

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

**For The Fiscal Year Ended
June 30, 2015**



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

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

EXECUTIVE SUMMARY
AUDIT OF THE
BUTLER COUNTY FISCAL COURT

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Butler County Fiscal Court for fiscal year ended June 30, 2015.

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

Financial Condition:

The Butler County Fiscal Court had total receipts of \$5,040,430 and disbursements of \$5,476,356 in fiscal year 2015. This resulted in a total ending fund balance of \$2,500,731, which is a decrease of \$442,689 from the prior year.

Report Comments:

- 2015-001 The Butler County Fiscal Court Did Not Have Adequate Controls Over Sale Of Scrap Materials
- 2015-002 The Butler County Fiscal Court And Jail Have A Lack Of Segregation Of Duties
- 2015-003 The Payroll Revolving Account Was Not Properly Reconciled To Zero After Considering All Payroll Liabilities
- 2015-004 Ferry Operators Did Not Maintain Timesheets
- 2015-005 The Butler County Fiscal Court Did Not Have Adequate Controls Over Disbursements And Credit Card Transactions
- 2015-006 The Butler County Fiscal Court Did Not Properly Utilize The Purchase Order System

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable David Fields, Butler County Judge/Executive
Members of the Butler 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 Butler County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Butler 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.



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Auditor's Responsibility (Continued)

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

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

As described more fully in Note 1 of the financial statement, the financial statement is prepared by Butler 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 Butler County Fiscal Court as of June 30, 2015, 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 Butler County Fiscal Court as of June 30, 2015, 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 Butler 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.

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Other Matters (Continued)

Supplementary Information (Continued)

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2016 on our consideration of Butler 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 Butler County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2015-001 The Butler County Fiscal Court Did Not Have Adequate Controls Over Sale Of Scrap Materials
- 2015-002 The Butler County Fiscal Court And Jail Have A Lack Of Segregation Of Duties
- 2015-003 The Payroll Revolving Account Was Not Properly Reconciled To Zero After Considering All Payroll Liabilities
- 2015-004 Ferry Operators Did Not Maintain Timesheets
- 2015-005 The Butler County Fiscal Court Did Not Have Adequate Controls Over Disbursements And Credit Card Transactions
- 2015-006 The Butler County Fiscal Court Did Not Properly Utilize The Purchase Order System

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 11, 2016

BUTLER COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

David Fields	County Judge/Executive
Stevie Givens	Magistrate
John Tuck	Magistrate
Chad Tyree	Magistrate
David Whittinghill	Magistrate
Bobby Moore	Magistrate

Other Elected Officials:

Richard Deye	County Attorney
Terry Fugate	Jailer
Sherry Johnson	County Clerk
Melissa Cardwell	Circuit Court Clerk
Scottie Ward	Sheriff
Suzanne Bronsnan	Property Valuation Administrator
Marty Jones	Coroner

Appointed Personnel:

Susan L. Johnson	County Treasurer
Kim West	Finance Officer

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,574,853	\$	\$
In Lieu Tax Payments	133,423		
Excess Fees	172,073		
Licenses and Permits	3,867		
Intergovernmental	212,795	1,960,937	393,108
Charges for Services	13,713		90,099
Miscellaneous	32,735	10,182	25,009
Interest	5,443	4,569	
Total Receipts	<u>2,148,902</u>	<u>1,975,688</u>	<u>508,216</u>
DISBURSEMENTS			
General Government	761,330		
Protection to Persons and Property	89,354		596,811
General Health and Sanitation	299,458		
Social Services	44,460		
Recreation and Culture	21,259		
Transportation Facilities and Services			
Roads		1,473,037	
Debt Service	29,296	80,157	
Capital Projects		449,563	
Administration	634,963	388,650	224,658
Total Disbursements	<u>1,880,120</u>	<u>2,391,407</u>	<u>821,469</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>268,782</u>	<u>(415,719)</u>	<u>(313,253)</u>
Other Adjustments to Cash (Uses)			
Change in Payroll Revolving Account	(6,763)		
Transfers From Other Funds	160,310		265,000
Transfers To Other Funds	(265,100)	(160,310)	
Total Other Adjustments to Cash (Uses)	<u>(111,553)</u>	<u>(160,310)</u>	<u>265,000</u>
Net Change in Fund Balance	157,229	(576,029)	(48,253)
Fund Balance - Beginning (Restated)	1,464,217	1,050,635	82,654
Fund Balance - Ending	<u>\$ 1,621,446</u>	<u>\$ 474,606</u>	<u>\$ 34,401</u>
Composition of Fund Balance			
Bank Balance	\$ 1,297,423	\$ 560,576	\$ 53,156
Payroll Revolving Account Reconciled Balance	11,264		
Plus: Deposits In Transit		200,000	
Less: Outstanding Checks	(87,241)	(285,970)	(18,755)
Certificates of Deposit	400,000		
Fund Balance - Ending	<u>\$ 1,621,446</u>	<u>\$ 474,606</u>	<u>\$ 34,401</u>

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

BUTLER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

Budgeted Funds			
Local Government Economic Assistance Fund	Community Development Block Grant Fund	Rochester Ferry Fund	Reeds Ferry Fund
\$	\$	\$	\$
33,827		149,040	149,520
18			64
<u>33,845</u>		<u>149,040</u>	<u>149,584</u>
32,987			
		77,491	91,052
			9,343
		46,132	46,702
<u>32,987</u>		<u>123,623</u>	<u>147,097</u>
<u>858</u>		<u>25,417</u>	<u>2,487</u>
	100		
	<u>100</u>		
858	100	25,417	2,487
21,218		131,474	146,964
<u>\$ 22,076</u>	<u>\$ 100</u>	<u>\$ 156,891</u>	<u>\$ 149,451</u>
\$ 22,076	\$ 100	\$ 164,146	\$ 156,657
		(7,255)	(7,206)
<u>\$ 22,076</u>	<u>\$ 100</u>	<u>\$ 156,891</u>	<u>\$ 149,451</u>

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

BUTLER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

	<u>Unbudgeted Funds</u>			<u>Total Funds</u>
	<u>Public Properties Corporation Fund</u>	<u>Debt Service Fund</u>	<u>Jail Commissary Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 1,574,853
In Lieu Tax Payments				133,423
Excess Fees				172,073
Licenses and Permits				3,867
Intergovernmental		47,680	1,477	2,948,384
Charges for Services				103,812
Miscellaneous			25,998	93,924
Interest				10,094
Total Receipts		<u>47,680</u>	<u>27,475</u>	<u>5,040,430</u>
DISBURSEMENTS				
General Government				761,330
Protection to Persons and Property				719,152
General Health and Sanitation				299,458
Social Services				44,460
Recreation and Culture			32,200	53,459
Transportation Facilities and Services				168,543
Roads				1,473,037
Debt Service		47,438		156,891
Capital Projects				458,906
Administration	15			1,341,120
Total Disbursements	<u>15</u>	<u>47,438</u>	<u>32,200</u>	<u>5,476,356</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(15)</u>	<u>242</u>	<u>(4,725)</u>	<u>(435,926)</u>
Other Adjustments to Cash (Uses)				
Change in Payroll Revolving Account				(6,763)
Transfers From Other Funds				425,410
Transfers To Other Funds				(425,410)
Total Other Adjustments to Cash (Uses)				<u>(6,763)</u>
Net Change in Fund Balance	(15)	242	(4,725)	(442,689)
Fund Balance - Beginning (Restated)	4,353	29,832	12,073	2,943,420
Fund Balance - Ending	<u>\$ 4,338</u>	<u>\$ 30,074</u>	<u>\$ 7,348</u>	<u>\$ 2,500,731</u>
Composition of Fund Balance				
Bank Balance	\$ 4,353	\$ 30,074	\$ 7,228	\$ 2,295,789
Payroll Revolving Account Reconciled Balance				11,264
Deposits In Transit			120	200,120
Less Outstanding Checks	(15)			(406,442)
Certificates of Deposit				400,000
Ending Fund Balance	<u>\$ 4,338</u>	<u>\$ 30,074</u>	<u>\$ 7,348</u>	<u>\$ 2,500,731</u>

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

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TO THE FINANCIAL STATEMENT**

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BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(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 government, 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.

Community Development Block Grant Fund – The primary purpose of this fund is to account for community development block grants and related disbursements. The primary source of receipts for this fund is grants from the federal government.

Rochester Ferry Fund - The primary purpose of this fund is to account for the expenses of Rochester Ferry. The primary source of receipts is state payments received from the Transportation Cabinet.

Reeds Ferry Fund - The primary purpose of this fund is to account for the expenses of Reeds Ferry. The primary source of receipts is state payments received from the Transportation Cabinet.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The purpose of this fund is to account for debt service requirements of debt issued for the purchase of land. The Department for Local Government does not require the fiscal court to report or budget this fund.

Debt Service Fund - The primary purpose of this fund is to account for debt service requirements for debt issued for courthouse renovations. The Department for Local Government does not require the fiscal court to report or budget this fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those 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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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 Public Properties Corporation Fund or the Debt Service Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Butler County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Butler 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 Butler 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 the following, including but not limited to, 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).

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

Note 2. Deposits

The fiscal court maintained deposits of public funds with 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 county 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, 2015, 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 2015.

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 160,310	\$ 160,310
Road Fund	265,000		265,000
Community Development Block Grant Fund	100		100
Total Transfers Out	<u>\$ 265,100</u>	<u>\$ 160,310</u>	<u>\$ 425,410</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. Also to move resources from the Road Fund to the General Fund for administrative costs per the Road Fund Cost Allocation Worksheet.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt

A. Courthouse Renovation

On September 24, 1997, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the renovation and expansion of the Butler County Courthouse. The principal was \$638,000 at a rate of 4.83% interest for a period of 20 years, interest paid monthly, and principal paid annually. Principal outstanding as of June 30, 2015 was \$100,000. Future payment requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 48,000	\$ 2,330
2017	52,000	1,027
Totals	<u>\$ 100,000</u>	<u>\$ 3,357</u>

B. Sheriff Truck

On November 14, 2011, the Butler County Fiscal Court entered into an agreement with Magnolia Bank. The agreement was for the purchase of a truck for the Sheriff's department. The principal was \$27,366 at a rate of 4.38% interest for a period of 36 months, with interest and principal due in annual installments of \$7,769. Principal outstanding as of June 30, 2015 was \$0.

C. Land

On December 22, 2011, the Butler County Fiscal Court and the City of Morgantown entered into a joint agreement with individuals for the purchase of land for \$500,000. The agreement was for the development of industrial property. Butler County Fiscal Court paid \$25,000 as a down payment and agreed to pay the individuals \$225,000 at a rate of 5% interest for a period of ten years, with interest and principal paid monthly. Principal outstanding at June 30, 2015 was \$158,645. Future payment requirements are:

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

C. Land (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 21,187	\$ 7,451
2017	22,271	6,367
2018	23,410	5,228
2019	24,608	4,030
2020	25,867	2,771
2021-2022	41,302	1,654
Totals	<u>\$ 158,645</u>	<u>\$ 27,501</u>

D. John Deere Tractor/Mower

On August 8, 2011, the Butler County Fiscal Court entered into an agreement with John Deere Credit for the purchase of a John Deere Tractor/Mower for the Road Department. The principal was \$111,327 at a rate of 3.55% interest for a period of 60 months, with interest and principal due in August. Principal outstanding at June 30, 2015 was \$23,731. Future payment requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 23,730	\$ 141
2017	<u>1</u>	
Totals	<u>\$ 23,731</u>	<u>\$ 141</u>

E. Road Grader

On February 24, 2012, the Butler County Fiscal Court entered into an agreement with Caterpillar Financial Service Corporation for the purchase of a Road Grader for the Road Department. The principal was \$171,340 at a rate of 3.20% interest for a period of 60 months, with interest and principal due in February. Principal outstanding at June 30, 2015 was \$35,616. Future payment requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 35,615	\$ 845
2017	<u>1</u>	
Totals	<u>\$ 35,616</u>	<u>\$ 845</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

F. Backhoe

On July 25, 2013, the Butler County Fiscal Court entered into an agreement with Caterpillar Financial Services Corporation for the purchase of a Backhoe for the Road Department. The principal was \$94,429 at a rate of 2.49% interest for a period of 60 months, with interest and principal due in July. Principal outstanding at June 30, 2015 was \$57,949. Future payment requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 18,843	\$ 983
2017	19,312	513
2018	<u>19,794</u>	<u>33</u>
Totals	<u>\$ 57,949</u>	<u>\$ 1,529</u>

G. Truck

On June 10, 2014, the Butler County Fiscal Court entered into an agreement with Magnolia Bank. The agreement was for the purchase of a truck for the Sheriff's department. The principal was \$29,581 at a rate of 3.89% interest for a period of 48 months, with interest and principal due in annual installments of \$7,833. Principal outstanding at June 30, 2015 was \$14,828. Future payment requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 7,270	\$ 563
2017	<u>7,558</u>	<u>275</u>
Totals	<u>\$ 14,828</u>	<u>\$ 838</u>

H. Truck

On September 19, 2013, the Butler County Fiscal Court entered into an agreement with Magnolia Bank. The agreement was for the purchase of a truck for the Sheriff's department. The principal was \$27,178 at a rate of 4.30% interest for a period of 48 months, with interest and principal due in annual installments of \$7,230. Principal outstanding at June 30, 2015 was \$6,832. Future payment requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	<u>\$ 6,832</u>	<u>\$ 51</u>
Totals	<u>\$ 6,832</u>	<u>\$ 51</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

I. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 559,803	\$ 0	\$ 162,202	\$ 397,601	\$ 154,645
Total Long-term Debt	<u>\$ 559,803</u>	<u>\$ 0</u>	<u>\$ 162,202</u>	<u>\$ 397,601</u>	<u>\$ 154,645</u>

Beginning balance was restated \$631 for a error in the prior year.

Note 5. Commitments and Contingencies

The county is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant; in the aggregate, they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 6. Employee Retirement System

A. 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. This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous and 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 five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 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 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) and eight percent (hazardous) 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 four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Employee Retirement System (Continued)

A. Plan Description (Continued)

The county's contribution for FY 2013 was \$302,085, FY 2014 was \$316,352, and FY 2015 was \$302,616.

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.

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Butler County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	\$ 2,656,000	\$ 2,347,000

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Deferred Compensation

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

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

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Health Reimbursement Account/Flexible Spending Account

The Butler Fiscal Court established a flexible spending account on April 22, 2009, to provide employees an additional health benefit. The county has contracted with Febco. Inc., a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing an amount based on health insurance selected by the employee each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 9. Insurance

For the fiscal year ended June 30, 2015, Butler County 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 a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Related Party Transactions

The Butler County Fiscal Court paid a total of \$9,869 to Caneyville Builders and Supply, Inc. for various supplies. Magistrate David Whittinghill's brother-in-law owns Caneyville Builders and Supply, Inc.

The Butler County Fiscal Court paid a total of \$24,697 to Bratcher Auto Parts, LLC for various items. Magistrate Bobby Moore is an employee of Bratcher Auto Parts, LLC.

Note 11. Payroll Revolving Account

The reconciled balance of the Payroll Revolving Account as of June 30, 2015, was added to the General Fund cash balance for financing reporting purposes.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 12. Prior Period Adjustments

	Jail Commissary Fund
	<u> </u>
Ending Cash Balance Prior Year	\$ 11,917
Adjustments:	
Prior Year Voided Checks	<u>156</u>
Beginning Cash Balance Restated	<u><u>\$ 12,073</u></u>

Note 13. Subsequent Event

The former Butler County Road Foreman was arrested, and charged with obtaining scrap materials that were public property and dealing with them as his own by selling the materials and failing to make the required payment or disposition to the Butler County Fiscal Court. After the investigation took place, the former road foreman was indicted on November 10, 2015 for abuse of public trust less than \$10,000.

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,333,000	\$ 1,333,000	\$ 1,574,853	\$ 241,853
In Lieu Tax Payments	100,000	100,000	133,423	33,423
Excess Fees	89,500	89,500	172,073	82,573
Licenses and Permits	3,800	3,800	3,867	67
Intergovernmental	245,374	246,374	212,795	(33,579)
Charges for Services	1,000	1,000	13,713	12,713
Miscellaneous	21,595	21,595	32,735	11,140
Interest	5,000	5,000	5,443	443
Total Receipts	<u>1,799,269</u>	<u>1,800,269</u>	<u>2,148,902</u>	<u>348,633</u>
DISBURSEMENTS				
General Government	831,004	839,366	761,330	78,036
Protection to Persons and Property	106,000	109,883	89,354	20,529
General Health and Sanitation	272,252	324,532	299,458	25,074
Social Services	59,200	56,100	44,460	11,640
Recreation and Culture	133,000	76,295	21,259	55,036
Debt Service	28,639	29,297	29,296	1
Administration	595,862	662,385	634,963	27,422
Total Disbursements	<u>2,025,957</u>	<u>2,097,858</u>	<u>1,880,120</u>	<u>217,738</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(226,688)</u>	<u>(297,589)</u>	<u>268,782</u>	<u>566,371</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	160,310	160,310	160,310	
Transfers To Other Funds	(426,978)	(426,978)	(265,100)	161,878
Total Other Adjustments to Cash (Uses)	<u>(266,668)</u>	<u>(266,668)</u>	<u>(104,790)</u>	<u>161,878</u>
Net Change in Fund Balance	(493,356)	(564,257)	163,992	728,249
Fund Balance Beginning	493,356	564,357	1,464,217	899,860
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 100</u>	<u>\$ 1,628,209</u>	<u>\$ 1,628,109</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,863,839	\$ 2,098,776	\$ 1,960,937	\$ (137,839)
Miscellaneous		5,188	10,182	4,994
Interest	3,500	3,500	4,569	1,069
Total Receipts	<u>1,867,339</u>	<u>2,107,464</u>	<u>1,975,688</u>	<u>(131,776)</u>
DISBURSEMENTS				
Roads	1,370,846	1,598,977	1,473,037	125,940
Debt Service	80,160	80,160	80,157	3
Capital Projects	513,320	488,793	449,563	39,230
Administration	330,900	392,421	388,650	3,771
Total Disbursements	<u>2,295,226</u>	<u>2,560,351</u>	<u>2,391,407</u>	<u>168,944</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(427,887)</u>	<u>(452,887)</u>	<u>(415,719)</u>	<u>37,168</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(160,310)</u>	<u>(160,310)</u>	<u>(160,310)</u>	
Total Other Adjustments to Cash (Uses)	<u>(160,310)</u>	<u>(160,310)</u>	<u>(160,310)</u>	
Net Change in Fund Balance	(588,197)	(613,197)	(576,029)	37,168
Fund Balance Beginning	<u>588,197</u>	<u>613,197</u>	<u>1,050,635</u>	<u>437,438</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 474,606</u>	<u>\$ 474,606</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 349,640	\$ 349,640	\$ 393,108	\$ 43,468
Charges for Services	80,272	80,272	90,099	9,827
Miscellaneous	21,500	21,500	25,009	3,509
Total Receipts	<u>451,412</u>	<u>451,412</u>	<u>508,216</u>	<u>56,804</u>
DISBURSEMENTS				
Protection to Persons and Property	642,250	629,625	596,811	32,814
Administration	236,140	251,965	224,658	27,307
Total Disbursements	<u>878,390</u>	<u>881,590</u>	<u>821,469</u>	<u>60,121</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(426,978)</u>	<u>(430,178)</u>	<u>(313,253)</u>	<u>116,925</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	426,978	426,978	265,000	(161,978)
Total Other Adjustments to Cash (Uses)	<u>426,978</u>	<u>426,978</u>	<u>265,000</u>	<u>(161,978)</u>
Net Change in Fund Balance		(3,200)	(48,253)	(45,053)
Fund Balance Beginning		<u>3,200</u>	<u>82,654</u>	<u>79,454</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 34,401</u>	<u>\$ 34,401</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 25,400	\$ 25,400	\$ 33,827	\$ 8,427
Interest			18	18
Total Receipts	<u>25,400</u>	<u>25,400</u>	<u>33,845</u>	<u>8,445</u>
DISBURSEMENTS				
Protection to Persons and Property	25,400	40,400	32,987	7,413
Total Disbursements	<u>25,400</u>	<u>40,400</u>	<u>32,987</u>	<u>7,413</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(15,000)</u>	<u>858</u>	<u>15,858</u>
Net Change in Fund Balance		(15,000)	858	15,858
Fund Balance Beginning		<u>15,000</u>	<u>21,218</u>	<u>6,218</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 22,076</u>	<u>\$ 22,076</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Protection to Persons and Property	\$	100	\$	\$ 100
Total Disbursements		100		100
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(100)		100
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			100	100
Total Other Adjustments to Cash (Uses)			100	100
Net Change in Fund Balance		(100)	100	200
Fund Balance Beginning				
Fund Balance - Ending	\$	0	\$	\$ 200

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

ROCHESTER FERRY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 157,000	\$ 157,000	\$ 149,040	\$ (7,960)
Total Receipts	<u>157,000</u>	<u>157,000</u>	<u>149,040</u>	<u>(7,960)</u>
DISBURSEMENTS				
Transportation Facilities and Services	92,600	126,100	77,491	48,609
Administration	64,400	68,400	46,132	22,268
Total Disbursements	<u>157,000</u>	<u>194,500</u>	<u>123,623</u>	<u>70,877</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(37,500)</u>	<u>25,417</u>	<u>62,917</u>
Net Change in Fund Balance		(37,500)	25,417	62,917
Fund Balance Beginning		<u>37,500</u>	<u>131,474</u>	<u>93,974</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 156,891</u>	<u>\$ 156,891</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

REEDS FERRY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 157,000	\$ 157,000	\$ 149,520	\$ (7,480)
Interest			64	64
Total Receipts	<u>157,000</u>	<u>157,000</u>	<u>149,584</u>	<u>(7,416)</u>
DISBURSEMENTS				
Transportation Facilities and Services	95,450	116,262	91,052	25,210
Capital Projects		14,000	9,343	4,657
Administration	61,550	56,738	46,702	10,036
Total Disbursements	<u>157,000</u>	<u>187,000</u>	<u>147,097</u>	<u>39,903</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(30,000)</u>	<u>2,487</u>	<u>32,487</u>
Net Change in Fund Balance		(30,000)	2,487	32,487
Fund Balance Beginning		<u>30,000</u>	<u>146,964</u>	<u>116,964</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 149,451</u>	<u>\$ 149,451</u>

BUTLER COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the General Fund

The *Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis* differs from the *Budgetary Comparison Schedule* for the General Fund for fund balance - ending by \$6,763 due to the payroll revolving account balance.

BUTLER COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

BUTLER COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 521,283	\$	\$	\$ 521,283
Buildings and Building Improvements	1,773,802			1,773,802
Other Equipment	1,530,266	93,325		1,623,591
Vehicles and Equipment	658,404	14,000		672,404
Infrastructure	4,428,466	1,063,572		5,492,038
Total Capital Assets	<u>\$ 8,912,221</u>	<u>\$ 1,170,897</u>	<u>\$ 0</u>	<u>\$10,083,118</u>

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

June 30, 2015

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Improvements	\$ 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***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Fields, Butler County Judge/Executive
Members of the Butler 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 Butler County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Butler County Fiscal Court's financial statement and have issued our report thereon dated April 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Butler 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 Butler County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Butler 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 comments and recommendations, 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 comments and recommendations as items 2015-001 and 2015-002 to be material weaknesses.



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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-003, 2015-004, 2015-005, and 2015-006 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Butler 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 comments and recommendations as items 2015-005 and 2015-006.

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

April 11, 2016

**BUTLER COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

BUTLER COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Butler County Fiscal Court Did Not Have Adequate Controls Over Sale Of Scrap Materials

The former road foreman was indicted for the inappropriate selling of Butler County scrap materials. The scrap materials were taken to a local recycling facility and sold for cash. It was the fiscal court's policy that only a check be issued to the Butler County Fiscal Court for the sale of scrap materials, but during the period from April 2013 through May 2015 cash was being given for the sale of scrap materials and these monies were not turned over to the county treasurer to be deposited into the county treasury. This was allowed to occur because of the fiscal court's lack of internal controls and oversight. By failing to implement sufficient internal controls and oversight more than \$9,000 of scrap materials were sold, and the proceeds were not turned over to the county treasurer. Good internal controls dictate that policies and procedures should be implemented to ensure that proceeds from the sale of scrap materials are being properly turned over to the county treasurer and deposited into the county treasury. We recommend the fiscal court implement sufficient internal controls and oversight to ensure that all proceeds from the sale of scrap materials are turned over to the county treasurer. The fiscal court has since implemented procedures in order to prevent this from reoccurring.

Judge/Executive's Response: The official did not respond.

2015-002 The Butler County Fiscal Court And Jail Have A Lack Of Segregation Of Duties

The Butler County Fiscal Court has a lack of segregation of duties over receipts. The county treasurer deposits the receipts and posts transactions into the accounting system, as well as prepares the reports for submission to the Department for Local Government and other necessary financial documentation. The Butler County Jail has a lack of segregation of duties over the jail commissary and inmate accounts. The jail bookkeeper prepares deposits, prepares daily checkout sheets, and posts to the receipts ledger. The bookkeeper also prepares monthly collection and disbursement reports, writes and signs checks, posts to the disbursements ledger, and prepares the monthly bank reconciliation. The jailer or other individual did not document oversight of any of these activities. Due to the small size and limited resources, Butler County has limited options for establishing segregation of duties. Lack of segregation of duties could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. In addition, too much control by one individual without oversight can lead to undetected irregularities. Good internal controls dictate that the collection of receipts, recording of transactions, and financial reporting functions be segregated in order to reduce the opportunity for the misappropriation of assets and inaccurate financial reporting. We recommend that the county divide the responsibilities for receipts among the county treasurer, finance officer, and other employees of the county and that the jailer divide the responsibilities for receipts and disbursements among the bookkeeper and other employees of the jail in order to achieve an appropriate level of segregation of duties or implement compensating controls over these areas.

Judge/Executive's and/or Jailer's Response: The official did not respond.

BUTLER COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2015-003 The Payroll Revolving Account Was Not Properly Reconciled To Zero After Considering All Payroll Liabilities

The county treasurer performs monthly reconciliations of the payroll account; however, she is unable to reconcile the June 30, 2015 balance to zero after considering all payroll liabilities. At this time there are no procedures in place to determine what funds make up the payroll account balance. Since the payroll revolving account has not been properly reconciled there could be monies in the payroll account which belong to other funds of the fiscal court. This could cause a misappropriation of county assets. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. We recommend the Butler County Fiscal Court properly reconcile the payroll account and establish internal controls to determine that the account is being properly handled.

Judge/Executive's Response: The official did not respond.

2015-004 Ferry Operators Did Not Maintain Timesheets

The ferry operators at the Reeds and Rochester Ferries are not maintaining timesheets. It is fiscal court's belief that these individuals are considered "exempt" employees who should not be required to complete timesheets. By not having these employees maintain timesheets, Butler County Fiscal Court is creating the opportunity for employees to be paid incorrectly for hours they actually worked or paid for hours that they have not worked. Also, the fiscal court cannot adequately track leave accrued and used under their current system. Good internal controls dictate that all employees maintain time sheets and a supervisor sign-off and approve the hours worked by an employee in order to prevent an employee from being paid incorrectly for hours they actually worked or paid for hours that they have not worked. We recommend that the fiscal court ensure all employees maintain timesheets, which are approved by a supervisor. We also recommend that the fiscal court address in their Administrative Code a policy regarding ferry operator's accrual/use of leave time, that they should be maintaining timesheets, and that they will be paid on a 40 hour week even though their timesheet could reflect more or less than 40 hours.

Judge/Executive's Response: The official did not respond.

BUTLER COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2015-005 The Butler County Fiscal Court Did Not Have Adequate Controls Over Disbursements And Credit Card Transactions

The Butler County Fiscal Court does not have adequate controls over disbursements and credit card transactions. Auditors noted the following control deficiencies:

- Unable to find pre-approval by fiscal court for 12 items.
- One item was approved by fiscal court after the payment had already been made.
- Three items were not paid within 30 working days.
- Five items did not have the appropriate supporting documentation.
- One credit card transaction to a restaurant did not have an itemized invoice.
- One credit card transaction for a gasoline purchase did not have an invoice.
- Did not receive the appropriate documentation in order to determine that they were being billed the correct amount per the bid for asphalt.

These deficiencies over disbursements and credit card transactions occurred because of the fiscal court's lack of internal controls and oversight. By failing to maintain adequate documentation, the fiscal court is increasing their risk of paying invoices for goods or services that were not provided to the county, paying the incorrect amount for the goods purchased, or paying for unallowable items. Also, by not paying invoices within 30 days the fiscal court could be assessed penalties.

KRS 68.275(2) requires, "The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid." Also KRS 65.140(2) states, in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." In addition good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained, including any additional supporting documentation, and agree to the corresponding purchase order, reports, and bids if applicable.

We recommend that the county further develop internal control procedures to ensure that disbursements and credit card transactions are properly supported and paid within 30 working days.

Judge/Executive's Response: The official did not respond.

BUTLER COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2015-006 The Butler County Fiscal Court Did Not Properly Utilize The Purchase Order System

The Butler County Fiscal Court is not properly utilizing the purchase order system in accordance with Department for Local Government (DLG) guidelines. Employees notify the finance officer when a purchase needs to be made; however, only certain purchases are being recorded in the purchase order log. The purchases recorded are only purchases for goods. Purchase orders are not obtained for any disbursement to pay for services performed. Even when purchase orders are recorded they do not contain all information required by DLG. The finance officer did not record the amount of the item purchased or the appropriation code to which the payment will be posted. Although the fiscal court had a purchase order system in place, there was no one enforcing or monitoring to ensure that it was being used correctly.

Failure to maintain appropriate records for purchase orders could result in incorrect amounts being paid or not having adequate funds or sufficient budget appropriations available. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states, "1. Purchases shall not be made prior to approval by the judge/executive (or designee) and/or a department head. 2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted. 3. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made." In addition, a purchase order journal should contain a "daily, chronological listing of all purchase orders issued. The listing is the book of original entry for all county purchases. The journal should indicate the [purchase order] number, issue approved by appropriation code to where the payment will be posted, vendor name, date invoice received, amount of invoice, date claim was reviewed by fiscal court, date paid, and amount paid."

We recommend that the fiscal court require purchase orders be obtained prior to items being ordered or services received to determine if adequate funds and budget appropriation are available for the purchase and to comply with DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. Purchase orders should be completely filled out at the time of issuance.

Judge/Executive's Response: The official did not respond.

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

BUTLER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

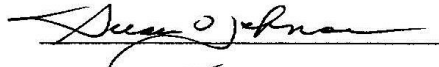
BUTLER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

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



County Judge/Executive



County Treasurer

