973	917
Totals	<u>\$ 47,073</u>	<u>\$ 2,707</u>

K. Dump Truck And Snow Plow

On December 13, 2012, Carter County entered into a \$122,937 lease agreement with BB&T Governmental Finance for the purpose of financing the purchase of a dump truck with snow plow. Terms of the agreement stipulate a five-year repayment schedule, with annual interest at 1.77 percent and principal payments ending on December 13, 2017. As of June 30, 2016, the principal outstanding was \$50,473. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 25,015	\$ 893
2018	25,458	451
Totals	<u>\$ 50,473</u>	<u>\$ 1,344</u>

L. Ford Explorer Interceptor

On December 13, 2012, Carter County entered into a \$29,305 lease agreement with BB&T Governmental Finance for the purpose of financing the purchase of a 2013 Ford Explorer Interceptor. Terms of the agreement stipulated a three-year repayment schedule with payments ending on December 13, 2015. As of June 30, 2016, the balance was paid in full.

M. Ford F-550 And CAT Commercial Mower

On November 19, 2013, Carter County entered into a \$189,388 lease agreement with BB&T Governmental Finance for the purpose of financing the purchase of a 2014 Ford F-550 and CAT Commercial Mower. Terms of the agreement stipulate a five-year repayment schedule with payments ending on November 19, 2018. As of June 30, 2016, the principal outstanding was \$116,206. Future debt service requirements are:

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

M. Ford F-550 And CAT Commercial Mower (Continued)

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 37,858	\$ 2,673
2018	38,729	1,802
2019	39,619	911
Totals	<u>\$ 116,206</u>	<u>\$ 5,386</u>

N. Road Paving

On October 9, 2014, Carter County entered into a \$1,500,000 lease agreement with Republic Bank for the purpose of financing road paving. Terms of the agreement stipulate a ten-year repayment schedule, with payments ending on October 20, 2024. As of June 30, 2016, the principal outstanding was \$1,250,000. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 150,000	\$ 34,855
2018	150,000	30,430
2019	150,000	26,004
2020	150,000	21,635
2021	150,000	17,153
2022-2025	500,000	25,221
Totals	<u>\$ 1,250,000</u>	<u>\$ 155,298</u>

O. Excavator

On November 11, 2015, Carter County entered into a \$68,010 loan agreement with First National Bank of Grayson for the purpose of financing the purchase of an excavator. Terms of the agreement stipulate a five-year repayment schedule, with payments ending on November 4, 2020. As of June 30, 2016, the principal outstanding was \$60,583. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 13,027	\$ 1,634
2018	13,421	1,242
2019	13,827	833
2020	14,246	415
2021	6,062	45
Totals	<u>\$ 60,583</u>	<u>\$ 4,169</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

P. Grahn Fire Department – Fire Truck

On February 19, 2016, Carter County entered into a \$75,000 loan agreement with First National Bank of Grayson for the purpose of financing the purchase of a fire truck for Grahn Fire Department. The Grahn Fire Department agreed to make payments for the term of the lease, but was not legally obligated to do so. Terms of the agreement stipulate a five-year repayment schedule, with payments ending on November 1, 2021. As of June 30, 2016, the principal outstanding was \$75,000. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 7,418	\$ 3,245
2018	8,642	2,021
2019	8,900	1,763
2020	9,166	1,497
2021	40,874	1,410
Totals	<u>\$ 75,000</u>	<u>\$ 9,936</u>

Q. Hitchins Fire Department – Fire Truck

On May 11, 2016, Carter County entered into an \$80,044 loan agreement with First National Bank of Grayson for the purpose of financing the purchase of a fire truck for Hitchins Fire Department. The Hitchins Fire Department agreed to make payments for the term of the lease, but was not legally obligated to do so. Terms of the agreement stipulate an eight-year repayment schedule, with payments ending on August 11, 2023. As of June 30, 2016, the principal outstanding was \$80,044. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 10,471	\$ 603
2018	8,994	2,081
2019	9,263	1,812
2020	9,540	1,535
2021	9,825	1,250
2022-2024	31,951	2,294
Totals	<u>\$ 80,044</u>	<u>\$ 9,575</u>

R. Courthouse Energy Efficiency Improvements

On May 18, 2016, Carter County entered into a \$1,675,000 lease agreement with the Kentucky Association of Counties for the purpose of financing the acquisition and installation of energy efficiency improvements and refinancing the short-term emergency efficiency debt. Terms of the agreement stipulate a sixteen-year repayment schedule, with payments ending on December 20, 2030. As of June 30, 2016, the principal outstanding was \$1,675,000. Future debt service requirements are:

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

R. Courthouse Energy Efficiency Improvements (Continued)

Fiscal Year Ended June 30	Principal	Interest
2017	\$	\$ 56,393
2018	95,000	59,213
2019	100,000	56,050
2020	100,000	52,800
2021	105,000	49,475
2022-2026	575,000	179,937
2027-2030	700,000	61,625
Totals	<u>\$ 1,675,000</u>	<u>\$ 515,493</u>

S. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 4,705,000	\$	\$ 220,000	\$ 4,485,000	\$ 230,000
Revenue Bonds	4,030,000		450,000	3,580,000	465,000
Financing Obligations	2,124,425	1,898,054	476,935	3,545,544	328,767
Total Long-term Debt	<u>\$ 10,859,425</u>	<u>\$ 1,898,054</u>	<u>\$ 1,146,935</u>	<u>\$ 11,610,544</u>	<u>\$ 1,023,767</u>

Note 8. Employee Retirement System

Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous duty positions in the county. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

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 the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

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

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 8. Employee Retirement System (Continued)

defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) of their annual creditable compensation and one 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 Board 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 (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$302,801, FY 2015 was \$337,708, and FY 2016 was \$341,385.

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.

CERS also provides post-retirement health care coverage as follows:

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

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

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

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. 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.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2016, the Carter 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.

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

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CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,684,458	\$ 1,684,458	\$ 1,696,289	\$ 11,831
In Lieu Tax Payments			24,942	24,942
Excess Fees			86,426	86,426
Licenses and Permits	37,100	37,100	57,093	19,993
Intergovernmental	302,500	565,220	611,919	46,699
Charges for Services	1,000	1,000	1,294	294
Miscellaneous	90,800	90,800	149,404	58,604
Interest	500	500	151	(349)
Total Receipts	<u>2,116,358</u>	<u>2,379,078</u>	<u>2,627,518</u>	<u>248,440</u>
DISBURSEMENTS				
General Government	1,113,787	1,658,446	2,803,901	(1,145,455)
Protection to Persons and Property	31,361	22,243	11,500	10,743
General Health and Sanitation	48,518	56,965	54,873	2,092
Social Services	2,500	980		980
Recreation and Culture	18,000	18,000	18,000	
Debt Service	107,605	107,817	549,094	(441,277)
Administration	638,187	666,891	651,359	15,532
Total Disbursements	<u>1,959,958</u>	<u>2,531,342</u>	<u>4,088,727</u>	<u>(1,557,385)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>156,400</u>	<u>(152,264)</u>	<u>(1,461,209)</u>	<u>(1,308,945)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		505,000	2,180,000	1,675,000
Transfers From Other Funds	214,000	214,000	340,000	126,000
Transfers To Other Funds	(780,700)	(780,700)	(1,106,515)	(325,815)
Total Other Adjustments to Cash (Uses)	<u>(566,700)</u>	<u>(61,700)</u>	<u>1,413,485</u>	<u>1,475,185</u>
Net Change in Fund Balance	(410,300)	(213,964)	(47,724)	166,240
Fund Balance - Beginning	410,300	410,300	132,441	(277,859)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 196,336</u>	<u>\$ 84,717</u>	<u>\$ (111,619)</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,032,946	\$ 2,366,720	\$ 2,153,502	\$ (213,218)
Miscellaneous	1,000	26,000	53,260	27,260
Interest	400	400	184	(216)
Total Receipts	<u>2,034,346</u>	<u>2,393,120</u>	<u>2,206,946</u>	<u>(186,174)</u>
DISBURSEMENTS				
Roads	1,618,719	1,871,540	1,915,392	(43,852)
Debt Service	255,827	290,489	290,489	
Administration	232,800	500,428	295,124	205,304
Total Disbursements	<u>2,107,346</u>	<u>2,662,457</u>	<u>2,501,005</u>	<u>161,452</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(73,000)</u>	<u>(269,337)</u>	<u>(294,059)</u>	<u>(24,722)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			68,010	68,010
Transfers From Other Funds			466,843	466,843
Transfers To Other Funds	(177,000)	(177,000)	(340,000)	(163,000)
Total Other Adjustments to Cash (Uses)	<u>(177,000)</u>	<u>(177,000)</u>	<u>194,853</u>	<u>371,853</u>
Net Change in Fund Balance	(250,000)	(446,337)	(99,206)	347,131
Fund Balance - Beginning	250,000	250,000	236,384	(13,616)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (196,337)</u>	<u>\$ 137,178</u>	<u>\$ 333,515</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,836,500	\$ 1,836,500	\$ 1,988,668	\$ 152,168
Charges for Services	95,000	95,000	71,711	(23,289)
Miscellaneous	26,000	26,000	38,601	12,601
Interest	250	250	39	(211)
Total Receipts	<u>1,957,750</u>	<u>1,957,750</u>	<u>2,099,019</u>	<u>141,269</u>
DISBURSEMENTS				
Protection to Persons and Property	1,839,800	1,842,817	1,793,909	48,908
Debt Service	346,000			
Administration	542,650	537,280	478,990	58,290
Total Disbursements	<u>2,728,450</u>	<u>2,380,097</u>	<u>2,272,899</u>	<u>107,198</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(770,700)</u>	<u>(422,347)</u>	<u>(173,880)</u>	<u>248,467</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	770,700	770,700	639,500	(131,200)
Transfers To Other Funds		(348,353)	(348,353)	
Total Other Adjustments to Cash (Uses)	<u>770,700</u>	<u>422,347</u>	<u>291,147</u>	<u>(131,200)</u>
Net Change in Fund Balance			117,267	117,267
Fund Balance - Beginning			39,040	39,040
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 156,307</u>	<u>\$ 156,307</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 411,500	\$ 411,500	\$ 437,683	\$ 26,183
Charges For Services	86,500	86,500	85,540	(960)
Miscellaneous	1,000	1,000	111,276	110,276
Interest	100	100	56	(44)
Total Receipts	499,100	499,100	634,555	135,455
DISBURSEMENTS				
General Government	18,400	18,400	14,807	3,593
Protection to Persons and Property	291,050	284,652	351,096	(66,444)
General Health and Sanitation	90,175	103,217	98,798	4,419
Recreation and Culture	1,000	155		155
Recreation and Culture	3,250	308		308
Roads	19,500	10,745		10,745
Debt Service			111,051	(111,051)
Administration	138,725	144,623	138,879	5,744
Total Disbursements	562,100	562,100	714,631	(152,531)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(63,000)	(63,000)	(80,076)	(17,076)
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			80,044	80,044
Transfers To Other Funds	(37,000)	(37,000)		37,000
Total Other Adjustments to Cash (Uses)	(37,000)	(37,000)	80,044	117,044
Net Change in Fund Balance	(100,000)	(100,000)	(32)	99,968
Fund Balance - Beginning	100,000	100,000	143,654	43,654
Fund Balance - Ending	\$ 0	\$ 0	\$ 143,622	\$ 143,622

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

FORESTRY FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 2,800	\$ 2,800	\$ 3,655	\$ 855
Total Receipts	<u>2,800</u>	<u>2,800</u>	<u>3,655</u>	<u>855</u>
DISBURSEMENTS				
Protection to Persons and Property	16,650	16,650	3,397	13,253
Total Disbursements	<u>16,650</u>	<u>16,650</u>	<u>3,397</u>	<u>13,253</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(13,850)</u>	<u>(13,850)</u>	<u>258</u>	<u>14,108</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			172	172
Total Other Adjustments to Cash (Uses)			<u>172</u>	<u>172</u>
Net Change in Fund Balance	(13,850)	(13,850)	430	14,280
Fund Balance - Beginning	<u>13,850</u>	<u>13,850</u>	<u>15,534</u>	<u>1,684</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,964</u>	<u>\$ 15,964</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	ENHANCED 911 FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 354,800	\$ 354,800	\$ 303,195	\$ (51,605)
Intergovernmental	12,000	12,000	30,737	18,737
Miscellaneous			93,646	93,646
Interest	200	200	23	(177)
Total Receipts	<u>367,000</u>	<u>367,000</u>	<u>427,601</u>	<u>60,601</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property	333,800	334,550	286,946	47,604
Debt Service	28,776	28,776	28,773	3
Administration	68,724	67,974	37,911	30,063
Total Disbursements	<u>431,300</u>	<u>431,300</u>	<u>353,630</u>	<u>77,670</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(64,300)</u>	<u>(64,300)</u>	<u>73,971</u>	<u>138,271</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>10,000</u>	<u>10,000</u>		<u>(10,000)</u>
Total Other Adjustments to Cash (Uses)	<u>10,000</u>	<u>10,000</u>		<u>(10,000)</u>
Net Change in Fund Balance	(54,300)	(54,300)	73,971	128,271
Fund Balance - Beginning	<u>54,300</u>	<u>54,300</u>	<u>33,590</u>	<u>(20,710)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 107,561</u>	<u>\$ 107,561</u>

CARTER COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

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. Excess of Disbursements Over Appropriations

General Fund General Government exceeded budgeted appropriations by \$1,145,455.

General Fund Debt Service exceeded budgeted appropriations by \$441,277.

General Fund Total Disbursements exceeded budgeted appropriations by \$1,557,385

Road Fund Roads exceeded budgeted appropriations by \$43,852.

Local Government Economic Assistance Fund Protection to Persons and Property exceeded budgeted appropriations by \$65,444.

Local Government Economic Assistance Fund Debt Service exceeded budgeted appropriations by \$111,051.

Local Government Economic Assistance Fund Total Disbursements exceeded budgeted appropriations by \$152,531.

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CARTER COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

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CARTER COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 942,900	\$	\$	\$ 942,900
Buildings and Building Improvements	14,121,535	1,689,825		15,811,360
Machinery and Equipment	2,548,307	136,668	48,668	2,636,307
Vehicles	1,123,014	52,300	42,300	1,133,014
Infrastructure	8,736,451	283,500		9,019,951
Total Capital Assets	\$ 27,472,207	\$ 2,162,293	\$ 90,968	\$29,543,532

CARTER COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2016

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.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 125,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 10,000	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 Mike Malone, Carter County Judge/Executive
Members of the Carter 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 Carter County Fiscal Court for the fiscal year ended June 30, 2016 and the related notes to the financial statement which collectively comprise the Carter County Fiscal Court's financial statement and have issued our report thereon dated December 14, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, and 2016-010 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 2016-011 and 2016-012 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Carter 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, 2016-009, and 2016-010.

Views of Responsible Officials and Planned Corrective Action

Carter 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,



Mike Harmon
Auditor of Public Accounts

December 14, 2017

**CARTER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2016

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CARTER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Carter County Fiscal Court Did Not Follow Procedures For Approving Budget Amendments On An Emergency Basis

On March 14, 2016, the Carter County Fiscal Court approved an “Emergency Budget Amendment” as Ordinance #806. The amendment increased receipts and appropriations by \$767,720 in the general fund and \$351,178 in the road fund. The fiscal court did not declare an emergency prior to approving the budget amendment. According to the treasurer, the treasurer and the fiscal court were not aware of the procedures for amending the county’s budget on an emergency basis, and were following the same process used in prior years. The treasurer and the fiscal court had not been previously informed that an “Emergency Budget Amendment” does not substitute for naming and describing an emergency, then submitting the budget amendment ordinance. Approving budget amendments on an emergency basis allows for immediate spending of funds. Normally, amending the county’s budget requires a first reading, approval of the State Local Finance Officer (SLFO), and a second reading, which does take additional time. Approving budget amendments on an emergency basis eliminates the requirement to inform the public and SLFO prior to approval, and as such, should only be used on a limited basis. The Department for Local Government, under the authority of KRS 68.210, gives the SLFO the authority to establish procedures for amending a county’s budget. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, “[a]ny amendments to a county budget submitted to the State Local Finance Officer on an emergency basis must strictly adhere to the provisions of KRS 67.078 and a photocopy of the fiscal court order naming and describing the emergency must accompany the budget amendment pursuant to KRS 68.280.” KRS 67.078(2) states “[a] majority of the fiscal court may declare an emergency to exist by naming and describing the emergency[.]” KRS 68.280 mandates SLFO approval of all amendments to a county budget. We recommend the fiscal court stop approving “Emergency Budget Amendments” and instead name and describe the emergency, then approve the budget amendment ordinance. We also recommend that amendments to the county’s budget on an emergency basis be used only when necessary.

Views of Responsible Official and Planned Corrective Action:

County Treasurer’s Response: I have been doing the Emergency Amendments the same way since I started in 2010. I had the Emergency Amendments confirmed by the Department of Local Government to assure they were done accurately. Also, no other auditors had written me up for the way they were being done until now. Henceforth the Judge Executive will declare the Emergency Amendments the same way he declares all other emergencies.

Auditor’s Reply: As noted in the finding, the county’s budget amendment process should conform to DLG requirements. Emergency budget amendments should only be used after an emergency is declared.

2016-002 The Carter County Fiscal Court Did Not Properly Budget For And Record All Debt-Related Disbursements

The fiscal court did not comply with reporting requirements for debt bearing the county’s name. During FY 2016, the following debt items were not paid by the fiscal court, but the debt is in the county’s name and therefore should have been reported as debt on the quarterly financial reports:

- Grahn, Hitchins, Norton Branch, and Grayson fire departments paid a total of \$111,051 in principal and interest payments.

Also in FY 2016, the following new financing obligations were entered into by the fiscal court, but the proceeds went directly from lessor to vendor, and were not reported on the financial statement:

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Carter County Fiscal Court Did Not Properly Budget For And Record All Debt-Related Disbursements (Continued)

- Financing obligation of \$1,675,000 for energy savings program
- Financing obligation of \$68,010 for an excavator
- Financing obligation of \$80,044 for Hitchins fire department

These transactions did not run through the fiscal court's bank accounts and were not included in the fiscal court's budget process or reflected on the fiscal court's Fourth Quarter Financial Report. As a result, the county failed to properly budget for and record \$1,934,105 in debt-related receipts and disbursements. The fiscal court was unaware they were supposed to report debt paid by another entity, even though the debt was in the county's name. The fiscal court was also unaware that financing obligations proceeds must be shown on the financial statement, even when the county does not receive the proceeds. As a result, liabilities information is not accurately presented to management, regulatory agencies, and other users of the information. Failure to implement procedures to ensure that the debt is being paid by other agencies may result in the county unknowingly defaulting on financing obligations. Also, the adjustments recommend by the auditor to correct the financial statement and to include this activity on the Fourth Quarter Financial Report result in county appropriations exceeding the approved budget. KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." KRS 68.280 gives fiscal courts the ability to amend the budget when necessary, which would have prevented appropriations from exceeding the approved budget. Because the fiscal court is obligated for these financing obligations, all debt should be budgeted for and recorded, including money borrowed on behalf of another entity. We recommend the fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all fiscal court disbursements and amending the budget as necessary to reflect unanticipated receipts and disbursements, including those handled by a third-party lender. We also recommend the fiscal court implement procedures to review all debt payments made by other entities to ensure the loan repayment agreements are being met. The fiscal court could also review other options for accounting for the fire department's debt, such as retaining the contributions made to the fire departments and using it to make the debt payments, or having the fire departments make payment to the fiscal court and then the fiscal court make the debt payments.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: The loans the County has for the fire departments are not budgeted for because the County budgets a fee so that they can give it to each of the Fire Departments to make the loan payments themselves. Henceforth the County will budget for the Fire Department loans and also make the payments.

2016-003 The Carter County Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement

This is a repeat finding and was included in the prior year report as finding 2015-015. The liabilities section of the fourth quarter financial statement (which also serves as the county's year-end financial statement) did not reconcile to the county's debt schedules, materially misstating debt obligations. This occurred due to lack of oversight of the quarterly financial statement preparation process. As a result, liabilities information is not accurately presented to management, regulatory agencies, and other users of the information. The principal balance of debt as of June 30, 2016, was understated by \$4,065,096 and the interest balance of debt as of June 30, 2016, was understated by \$638,314. The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform

CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Carter County Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement (Continued)

system of accounts requires the budget section of the fourth quarter financial report to be utilized for reporting all current long-term debt, including public corporation bonds, general obligation bonds, government leasing act issues, and bond anticipation notes. The liabilities information reported needs to be accurate. We recommend the fiscal court ensure all debt payments are accounted for and reported accurately on the liabilities section of the quarterly financial statement.

Views of Responsible Official and Planned Corrective Action:

Count Treasurer's Response: All debt will be reported on the Quarterly Financial Statement.

2016-004 The Carter County Treasurer Did Not Correctly Record All Receipts

The treasurer failed to correctly record all receipts when posting to the ledger. Receipts testing indicated the following:

- Jail fund local corrections assistance grant receipts of \$21,552 recorded as general fund cable TV franchise.
- Jail fund local corrections assistance grant receipts of \$21,552 recorded as local government economic assistance fund (LGEA) LGED Grants.
- General fund court facility fees receipts of \$8,056 recorded as general fund fiscal court filing fees.
- General fund court facility fees receipts of \$15,818 recorded as general fund state grants.
- Jail fund housing reimbursement receipts of \$7,228 recorded as jail fund medical reimbursement.
- Jail fund telephone commission receipts of \$6,055 recorded as jail fund prisoner reimbursement.
- Jail fund commissary reimbursement receipts of \$2,000 recorded as jail fund medical reimbursement.
- Jail fund commissary reimbursement receipts of \$750 recorded as jail fund prisoner reimbursement.

The treasurer and the fiscal court failed to notice the recording errors upon preparation and review of the monthly financial statements and quarterly reports. For example, the jail fund line item local corrections assistance was budgeted to receive \$40,000 but received no funds, and this is reflected on the quarterly reports presented to the fiscal court for approval. As previously stated, these funds went 50 percent to the general fund and 50 percent to the LGEA fund. Failure to properly record receipts provides the fiscal court and other users of the financial reports with inaccurate information, which could negatively impact the county. General fund receipts were overstated by \$21,552, and LGEA receipts were overstated by \$21,552. The errors within the general fund and jail fund do not result in any overall change to those funds, but do cause line items to be misstated.

Posting receipts to an incorrect fund or line item could cause shortages and result in additional budget or line-item transfers being necessary. The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to the *County Budget Preparation and State Local Finance Officer Policy Manual* statutory receipt account codes are to be used for recording receipts to the ledgers. Accurate recording of receipts may assist the county during both the budgeting process and normal operating procedures.

CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-004 The Carter County Treasurer Did Not Correctly Record All Receipts (Continued)

We recommend the fiscal court approve transferring \$21,552 from the general fund and \$21,552 from the LGEA fund to the jail fund to correct the deposit errors. We also recommend that receipts be posted to the appropriate accounts to ensure accurate reporting of financial information. It is expected that the fiscal court would rely on the treasurer's financial reports; however, the fiscal court still has a responsibility to review the financial reports before approval.

Views of Responsible Official and Planned Corrective Action:

No response provided.

2016-005 The Carter County Fiscal Court Did Not Comply With Purchase Order Procedures

This is a repeat finding and was included in the prior year report as finding 2015-005. The fiscal court did not consistently perform established procedures for disbursements in regards to the use of purchase orders. During our review and testing of disbursement processing procedures of 38 tested invoices, we noted the following:

- One invoice with no purchase order attached
- Four purchase orders that did not agree to the check issued for the related expenditure
- Five purchase orders issued after the invoice date
- Five purchase orders that were not properly signed

The fiscal court failed to ensure the purchase order process was followed. By not following established internal control procedures for the disbursement process, the risk of inaccurate financial reporting, misappropriation of assets, and noncompliance with the approved budget increases. The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe the minimum requirements for handling public funds. The *County Budget Preparation and State Local Finance Officer Policy Manual*, outlines requirements for handling of public funds, including required purchasing procedures for counties. These requirements prescribe that purchases shall not be made without approval by the county judge/executive or department head and all purchase requests indicate the appropriations to which the claim will be posted. A properly functioning internal control system requires the designed control procedures be consistently performed. The key control for a purchase order system is the authorization of the disbursement before it is paid. In addition, the amount authorized to be spent should agree to the check issued. We recommend the fiscal court implement procedures to ensure purchase orders are issued for all disbursements prior to purchases being initiated and purchase orders are signed. The fiscal court should also require purchase orders be attached to all invoices presented for their review.

Views of Responsible Official and Planned Corrective Action:

No response provided.

2016-006 The Carter County Fiscal Court Did Not Maintain A Complete And Accurate Fixed Assets Schedule

This is a repeat finding and was included in the prior year report as finding 2015-013. Auditors were not provided a complete and accurate capital asset schedule. During our audit, we noted the county does not do the following:

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 The Carter County Fiscal Court Did Not Maintain A Complete And Accurate Fixed Assets Schedule (Continued)

- Maintain a master listing of fixed assets or a separate schedule for fixed assets that meets the county's approved capitalization threshold policy;
- Keep separate records for additions and disposals;
- Have a tagging system in place to identify fixed assets;
- Conduct an annual physical inventory count;
- Have controls in place to prevent inaccurate financial reporting, fraud, or misappropriation of assets.

The fiscal court is not adequately monitoring and tracking capital assets. No individual has been directed to take responsibility for maintaining the capital asset schedule, making it unclear who is responsible for maintaining the capital asset schedule. Because of this, there is a lack of communication and coordination between the departments in possession of capital assets. By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset schedule. The fiscal court may not properly determine insurance needs, which could result in financial losses. Furthermore, not performing physical inventories increases the risk of misappropriation of assets. The Department for Local Government (DLG), under the authority of KRS 68.210, requires the state local finance officer to create a system of uniform accounts for all counties and county officials. *The County Budget Preparation and State Local Finance Officer Policy Manual* requires for purposes of internal control, an asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount, and have a useful life of greater than one year. The asset inventory listing should provide the following detail:

- Property Tag number
- Asset description
- Serial number - if applicable
- Quantity - if applicable
- Cost (or FMV of donated asset at date of donation)
- Date of acquisition
- Date of disposal (track all disposals for entire fiscal year)
- Property location (by department, building & room number)
- Manager/individual responsible

The manual further explains that an annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained, and documented. The asset inventory listing should be updated for all additions, disposals, and property location changes, etc. Authorization must be given to appropriate accounting personnel for asset record and asset inventory listing modifications. We recommend the fiscal court designate an individual to maintain the capital asset schedule. This individual should provide a complete and accurate capital assets schedule to the fiscal court at least once a year. The capital assets schedule should also reconcile to the physical inventory of county assets at the end of each year and to the county's list of inventoried assets and insurance policy.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: There is not a specific person that takes care of the Fixed Asset Schedule. Henceforth the County Treasurer along with the Judge Executive's Secretaries will maintain it properly.

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-007 The Carter County Fiscal Court Did Not Prepare A Justice Center Corporation Fund Financial Statement

This is a repeat finding and was included in the prior year report as finding 2015-002. The county treasurer did not prepare the justice center corporation fund financial statement, nor was it presented to the fiscal court for approval. The justice center corporation fund is unbudgeted and used for reporting of debt financing for the fiscal court. It is not included on the quarterly report. The county treasurer was unsure how to prepare the financial statement and did not seek guidance on how to prepare. By not preparing an annual settlement, the fiscal court as well as the general public may not be aware of the county's financial condition. The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to establish procedures for amending a county's budget. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, the treasurer should prepare an annual financial statement.

We recommend the county treasurer prepare a justice center corporation annual statement and present it to the fiscal court for approval each year.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: I was not aware that the Justice Center Corporation Fund had to be budgeted and the financial statement had to be presented to the court because the Fiscal Court doesn't make the payment. Also, the audit that this was found in was finished in the next audit year which gave me no time to get this accomplished for this audit. Henceforth I will budget for the Justice Center and prepare a financial statement and present it to the Fiscal Court.

Auditor's Reply: While the Department for Local Government does not require the Justice Center Corporation Fund to be budgeted, it does require preparation of an annual financial statement.

2016-008 The Carter County Jailer Made Purchases From The Commissary Account That Did Not Comply With State Law

The portion of this finding relating to sales tax is a repeat finding and was included in the prior year audit report as finding 2015-008. Auditors tested a sample of 62 disbursements from the jail commissary and determined 13 disbursements totaling \$14,632 did not meet the criteria for jail commissary profit spending. The purchases included:

- Three iPads, a cell phone and charger, portable chargers, phone batteries, and USB card - \$2,706
- Kitchen maintenance (grease trap service), drain cleaner - \$1,430
- Cleaning and laundry supplies, exam gloves - \$10,394
- Hotel room - \$102

The jailer also paid \$213 in sales tax on purchases in the tested sample. The jailer believes these jail commissary purchases meet the criteria for jail commissary profit spending, and as such, allowed the purchases to be made. Because these items were for administration of the detention center and not to benefit prisoners, they should have been purchased through the jail fund of the county. A purchase order should have been provided by the county judge/executive's office and included on the claims list for presentation to the fiscal court. The jailer circumvented the internal controls of the county by purchasing these items through the jail commissary and used commissary profit for other than its intended purpose. Furthermore, because

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-008 The Carter County Jailer Made Purchases From The Commissary Account That Did Not Comply With State Law (Continued)

government agencies are not subject to sales tax, this was also an unnecessary use of commissary profit. Overall, there is a reduction of \$14,845 in jail commissary profits that could have been used for the benefit of the inmates. According to KRS 441.135(2), “[a]ll profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners.” KRS 441.135(3) states, “[a]ll allowable expenditures from a canteen account shall include but not be limited to recreational, vocational, and medical purposes.” Commissary (canteen) profits must be expended for the benefit of the inmates in ways that enhance their well-being beyond the minimum services jails are required to provide. We recommend \$14,632 be reimbursed by the jail fund to the jail commissary account. In addition, we recommend if the jailer wants to purchase enhanced cleaning supplies, such as those that are not harmful if ingested, then the difference between cost of the less-harmful supplies and the normal supplies is an allowable canteen expense. The jailer would need to document this difference to show that the better products for safety purposes are an enhancement.

Views of Responsible Official and Planned Corrective Action:

Jailer’s Response: All purchases from the commissary account were made in good faith, have been accounted for, and in the Jailer’s view have met all necessary criteria for the benefit of the inmates. Any items that increase the safety, security, and general welfare of inmates should by nature of the statutes be deemed acceptable. Furthermore, these funds are to be used to provide for the benefit of inmates in many areas that the county general fund does not have the available resources to provide. The Jailer understands that the statutes have room for interpretation causing some gray areas in the acceptability of purchases. I understand that there will be legislation presented during the 2018 legislative session to help clarify and expand purchases for the benefit of inmates. However, as the statute stands currently, it is merely a judgment call as to acceptability. The Carter County Detention Center Policy and Procedures which is adopted by our county fiscal court and reviewed and suggested for approval by our County Attorney is more clearly defined as to what has been deemed as acceptable based on the statutes in the opinion of the court, jailer, and county attorney. These policies are a good faith effort to follow statutes to their intended purpose. Our county policy has been provided below, II-200.

STANDARD: 501 KAR 3:030 Section (3)

AS PROVIDED IN KRS 441.135, EACH JAILER MAY ESTABLISH A CANTEEN TO PROVIDE PRISONERS WITH APPROVED ITEMS

POLICY:

A canteen for inmates may be established and a strict accounting of funds will be maintained.

PROCEDURE:

- 1. The records of income, expense and disbursements of the jail canteen fund shall be examined annually by the Auditor of Public Accounts concurrently with the annual audit of the county conducted in accordance with KRS 43.070(1)(a), unless the Auditor of Public Accounts declines to perform the examination of the canteen fund or has failed to respond to written notice of intent to employ a certified public accountant within thirty (30) days of receipt of notice.*
- 2. The Jailer shall forward a copy of the report of any jail canteen audit to the Kentucky Department of Corrections.*

CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-008 The Carter County Jailer Made Purchases From The Commissary Account That Did Not Comply With State Law (Continued)

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

3. *The cost of the canteen fund audit shall be paid from the canteen fund as an allowable expense. If the jails canteen fund is insufficient to cover the expense of the examination, the expense shall be borne by the county jail fund.*
4. *All expenses deemed necessary for the benefit of the inmates in accordance with KRS 196.270 and KAR 441.137 including safety, security, or medical shall be considered as approved commissary expenses as determined by the Jailer.*

Auditor's Reply: County policies cannot supersede statutory requirements. Similarly, 501 KAR 3:030 Section 3 does not expand the allowable expenditures from the canteen profits and refers to items that may be sold from the canteen. For each of the items mentioned, the county did not support the expenditure as being for the benefit of the inmates and an enhancement beyond basic jail maintenance requirements.

2016-009 The Carter County Jail Commissary Uses A Debit Card For Purchases

The Carter County Jail uses a debit card to make some purchases for the jail commissary. During fiscal year 2016, 66 disbursements totaling \$12,559 were made using a debit card. Also, there were two debit card disbursements out of the 28 tested that did not have a receipt or invoice to verify if the purchases were for official business. Jail management was unaware that use of a debit card, which allows immediate electronic access to the bank account, was an unacceptable form of disbursement. The use of a debit card allows for a breakdown in control over disbursements. The user of the debit card has the unmonitored opportunity to spend the jail commissary funds. Disbursements are not being reviewed and approved prior to payment, which could allow misuse of jail commissary funds. Furthermore, not maintaining invoices for debit card purchases means that there was no supporting documentation to determine the validity of the transaction. The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, disbursements are to be made by check only. We recommend the Carter County Jailer ensure that disbursements are made by check only, in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

Views of Responsible Official and Planned Corrective Action:

Jailer's Response: Many purchases today are online and require an electronic form of payment. I hope this is an area the legislature intends to update and correct as far as acceptable forms of payment to keep up with modern technology. However, we have since destroyed the cards and stopped the use of debit transactions.

2016-010 The Carter County Jail Commissary Did Not Make Daily Deposits

This a repeat finding and was included in the prior year report as finding 2015-020. The jail commissary does not make daily deposits. The jailer did not insure deposits were made daily. The jail commissary's office administrator stated that they are extremely busy and deposit when they can. By not making deposits on a daily basis, the opportunity for the misappropriation and theft of receipts increases. The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to establish a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy*

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-010 The Carter County Jail Commissary Did Not Make Daily Deposits (Continued)

Manual requires daily deposits and daily check out sheets where receipts are batched and categorized as part of the minimum accounting requirements for the jail commissary. We recommend the jailer ensure jail commissary deposits are made daily in order to be in compliance with the minimum accounting standards as promulgated by KRS 68.210.

Views of Responsible Official and Planned Corrective Action:

Jailer's Response: It is always our goal to make daily deposits, however with a small county and limited manpower it is not always feasible or practical to be able to perform this daily. All efforts are made to deposit in a timely manner based on the ability of administrative staff and the workload of the day.

Auditor's Reply: As stated, daily deposits are a requirement promulgated by the Department for Local Government.

2016-011 The Carter County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll Processing

This is a repeat finding and was included in the prior year report as finding 2015-001. The fiscal court lacks adequate segregation of duties over payroll processing. The treasurer is the only county employee involved in processing payroll. The treasurer receives timesheets and sends them to a CPA firm for calculation of paychecks and withholdings amounts. The calculated payroll information is then returned to the treasurer so that payments can be posted and distributed. Inadequate segregation of duties allows one person to have a significant role in processing and recording of payroll, which increases the risk of undetected misappropriation of assets and inaccurate financial reporting. Duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies, and to protect employees in the normal course of performing their job duties. We recommend the fiscal court segregate the duties of entering the information necessary to process the payroll into the computer system and the preparation of payroll disbursements. The CPA firm does aid in this regard; however, an additional county employee should still be involved. We suggest one employee receive timesheets and review for accuracy and signatures, and another employee review the work of the CPA firm and enter that data into the purchase order system for distribution.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: In 2015 the Fiscal Court voted to outsource the payroll so that there would be more than one person involved but I am still being written up for this. Henceforth the Judges secretary will review the payroll with me.

County Judge/Executive's Response: The exceptions noted in this audit are mainly minor and procedural in nature with the exception of "failure to adequately segregate duties". The problem with this issue is how can we do what is required if we don't have the money to do it? Every small county in the state struggles with this same problem. I don't know the answer however barring an economic windfall it is a safe bet this won't be the last time we are cited for this. It is Carter County's desire to have audits that comply with standards. The treasurer and I will work together to address these issues in the future.

CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-011 The Carter County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll Processing
 (Continued)

Auditor's Reply: The exceptions noted in this audit are not "mainly minor and procedural in nature." As noted in the "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*," findings 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, and 2016-010 are material weaknesses; findings 2016-0011 and 2016-012 are significant deficiencies; and findings 2016-001 through 2016-010 are considered to be noncompliances with state laws and regulations.

Regarding the lack of segregation of duties, the county can implement sufficient compensating controls to mitigate the risk without significant cost, as suggested by the recommendations in the finding.

2016-012 The Carter County Fiscal Court Did Not Completely Reconcile Revolving Account Balances

This is a repeat finding and was included in the prior year report as finding 2015-001. The payroll revolving account, social security revolving account, and health revolving all had balances remaining in the accounts after bank reconciliations were prepared. Revolving accounts are clearing accounts and should be reconciled to a zero balance at the end of each month. The fiscal court does not have procedures in place to ensure revolving account balances are completely reconciled. Improperly reconciled accounts could result in overdraft balances and unnecessary bank charges. Also, by maintaining unexplained balances in revolving accounts, those resources are not available for use by the county. As stated previously, revolving accounts should be able to be reconciled to a zero balance. This ensures county monies are accounted for, and limits opportunities for misappropriation. We recommend the county treasurer determine if the reconciled balances in the payroll, social security, and health accounts need to be disbursed or returned to the one or more county funds. Once the determination is made, the treasurer should either disburse the balances accordingly, or deposit additional monies. We also recommend the fiscal court ensure revolving accounts are reconciled to zero monthly and any unidentifiable balances are resolved promptly.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: I changed the way I made the deposits out of the Payroll Account into the Retirement and Health Insurance Accounts so that they would be zero and the Payroll Account still isn't at a zero due to Union dues and Taxes being paid on the first of the next month. Henceforth I will work on making all accounts zero balances.

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

CARTER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2016**

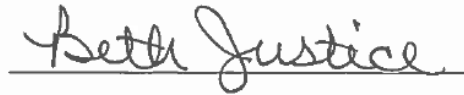
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CARTER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

The Carter 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 cursive script, appearing to read "Mike Malone", written over a horizontal line.

County Judge/Executive

A handwritten signature in cursive script, appearing to read "Beth Justice", written over a horizontal line.

County Treasurer