

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

**For The Year Ended  
June 30, 2017**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The Honorable Jesse Perry, Graves County Judge/Executive  
Members of the Graves 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 Graves County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Graves County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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



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

As described in Note 1 of the financial statement, the financial statement is prepared by the Graves 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 Graves County Fiscal Court as of June 30, 2017, 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 Graves County Fiscal Court as of June 30, 2017, 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 Graves County Fiscal Court. The Budgetary Comparison Schedules and the 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 the Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky  
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The Honorable Jesse Perry, Graves County Judge/Executive  
Members of the Graves County Fiscal Court

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2018, on our consideration of the Graves 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 Graves 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:

- 2017-001 The Graves County Fiscal Court's Fourth Quarter Financial Statement Was Materially Misstated
- 2017-002 Material Weaknesses And Noncompliances Exist Over Disbursements
- 2017-003 The Graves County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash And Receipts
- 2017-004 Material Weaknesses And Noncompliances Exist Over The Payroll Process
- 2017-005 The Graves County Fiscal Court Failed To Properly Account For Alcohol Regulatory Licensing Fees
- 2017-006 The Graves County Jail Lacks Adequate Segregation Of Duties Over Commissary Operations
- 2017-007 The Graves County Fiscal Court Overspent The Budget In Certain General, Road, And LGEA Fund Categories

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

August 20, 2018

**GRAVES COUNTY OFFICIALS**

**For The Year Ended June 30, 2017**

**Fiscal Court Members:**

Jesse Perry	County Judge/Executive
Richie Galloway	Commissioner
Tyler Goodman	Commissioner
Todd Hayden	Commissioner

**Other Elected Officials:**

John Cunningham	County Attorney
Randy Haley	Jailer
Barry Kennemore	County Clerk, Retired February 28, 2017
Devonda Wilford	County Clerk, Appointed March 1, 2017
Heather Winfrey	Circuit Court Clerk
Dewayne Redmon	Sheriff
Howel Carr	Property Valuation Administrator
Brad Jones	Coroner

**Appointed Personnel:**

Codie Courtney	County Treasurer
Debbie Buck	Chief Financial Officer



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

**For The Year Ended June 30, 2017**

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

**For The Year Ended June 30, 2017**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 3,830,608	\$	\$
In Lieu Tax Payments	112,025		
Excess Fees	358,229		
Licenses and Permits	98,763		
Intergovernmental	612,506	3,208,841	1,208,557
Charges for Services			7,836
Miscellaneous	125,404	946,497	5,202
Interest	164	129	25
Total Receipts	<u>5,137,699</u>	<u>4,155,467</u>	<u>1,221,620</u>
<b>DISBURSEMENTS</b>			
General Government	1,670,547		
Protection to Persons and Property	491,234		2,045,358
General Health and Sanitation	98,955		
Social Services	40,453		
Recreation and Culture	175,746		
Roads		3,683,588	
Airports	3,928		
Debt Service		19,042	
Capital Projects	84,948		
Administration	1,536,105	234,561	295,825
Total Disbursements	<u>4,101,916</u>	<u>3,937,191</u>	<u>2,341,183</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,035,783</u>	<u>218,276</u>	<u>(1,119,563)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Borrowed Money		114,536	
Transfers From Other Funds	725,000	400,000	1,249,500
Transfers To Other Funds	(1,655,500)	(400,000)	(325,000)
Total Other Adjustments to Cash (Uses)	<u>(930,500)</u>	<u>114,536</u>	<u>924,500</u>
Net Change in Fund Balance	105,283	332,812	(195,063)
Fund Balance - Beginning (Restated)	263,974	797,039	395,530
Fund Balance - Ending	<u>\$ 369,257</u>	<u>\$ 1,129,851</u>	<u>\$ 200,467</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 360,015	\$ 1,169,885	\$ 243,396
Less: Outstanding Checks	(23,480)	(40,034)	(42,929)
Certificates of Deposit	32,722		
Fund Balance - Ending	<u>\$ 369,257</u>	<u>\$ 1,129,851</u>	<u>\$ 200,467</u>

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

**GRAVES COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2017**  
**(Continued)**

<u>Budgeted Funds</u>		<u>Unbudgeted Fund</u>	
<u>Local Government Economic Assistance Fund</u>	<u>DES Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
\$	\$	\$	\$
			3,830,608
			112,025
			358,229
			98,763
15,415	19,558		5,064,877
			7,836
	5,000	70,557	1,152,660
1		3	322
<u>15,416</u>	<u>24,558</u>	<u>70,560</u>	<u>10,625,320</u>
			1,670,547
	29,486		2,566,078
			98,955
			40,453
		68,654	244,400
81			3,683,669
			3,928
			19,042
			84,948
	4,513		2,071,004
<u>81</u>	<u>33,999</u>	<u>68,654</u>	<u>10,483,024</u>
<u>15,335</u>	<u>(9,441)</u>	<u>1,906</u>	<u>142,296</u>
			114,536
	6,000		2,380,500
			(2,380,500)
	<u>6,000</u>		<u>114,536</u>
15,335	(3,441)	1,906	256,832
50	5,986	36,684	1,499,263
<u>\$ 15,385</u>	<u>\$ 2,545</u>	<u>\$ 38,590</u>	<u>\$ 1,756,095</u>
\$ 15,385	\$ 2,545	\$ 38,603	\$ 1,829,829
		(13)	(106,456)
			32,722
<u>\$ 15,385</u>	<u>\$ 2,545</u>	<u>\$ 38,590</u>	<u>\$ 1,756,095</u>

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

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TO THE FINANCIAL STATEMENT**

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**GRAVES COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2017**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

**B. Basis of Accounting**

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

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

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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

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

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

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

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

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

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Jail Commissary Fund - The canteen 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.

**E. Graves County Elected Officials**

Kentucky law provides for election of the officials listed below from the geographic area constituting Graves 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 Graves County Fiscal Court.

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

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**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. Tax Abatements**

GASB Statement No. 77 - Tax Abatement Disclosures is effective for reporting periods beginning after December 15, 2015.

The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public presently. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

**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.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 2. Deposits (Continued)**

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, 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 2017.

	General Fund	Road Fund	Jail Fund	Total Transfers In
General Fund	\$	\$ 400,000	\$ 325,000	\$ 725,000
Road Fund	400,000			400,000
Jail Fund	1,249,500			1,249,500
DES Fund	6,000			6,000
Total Transfers Out	<u>\$ 1,655,500</u>	<u>\$ 400,000</u>	<u>\$ 325,000</u>	<u>\$ 2,380,500</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. Long Term Debt**

**A. John Deere 190DW**

On November 11, 2011, the Graves County Fiscal Court entered into a \$195,000 lease agreement at a rate of 3.55 percent to purchase a road excavator for the Road Department. Monthly installments of \$925 are payable for 60 months with a final balloon payment of \$171,493 due at maturity of the lease. As of June 30, 2017, this lease had a \$0 balance and the excavator was returned to the dealer.

**B. Backhoe Loader**

On April 29, 2015, the Graves County Fiscal Court entered into a financing agreement with John Deere Financial for the purchase of a backhoe loader for the Road Department. The principal of the lease is \$89,229 with repayment to be made over 36 months with a final balloon payment of \$79,890 due at the maturity of the lease. As of June 30, 2017, outstanding lease principal was \$82,014. Future principal and interest requirements are as follows:



**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 4. Long Term Debt (Continued)**

**B. Backhoe Loader (Continued)**

Fiscal Year Ended June 30	Principal	Interest
2018	\$ 82,014	\$ 2,693
Totals	<u>\$ 82,014</u>	<u>\$ 2,693</u>

**C. Case Tractor and Boom Mower**

On July 30, 2015, the Graves County Fiscal Court entered into a financing agreement with Agricredit Acceptance, LLC for the purchase of Case Tractor and Bush Hog for the Road Department. The principal of the lease is \$68,000 with repayment to be made over a 60 month period with an annual interest rate of 3.959 percent. The county returned the equipment to the company and the lease was canceled. As of June 30, 2017, the outstanding lease principal was \$0.

**D. Massey Ferguson Tractor and Side Boom**

On June 9, 2017, Graves County entered into a lease agreement with Cat Financial for the purpose of purchasing a Massey Ferguson Tractor and a Diamond Rear Cradle Boom. The principal amount was \$114,536 at an effective interest rate of .189 percent for three years. As of June 30, 2017, the outstanding lease principal was \$112,397. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2018	\$ 28,097	\$ 3,133
2019	29,006	2,223
2020	55,294	1,174
Totals	<u>\$ 112,397</u>	<u>\$ 6,530</u>

**E. Changes In Long Term Debt**

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Beginning Balance (*Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations*	\$ 313,602	\$ 114,536	\$ 233,727	\$ 194,411	\$ 110,111
Total Long-term Debt	<u>\$ 313,602</u>	<u>\$ 114,536</u>	<u>\$ 233,727</u>	<u>\$ 194,411</u>	<u>\$ 110,111</u>

\* The beginning balance was restated by \$408.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 5. Employee Retirement System**

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

The county's contribution for FY 2015 was \$607,188, FY 2016 was \$607,672, and FY 2017 was \$742,255.

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 be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute 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 KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for nonhazardous employees was 18.68 percent.

Health Insurance Coverage

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:

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

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 5. Employee Retirement System (Continued)**

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>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

**Note 6. Deferred Compensation**

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

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

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

**Note 7. Health Reimbursement Account/Flexible Spending Account**

The Graves County Fiscal Court established a flexible spending account on July 1, 2012, to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee, providing up to \$1,500 for 2017 to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction. The balance of the plan is \$10,506.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 8. Insurance**

For the fiscal year ended June 30, 2017, the Graves County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Related Party Transactions**

The Graves County Fiscal Court entered into transactions with a vendor for materials. A county commissioner's family owns an interest in the vendor. The Graves County Fiscal Court paid the vendor \$1,237 during the year.

**Note 10. Tax Abatements**

**A. Graves County Development Area Brian Drive -1**

The Occupational License tax was abated under the authority of the Graves County Fiscal Court. The Graves County Development Area Brian Drive -1 is eligible to receive this tax abatement due to the purposes of the economic development area to bring incentives to the citizens of Graves County pursuant to KRS 65.7041. The taxes are abated by the county deciding to forego occupational license taxes, which are otherwise due the county, from businesses in this development area. The Graves County Development Area Brian Drive -1 agreed to the following provision: The county will impose a 1 percent assessment fee on certain newly created jobs as a result of a project within the development area. For fiscal year ended June 30, 2017, the Graves County Fiscal Court abated occupational license taxes totaling \$13,266.

**B. WKT Development Area**

The Occupational License tax was abated under the authority of the Graves County Fiscal Court. The WKT Development Area is eligible to receive this tax abatement due to the economic development area providing incentives for the citizens of Graves County pursuant to KRS 65.7041. The taxes are abated by the county deciding to forego occupational license taxes, which are otherwise due to the county, from businesses in this development area. The WKT Development Area agreed to the following provision: The county has established a job assessment fee of 2 percent of the gross wages of newly created employees as a result of the project within the development area. For fiscal year ended June 30, 2017, the Graves County Fiscal Court abated Occupational License taxes totaling \$0. As part of the tax abatement agreement, the Graves County Fiscal Court committed to pledge certain incremental revenues to the payment of bonds or to otherwise provide redevelopment assistance, pay for project costs, and/or approved public infrastructure costs if bonds are not issued.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 11. Prior Period Adjustments**

The beginning fund balance was restated for the following:

	<u>General Fund</u>	<u>Jail Fund</u>	<u>Jail Commissary</u>
Ending Cash Balance Prior Year	\$ 251,599	\$ 50,626	\$ 36,553
Adjustments:			
Prior Year Voided Checks	2,150		131
Certificate of Deposit	10,225		
Escrow Account		344,904	
Beginning Fund Balance - Restated	<u>\$ 263,974</u>	<u>\$ 395,530</u>	<u>\$ 36,684</u>

**Note 12. Fund Elimination**

In the prior year audit the county had the jail fund and the jail escrow fund. In 2017, the county combined the jail escrow fund into the jail fund; therefore, the beginning balance is restated by \$344,904.

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**GRAVES COUNTY  
BUDGETARY COMPARISON SCHEDULES  
Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2017**

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**GRAVES COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2017**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 3,565,000	\$ 3,824,767	\$ 3,830,608	\$ 5,841
In Lieu Tax Payments	93,000	111,763	112,025	262
Excess Fees	206,280	356,117	358,229	2,112
Licenses and Permits	65,500	85,275	98,763	13,488
Intergovernmental	615,600	747,932	612,506	(135,426)
Miscellaneous	60,000	145,029	125,404	(19,625)
Interest	100	100	164	64
Total Receipts	<u>4,605,480</u>	<u>5,270,983</u>	<u>5,137,699</u>	<u>(133,284)</u>
<b>DISBURSEMENTS</b>				
General Government	1,436,992	1,746,574	1,670,547	76,027
Protection to Persons and Property	443,302	521,802	491,234	30,568
General Health and Sanitation	98,000	98,000	98,955	(955)
Social Services	37,500	40,250	40,453	(203)
Recreation and Culture	185,000	202,000	175,746	26,254
Airports	5,000	5,000	3,928	1,072
Capital Projects	135,000	135,000	84,948	50,052
Administration	1,426,726	1,684,397	1,536,105	148,292
Total Disbursements	<u>3,767,520</u>	<u>4,433,023</u>	<u>4,101,916</u>	<u>331,107</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>837,960</u>	<u>837,960</u>	<u>1,035,783</u>	<u>197,823</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	201,071	201,071	725,000	523,929
Transfers To Other Funds	<u>(1,416,031)</u>	<u>(1,416,031)</u>	<u>(1,655,500)</u>	<u>(239,469)</u>
Total Other Adjustments to Cash (Uses)	<u>(1,214,960)</u>	<u>(1,214,960)</u>	<u>(930,500)</u>	<u>284,460</u>
Net Change in Fund Balance	(377,000)	(377,000)	105,283	482,283
Fund Balance - Beginning (Restated)	<u>377,000</u>	<u>377,000</u>	<u>263,974</u>	<u>(113,026)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 369,257</u>	<u>\$ 369,257</u>

**GRAVES COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,535,918	\$ 3,058,971	\$ 3,208,841	\$ 149,870
Miscellaneous	720,200	933,597	946,497	12,900
Interest	100	100	129	29
Total Receipts	<u>3,256,218</u>	<u>3,992,668</u>	<u>4,155,467</u>	<u>162,799</u>
<b>DISBURSEMENTS</b>				
Roads	3,512,897	3,885,897	3,683,588	202,309
Debt Service	46,000	46,000	19,042	26,958
Administration	251,250	1,056,738	234,561	822,177
Total Disbursements	<u>3,810,147</u>	<u>4,988,635</u>	<u>3,937,191</u>	<u>1,051,444</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(553,929)</u>	<u>(995,967)</u>	<u>218,276</u>	<u>1,214,243</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	20,000	400,000	400,000	
Transfers To Other Funds	(201,071)	(201,071)	(400,000)	(198,929)
Borrowed Money			114,536	114,536
Total Other Adjustments to Cash (Uses)	<u>(181,071)</u>	<u>198,929</u>	<u>114,536</u>	<u>(84,393)</u>
Net Change in Fund Balance	(735,000)	(797,038)	332,812	1,129,850
Fund Balance - Beginning	735,000	797,038	797,039	1
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,129,851</u>	<u>\$ 1,129,851</u>

**GRAVES COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 903,500	\$ 1,075,873	\$ 1,208,557	\$ 132,684
Charges for Services	10,000	10,000	7,836	(2,164)
Miscellaneous	5,000	5,000	5,202	202
Interest			25	25
Total Receipts	<u>918,500</u>	<u>1,090,873</u>	<u>1,221,620</u>	<u>130,747</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,036,000	2,506,100	2,045,358	460,742
Administration	298,931	333,734	295,825	37,909
Total Disbursements	<u>2,334,931</u>	<u>2,839,834</u>	<u>2,341,183</u>	<u>498,651</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,416,431)</u>	<u>(1,748,961)</u>	<u>(1,119,563)</u>	<u>629,398</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			(325,000)	(325,000)
Transfers To Other Funds	1,403,431	1,403,431	1,249,500	(153,931)
Total Other Adjustments to Cash (Uses)	<u>1,403,431</u>	<u>1,403,431</u>	<u>924,500</u>	<u>(478,931)</u>
Net Change in Fund Balance	(13,000)	(345,530)	(195,063)	150,467
Fund Balance - Beginning (Restated)	13,000	345,530	395,530	50,000
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 200,467</u>	<u>\$ 200,467</u>

**GRAVES COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 20,000	\$ 20,000	\$ 15,415	\$ (4,585)
Interest			1	1
Total Receipts	<u>20,000</u>	<u>20,000</u>	<u>15,416</u>	<u>(4,584)</u>
<b>DISBURSEMENTS</b>				
Roads		100	81	19
Administration		(100)		(100)
Total Disbursements			<u>81</u>	<u>(81)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>20,000</u>	<u>20,000</u>	<u>15,335</u>	<u>(4,665)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(20,000)</u>	<u>(20,000)</u>		<u>20,000</u>
Total Other Adjustments to Cash (Uses)	<u>(20,000)</u>	<u>(20,000)</u>		<u>20,000</u>
Net Change in Fund Balance			15,335	15,335
Fund Balance - Beginning			<u>50</u>	<u>50</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,385</u>	<u>\$ 15,385</u>

**GRAVES COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>DES FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)	
	Original	Final			
<b>RECEIPTS</b>					
Intergovernmental	\$		\$ 17,403	\$ 19,558	\$ 2,155
Miscellaneous			5,000	5,000	
Interest		21,000			
Total Receipts		21,000	22,403	24,558	2,155
<b>DISBURSEMENTS</b>					
Protection to Persons and Property		29,500	30,650	29,486	1,164
Administration		4,100	10,338	4,513	5,825
Total Disbursements		33,600	40,988	33,999	6,989
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(12,600)	(18,585)	(9,441)	9,144
<b>Other Adjustments to Cash (Uses)</b>					
Transfers From Other Funds		12,600	12,600	6,000	(6,600)
Total Other Adjustments to Cash (Uses)		12,600	12,600	6,000	(6,600)
Net Change in Fund Balance			(5,985)	(3,441)	2,544
Fund Balance - Beginning			5,985	5,986	1
Fund Balance - Ending	\$	0	\$ 0	\$ 2,545	\$ 2,545

**GRAVES COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2017**

**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 health and sanitation and social services categories exceeded budgeted appropriations by \$1,158. Road fund borrowed money exceeded budgeted appropriations by \$114,536. LGEA fund total disbursements exceeded budget appropriations by \$81.

**GRAVES COUNTY  
SCHEDULE OF CAPITAL ASSETS  
Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2017**

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**GRAVES COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2017**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 439,892	\$	\$	\$ 439,892
Buildings	12,960,812			12,960,812
Vehicles	1,212,540	216,056	29,600	1,398,996
Equipment	2,069,560	7,000		2,076,560
Infrastructure	134,672,583	716,343		135,388,926
 Total Capital Assets	 <u>\$ 151,355,387</u>	 <u>\$ 939,399</u>	 <u>\$ 29,600</u>	 <u>\$ 152,265,186</u>

The fiscal court reports the following assets held for resale activity for the year ended June 30, 2017, as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Assets Held for Resale				
Mack Trucks	\$ 799,424	\$ 807,434	\$ 799,424	\$ 807,434
 Total Assets Held for Resale	 <u>\$ 799,424</u>	 <u>\$ 807,434</u>	 <u>\$ 799,424</u>	 <u>\$ 807,434</u>

**GRAVES COUNTY  
NOTES TO REGULATORY SUPPLEMENTARY  
INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2017**

**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 and Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	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 Jesse Perry, Graves County Judge/Executive  
Members of the Graves 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 Graves County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Graves County Fiscal Court's financial statement and have issued our report thereon dated August 20, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Graves 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 Graves County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Graves 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 another deficiency that we consider to be a significant deficiency.

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 2017-001, 2017-002, 2017-003, 2017-004, and 2017-005 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 deficiency described in the accompanying Schedule of Findings and Responses as item 2017-007 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Graves 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 is required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-002, 2017-004, 2017-005, and 2017-006.

**Views of Responsible Official and Planned Corrective Action**

Graves 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

August 20, 2018

**GRAVES COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2017**

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**GRAVES COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2017**

FINANCIAL STATEMENT FINDINGS:

2017-001 The Graves County Fiscal Court's Fourth Quarter Financial Statement Was Materially Misstated

The general fund and jail fund both consist of several individual bank accounts. Each individual bank account's activity was posted to the receipts and disbursements ledgers in order to reconcile the bank statements. Inter-account transfers within the funds were accounted for twice as a revenue and twice as a disbursement on the fourth quarter financial statement. Additionally, the treasurer eliminated the jail escrow fund when she combined the jail escrow fund into the jail fund. The treasurer failed to book combining entries into the accounting system to eliminate the jail escrow fund.

The fourth quarter financial statement was materially misstated due to the improper accounting for inter-account transfers and fund eliminations/combination. Due to the nature of the software used, each transaction must be recorded in order to reconcile the account. The treasurer failed to make the necessary adjustments to eliminate the doubling up effect of the inter-account transfers. Additionally, the treasurer was unaware of the accounting requirements for the elimination and combination of funds.

Strong internal controls over financial reporting are vital in ensuring the county's financial reports accurately reflect the financial activity of the county.

We recommend the county implement strong internal controls, such as a thorough review of the receipts and disbursements ledgers and bank reconciliations by someone independent of the accounting function and make adjusting entries as needed. Additionally, the fiscal court should adopt policies and procedures to give guidance to the treasurer for the elimination or combination of individual funds.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The County Treasurer and County Finance Officer will thoroughly review receipts and disbursement ledgers and make necessary adjustments so the Quarterly Financial Statement will not be misstated due to the Inter Account Transfers.*

2017-002 Material Weaknesses And Noncompliances Exist Over Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2016-001. Material weaknesses and noncompliances exist over the disbursements of Graves County.

The following exceptions were noted during testing:

- Sixty-nine disbursements totaling \$67,848 did not have a properly executed purchase order as required by the county's administrative code.
- Invoices were not stamped when received, therefore the accuracy of reported encumbrances could not be determined.
- A total of \$228,798 of disbursements related to the Agency for Substance Abuse Prevention (ASAP) grant were not properly reviewed by the fiscal court prior to payment.
- Two invoices totaling \$793 were not paid within 30 working days as required by KRS 65.140.
- One disbursement for \$812 was not presented to fiscal court prior to payment.

**GRAVES COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2017  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 Material Weaknesses And Noncompliances Exist Over Disbursements (Continued)

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The exceptions noted above are the result of oversight errors as well as management's lack of understanding of a properly executed purchase order system. Also, management's lack of understanding of the ASAP grant led to improper oversight of grant disbursements because management believed the ASAP grant to be a pass-through grant in which ASAP grant disbursements were not true obligations of the fiscal court.

Because weak internal controls over disbursements exist, the above exceptions occurred. The county also assumes a higher risk of misstatement and fraud.

Strong internal controls over disbursements are essential in ensuring disbursements are properly approved and recorded. Also, KRS 65.140(2) states, "[u]nless the purchaser and vendor otherwise contract, 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." Additionally, the Commonwealth of Kentucky Office of Drug Control Policy Justice & Public Safety Cabinet KY - Agency For Substance Abuse Policy Local Board Workbook states "[t]he fiscal agent [Graves County Fiscal Court], as the second party to the contract, should do whatever is appropriate to assure third party (the local board) compliance with the contract as to those activities regarding the coordination work and the semi-annual report to the state KY-ASAP office. As to expenditures of funds, the fiscal agent has complete authority to monitor expenditures to insure that they are in compliance with the approved budget and to say "no" to unapproved expenditures."

We recommend that the Graves County Fiscal Court strengthen internal controls over disbursements by ensuring that properly executed purchase orders are issued for all disbursements. We also recommend that the Graves County Fiscal Court implement controls over ASAP grant disbursements. We further recommend that the Graves County Fiscal Court strengthen internal controls over disbursements by stamping invoices upon receipt and ensuring that all disbursements are presented to fiscal court prior to payment. We also recommend that the Graves County Fiscal Court comply with KRS 65.140 by paying all invoices within 30 working days of receipt.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: In February 2017, we hired two part time employees to help with the execution of Purchase Orders, among other duties. We believe this has helped with complying regarding disbursements. Also, it is common practice for all invoices to be paid within 30 working days per KRS 65.140.*

*The Agency for Substance Abuse Prevention (ASAP) has a local board who approves expenditures and oversees operations of grant monies. The only disbursements made are what the board approves. Therefore, we believe it should not be the responsibility of the Graves County Fiscal Court for approval.*

**Auditor's Reply:** As stated above, the fiscal agent [Graves County Fiscal Court] should monitor disbursements for compliance and say no to unapproved expenditures.

**GRAVES COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Graves County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash And Receipts

The Graves County Fiscal Court lacks adequate segregation of duties over cash and receipts. The administrative assistant opens all incoming mail receipts, receives cash from walk-in customers, prepares daily deposits, and makes the daily deposit. The county treasurer posts to the ledgers and does the monthly reconciliations.

Due to the lack of internal controls in place, the duties associated with the custody, recordkeeping, and authorization of cash and receipts are not segregated. A lack of segregation of duties or strong oversight increases the risk of undetected errors or fraud.

Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets and financial reporting, we recommend that the fiscal court segregate the duties noted above by implementing that an individual independent of the cash receipts process review a daily checkout sheet documenting all receipts for the day and comparing it to the daily deposit slip. We further recommend that an individual independent of the cash receipts process review postings to the ledgers and monthly bank reconciliations. Documentation, such as the reviewer's initials or signature, should be provided on those items that are reviewed.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: We will have all daily receipts and deposits reviewed and initialed, to provide a better segregation of duties.*

2017-004 Material Weaknesses And Noncompliances Exist Over The Payroll Process

The Graves County Fiscal Court has material weaknesses and noncompliances regarding payroll and timekeeping. The following findings were noted with Graves County's payroll:

- A salary schedule was approved by the fiscal court; however, it did not specify the compensation for each employee required by KRS 64.530.
- Timesheets required by KRS 337.320(1)(b) were not turned in or approved by the appropriate supervisor. Of individuals selected for testing, five salaried employee's timesheets were not turned in and three employee's timesheets were not signed by a supervisor documenting approval.
- Leave balances are not always updated and maintained for salaried employees.
- Overtime hours were not properly attributed to a part-time employee as required by KRS 337.285. The overtime hours were being held until the next pay period.
- Of the individuals selected for testing, one salaried employee's FICA calculation was incorrect due to a 401-K deduction.
- Personnel files did not include all employee's pay rate and salary information.
- One employee did not have money withheld from their paycheck for their flexible spending account.

The findings listed above are due to the lack of effective internal controls. Internal controls over the payroll and timekeeping process are designed effectively, but the controls are not functioning properly. Thus, the aforementioned findings occurred.

**GRAVES COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2017  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 Material Weaknesses And Noncompliances Exist Over The Payroll Process (Continued)

Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. KRS 64.530(1) requires that, "the fiscal court of each county shall fix the reasonable compensation of every county officer and employee[.]" Also, KRS 337.320(1) requires that, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires." KRS 337.285(1) states, "[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed."

We make the following recommendations to address these findings:

- The fiscal court should set and approve salaries of county officers and employees.
- Timesheets should be maintained by all non-exempt employees as required by KRS 337.320(1)(b). Said timesheets should document the hours worked each day and each week by each employee.
- All timesheets should be signed by the corresponding employee and his or her supervisor.
- Leave balances should be maintained for all employees.
- Overtime should be awarded to all employees based on hours actually worked, including any applicable overtime in accordance with KRS 337.285(1). No hours shall be held until the next pay period.
- An individual independent of the payroll process should review payroll transactions to verify that all amounts have been calculated properly and that they are properly supported.
- Personnel files should be complete and kept up to date with pay rate/salary changes, position changes, and authorized withholdings, including withholdings for an employee's flexible spending account.

In addition to the above specific recommendations, we recommend that the internal controls designed over the payroll and timekeeping process be implemented with all proper documentation to show all steps and reviews have been completed in the payroll and timekeeping process. By implementing the above recommendations, the county can strengthen its internal control system over payroll and timekeeping and reduce the risks of noncompliance and payroll errors. Such procedures will also protect the county against potential payroll disputes.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The Fiscal Court will set and approve salaries of county officers and employee by Job Title.*

*On July 1, 2017 the Fiscal Court began using a time tracking software, which has been very beneficial for the County. All time sheets are required to be signed by Employee and Supervisor.*

**GRAVES COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2017  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Graves County Fiscal Court Failed To Properly Account For Alcohol Regulatory Licensing Fees

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The Graves County Fiscal Court's Alcohol Regulatory License (ARL) fees are not deposited into any fund of the fiscal court. The Graves County Sheriff has been collecting the ARL fees and depositing them into his fee (operating) account. The ARL fee is not accounted for separately by the sheriff and is-comingled with the other fees that the sheriff collects. There is no documentation as to what the ARL fees were used for. Excess fees of the sheriff (if any) are turned over to the county treasurer after the end of the calendar year. The sheriff remitted \$20,650 of excess fees to the fiscal court February 8, 2017 for calendar 2016, but the comingling made it impossible to tell how much, if any, of the excess funds are attributable to ARL fees. As a result, the fiscal court did not deposit any of the excess fees into an ARL fee fund or account.

Due to the lack of internal controls over the collection and handling of the ARL fees and a lack of knowledge of the requirement of KRS 243.075, which governs ARL fees, the Graves County Fiscal Court did not ensure that ARL fees were used for purposes allowed by the statute. The failure to properly segregate the collections made it impossible to trace sheriff's office expenditures to the source of funding, and also impaired the fiscal court's ability to monitor the level and types of expenditures.

Strong internal controls over ARL fees are essential to ensure that the ARL fees are being properly handled by tracking receipts and disbursements according to legal requirements. KRS 243.075 authorizes a qualified city or a county containing a qualified city that is wet through a local option election to impose a regulatory license fee upon the gross receipts of the sale of alcoholic beverages of each establishment located in the city or county licensed to alcoholic beverages.

Also, KRS 243.075(4) states, "[a]fter July 15, 2014, any fee authorized under subsections (1) and (2) of this section shall be established at a rate that will generate revenue that does not exceed the total of the reasonable expenses actually incurred by the city or county in the immediately previous fiscal year for the additional cost, as demonstrated by reasonable evidence, of: (a) Policing; (b) Regulation; and (c) Administration; as a result of the sale of alcoholic beverages within the city or county."

Additionally, KRS 243.075 (6) states that, "[t]he revenue received from the imposition of the regulatory license fee authorized under subsections (1) and (2) of this section shall be: (a) Deposited into a segregated fund of the city or county; (b) Spent only in accordance with the requirements of subsections (1) and (2) of this section; and (c) Audited under an annual audit performed pursuant to KRS 43.070, 64.810, and 91A.040." Section 7 of KRS 243.075 lists the ramifications if a city or county fails to properly handle and account for the ARL fees.

We recommend the Graves County Fiscal Court comply with KRS 243.075 by having the treasurer collect the ARL fees determined in accordance with KRS 243.075(4) and depositing those ARL fees into a separate fund of the county in order to track disbursements appropriately. Additionally the fiscal court should implement internal controls to oversee the determination, collection and disbursement of the ARL fees to ensure compliance with the provisions of KRS 243.075.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: On August 21, 2018 there was a separate bank account open to properly account for the Alcohol Regulatory Licensing Fees.*

**GRAVES COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2017  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-006 The Graves County Fiscal Court Overspent The Budget In Certain General, Road, And LGEA Fund Categories

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The Graves County Fiscal Court overspent the budget in two general fund categories by \$1,158, one road fund category by \$114,536, which was borrowed money for the purchase of equipment, and total Local Government Economic Assistance (LGEA) fund disbursements by \$81.

Budget amendments were obtained within the fiscal year, but the two general fund categories and the LGEA category were overlooked by the fiscal court, because of their small amounts. Since the county didn't actually receive the funds associated with the borrowed money, this transaction was never budgeted. Therefore, by not having the proper budget amendments, the county was not in compliance with KRS 68.300 and KRS 68.280.

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 budget appropriation, shall be void." KRS 68.280 states "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby."

We recommend the county comply with KRS 68.300 by budgeting all county transactions, including those handled by a third-party lender, monitoring the budget throughout the year, and obtain budget amendments when necessary.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: We will comply with KRS 68.300 by budgeting all county transactions, including those handled by third-party lenders.*

2017-007 The Graves County Jail Lacks Adequate Segregation Of Duties Over Commissary Operations

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The Graves County Jail lacks adequate segregation of duties. The bookkeeper is required to perform multiple tasks: daily checkout procedures, deposit preparation, authorization of invoices, check preparation, check signing, bookkeeping, and bank reconciliations. This lack of segregation of duties is caused by the diversity of operations with a limited number of bookkeeping staff.

A lack of segregation of duties or strong oversight increases the risk of undetected errors or fraud. Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets and financial reporting, we recommend that the jailer segregate the duties noted above by allowing different deputies to perform these functions. For those duties that cannot be segregated due to a limited number staff, strong management oversight by the jailer or designee can be a cost effective alternative. This oversight should include reviewing monthly bank reconciliations and ledgers and requiring dual signatures on checks. Documentation, such as the jailer's or a designee's initials or signature, should be provided on those items that are reviewed.

**GRAVES COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2017  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-007 The Graves County Jail Lacks Adequate Segregation Of Duties Over Commissary Operations  
(Continued)

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Views of Responsible Official and Planned Corrective Action:

*County Jailer's Response: To protect against misappropriation of assets and financial reporting, the designee will review monthly reconciliation and ledgers. Documentation (designee's initial or signature) will be provided on the items that are reviewed.*

*We will have these items reviewed by the designee to provide a better segregation of duties, as recommend by the auditor.*

*We now have a designed put in place to correct this issue.*

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

**GRAVES COUNTY FISCAL COURT**

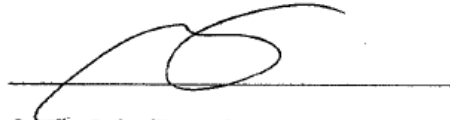
**For The Year Ended June 30, 2017**

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CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
GRAVES COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

The Graves 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



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County Treasurer