

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

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



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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 Wallace Johnson, Montgomery County Judge/Executive
Members of the Montgomery 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 Montgomery County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Montgomery County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



To the People of Kentucky

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Montgomery 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 Montgomery 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 Montgomery 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the Montgomery County Fiscal Court had significant transactions with a business owned by a business partner of an officer of the county. This creates related party transactions that require disclosure. Our opinion is not modified with respect to this matter.

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 Montgomery 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.

To the People of Kentucky

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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 July 18, 2018, on our consideration of the Montgomery 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 Montgomery 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 Montgomery County Fiscal Court Did Not Approve All Transfers Timely
- 2017-002 The Montgomery County Fiscal Court Did Not Properly Handle Disbursements
- 2017-003 The Jailer Did Not Obtain Fiscal Court Approval For All Contracts
- 2017-004 The Jailer's Annual Commissary Report Contained Inaccuracies
- 2017-005 The Jailer Lacked Adequate Controls Over Disbursements

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 18, 2018

MONTGOMERY COUNTY OFFICIALS**For The Year Ended June 30, 2017****Fiscal Court Members:**

Wallace Johnson	County Judge/Executive
Melody Townsend	Commissioner
Billy Ray Fawns	Commissioner
Jack Adams	Commissioner

Other Elected Officials:

Kevin Cockrell	County Attorney
Eric Jones	Jailer
Chris Cockrell	County Clerk
Tanya Terry	Circuit Court Clerk
Fred Shortridge	Sheriff
Floyd Arnold	Property Valuation Administrator
Jimmy Adams	Coroner

Appointed Personnel:

Mary E. Wilson	County Treasurer
Barbara Burden	Financial Officer

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 6,169,596	\$	\$	\$
Excess Fees	51,472			
Licenses and Permits	118,834			
Intergovernmental	1,010,761	1,309,113	1,494,156	74,493
Charges for Services			102,228	
Miscellaneous	219,230	1,850	243,632	
Interest	8,648		74	
Total Receipts	<u>7,578,541</u>	<u>1,310,963</u>	<u>1,840,090</u>	<u>74,493</u>
DISBURSEMENTS				
General Government	2,600,857			
Protection to Persons and Property	320,373		2,302,177	
General Health and Sanitation	225,103			
Social Services	68,884			
Recreation and Culture				
Transportation Facility and Services		6,177		
Roads		1,606,815		86,623
Airports	25,795			
Debt Service	75,377		84,509	
Capital Projects				
Administration	2,463,810	290,972	553,348	
Total Disbursements	<u>5,780,199</u>	<u>1,903,964</u>	<u>2,940,034</u>	<u>86,623</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,798,342</u>	<u>(593,001)</u>	<u>(1,099,944)</u>	<u>(12,130)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds	69,864			
Change In Payroll Revolving Account	(17,222)			
Transfers From Other Funds		324,074	1,117,906	
Transfers To Other Funds	(1,480,432)			
Total Other Adjustments to Cash (Uses)	<u>(1,427,790)</u>	<u>324,074</u>	<u>1,117,906</u>	
Net Change in Fund Balance	370,552	(268,927)	17,962	(12,130)
Fund Balance - Beginning (Restated)	<u>2,959,447</u>	<u>356,760</u>	<u>97,912</u>	<u>20,655</u>
Fund Balance - Ending	<u>\$ 3,329,999</u>	<u>\$ 87,833</u>	<u>\$ 115,874</u>	<u>\$ 8,525</u>
Composition of Fund Balance				
Bank Balance	\$ 3,059,010	\$ 176,123	\$ 118,539	\$ 8,525
Payroll Revolving Account Reconciled Balance	23,351			
Less: Outstanding Checks	(2,362)	(88,290)	(2,665)	
Certificates of Deposit	250,000			
Fund Balance - Ending	<u>\$ 3,329,999</u>	<u>\$ 87,833</u>	<u>\$ 115,874</u>	<u>\$ 8,525</u>

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

MONTGOMERY 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>Private Purpose Trust Fund</u>	
<u>Juvenile Fund</u>	<u>Health And Civic Center Fund</u>	<u>Jail Commissary Fund</u>	<u>Finneran Trust Fund</u>	<u>Total Funds</u>
\$	\$	\$	\$	\$ 6,169,596
				51,472
				118,834
	187,609			4,076,132
	17,892			120,120
	127,493	470,859	6,500	1,069,564
		105	506	9,333
	<u>332,994</u>	<u>470,964</u>	<u>7,006</u>	<u>11,615,051</u>
				2,600,857
38,452				2,661,002
	161,341			386,444
		530,642		68,884
				530,642
				6,177
				1,693,438
				25,795
	115,338			275,224
	36,115		405	36,520
				3,308,130
<u>38,452</u>	<u>312,794</u>	<u>530,642</u>	<u>405</u>	<u>11,593,113</u>
				69,864
				(17,222)
38,452				1,480,432
				(1,480,432)
<u>38,452</u>				<u>52,642</u>
	20,200	(59,678)	6,601	74,580
	617,744	144,743	83,400	4,280,661
<u>\$ 0</u>	<u>\$ 637,944</u>	<u>\$ 85,065</u>	<u>\$ 90,001</u>	<u>\$ 4,355,241</u>
\$	\$ 638,273	\$ 89,184	\$ 15,001	\$ 4,104,655
	(329)	(4,119)		23,351
			75,000	(97,765)
				325,000
<u>\$ 0</u>	<u>\$ 637,944</u>	<u>\$ 85,065</u>	<u>\$ 90,001</u>	<u>\$ 4,355,241</u>

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

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**MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

MONTGOMERY 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.

Juvenile Fund - The primary purpose of this fund is to account for the juvenile expenses of the county.

Health and Civic Center Fund - The primary purpose of this fund is to account for maintenance of the health and civic center of the county. The primary source of receipts for this fund is rent from outside agencies.

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

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. Montgomery County Elected Officials

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Montgomery County Elected Officials (Continued)

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

H. 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 and Investments

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,

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

Note 2. Deposits and Investments (Continued)

(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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Private Purpose Trust Fund

Private purpose trust funds, are used to report all trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The fiscal court has the following private purpose trust fund:

Finneran Fund - This fund was established by the will and codicil of Mary Ray Finneran. The primary purpose of the fund is to account for trust arrangements in which the reporting government is the beneficiary of the earnings on the principal and that such funds can only be used for "senior citizen purposes."

Note 4. Transfers

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	Total Transfers In
Road Fund	\$ 324,074	\$ 324,074
Jail Fund	1,117,906	1,117,906
Juvenile Fund	38,452	38,452
Total Transfers Out	<u>\$ 1,480,432</u>	<u>\$ 1,480,432</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 5. Agency Trust Funds

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

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2017, was \$18,717.

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

Note 6. Health Reimbursement Account/Flexible Spending Account

In December 2014, the fiscal court began offering employees a modified version of a Medical Expense Flexible Spending Account. It is considered modified because the plan does not allow employees to contribute to the medical expense account. At the beginning of each quarter, the fiscal court contributes \$525 to the plan for each participating employee. As of June 30, 2017, the balance of the Medical Expense Flexible Spending account was \$15,648.

Note 7. Long-term Debt

A. General Obligation Bonds, Series 2011

On February 24, 2012, the fiscal court issued \$1,000,000 of General Obligation Bonds, Series 2011, for the purpose of construction, installation, and equipping of a smoke evacuation system and other improvements to the regional jail. The bonds require semiannual interest payments on January 1 and July 1 of each year commencing on January 1, 2013. One principal payment will be due on January 1 of each year commencing on January 1, 2013. The agreement has an interest rate of 3.75 percent. The bonds will mature January 1, 2040. As of June 30, 2017, the principal amount outstanding was \$869,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 23,500	\$ 32,147
2019	24,500	31,247
2020	25,500	30,309
2021	26,500	29,335
2022	28,000	28,313
2023-2027	158,500	124,586
2028-2032	196,000	91,461
2033-2037	243,000	50,474
2038-2040	143,500	7,172
Totals	<u>\$ 869,000</u>	<u>\$ 425,044</u>

B. Financing Obligation - Civic Center/Health Department Building Renovations

The county entered into a lease purchase agreement on November 6, 2008, with the Kentucky Association of Counties Leasing Trust for the renovation of the Civic Center/Health Department Building. The principal amount was \$1,500,000. Interest payments are due monthly at an interest rate of 3.54 percent for 20 years. Principal payments are due annually in January. As of June 30, 2017, the principal outstanding was \$985,000. Debt service requirements due for the remaining years are:

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

Note 7. Long-term Debt (Continued)

B. Financing Obligation - Civic Center/Health Department Building Renovations (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 70,000	\$ 42,286
2019	75,000	39,141
2020	80,000	35,784
2021	80,000	32,295
2022	85,000	28,716
2023-2027	485,000	83,197
2028	110,000	3,156
Totals	<u>\$ 985,000</u>	<u>\$ 264,575</u>

C. Financing Obligation - Sheriff's Office Vehicles

Montgomery County entered into a lease agreement on March 17, 2015, for \$116,222 for the purchase of four sheriff's office vehicles to be paid in full in February 2019. The lease requires monthly principal and interest payments commencing in March 2015. This debt is paid by the Montgomery County Sheriff's office. As of June 30, 2017, the principal balance on the lease was \$25,052. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 14,871	\$ 585
2019	10,181	122
Totals	<u>\$ 25,052</u>	<u>\$ 707</u>

D. Financing Obligation - Parks And Recreation Vehicle

Montgomery County entered into a lease agreement on August 20, 2013, for \$29,655 for the purchase of a vehicle for Parks and Recreation to be paid in full in August 2017. The lease requires quarterly principal and interest payments commencing in August 2013. This debt is paid by the Montgomery County Parks and Recreation. As of June 30, 2017, the principal balance on the lease was \$1,878. Lease payments for the remaining year are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 1,878	\$ 6
Totals	<u>\$ 1,878</u>	<u>\$ 6</u>

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

Note 7. Long-term Debt (Continued)

E. Financing Obligation - Parks And Recreation Vehicle

Montgomery County entered into a lease agreement on October 20, 2015 for \$33,025 for the purchase of a vehicle for Parks and Recreation to be paid in full in October 2019. The lease requires quarterly principal and interest payments commencing in November 2015. This debt is paid by the Montgomery County Parks and Recreation. As of June 30, 2017, the principal balance on the lease was \$18,465. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 7,167	\$ 603
2019	7,457	314
2020	3,841	45
Totals	<u>\$ 18,465</u>	<u>\$ 962</u>

F. Financing Obligation - Sheriff's Vehicles

Montgomery County entered into a lease agreement on April 18, 2017 for \$69,864 for the purchase of two sheriff's office vehicles to be paid in full in March 2021. The lease requires monthly principal and interest payments commencing in April 2017. This debt is paid by the Montgomery County Sheriff's office. As of June 30, 2017, the principal balance on the lease was \$65,584. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 16,678	\$ 1,979
2019	17,256	1,401
2020	17,854	802
2021	13,796	197
Totals	<u>\$ 65,584</u>	<u>\$ 4,379</u>

G. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 919,500	\$	\$ 50,500	\$ 869,000	\$ 23,500
Financing Obligations	1,168,473	69,864	142,358	1,095,979	110,594
Total Long-term Debt	<u>\$ 2,087,973</u>	<u>\$ 69,864</u>	<u>\$ 192,858</u>	<u>\$ 1,964,979</u>	<u>\$ 134,094</u>

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

Note 8. 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 9. Employee Retirement System

Plan Description

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 \$416,201, FY 2016 was \$419,358, and FY 2017 was \$484,888.

Nonhazardous

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 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

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

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

Note 9. Employee Retirement System (Continued)

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute 8 percent of their annual creditable compensation and also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the 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 hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 31.06 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:

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.

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

Note 9. Employee Retirement System (Continued)

Health Insurance Coverage (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. 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 10. Deferred Compensation

The Montgomery 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 11. Rental Agreement

In May 2010, the fiscal court entered into a rental agreement, for the space known as the "Civic Center," with the Health Department for 10 years. Under this agreement, the Health Department agrees to pay the fiscal court \$187,609 per year.

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

Note 12. Insurance

For the fiscal year ended June 30, 2017, the Montgomery 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 13. Related Party Transactions

The spouse of the county finance officer is a member of the Board of Assessment of Appeals and is paid \$100 a year.

A business partner of the jailer owns a food service company that the county utilizes for food service for the jail. During Fiscal Year 2017, the county spent \$316,017 with this business owned by the jailer's business partner.

Note 14. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2017, \$23,351 was added to the general fund cash balance for financial reporting purposes.

Note 15. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to industries in Montgomery County for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Montgomery County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2017, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 16. Tax Abatement

The occupational tax was abated under the authority of Kentucky Rural Economic Development Authority (KREDA). Fireform Containers, Inc. and Cooper Tire & Rubber Company are eligible to receive this tax abatement due to creation of jobs. The taxes are abated by eliminating occupational tax due to the county. For fiscal year ended June 30, 2017, the Montgomery County Fiscal Court abated occupational taxes totaling \$257,329.

Note 17. Prior Period Adjustments

General Fund:

Ending Cash Balance Prior Year	\$ 2,959,347
To adjust for prior year outstanding checks	<u>100</u>
Ending Cash Balance Prior Year (adjusted)	<u>\$ 2,959,447</u>

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

For The Year Ended June 30, 2017

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MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 5,300,150	\$ 5,323,002	\$ 6,169,596	\$ 846,594
Excess Fees	81,100	95,373	51,472	(43,901)
Licenses and Permits	89,634	100,026	118,834	18,808
Intergovernmental	986,784	986,784	1,010,761	23,977
Charges for Services	100	100		(100)
Miscellaneous	149,679	184,141	219,230	35,089
Interest	7,000	7,000	8,648	1,648
Total Receipts	<u>6,614,447</u>	<u>6,696,426</u>	<u>7,578,541</u>	<u>882,115</u>
DISBURSEMENTS				
General Government	2,837,834	2,917,093	2,600,857	316,236
Protection to Persons and Property	345,761	346,190	320,373	25,817
General Health and Sanitation	323,355	334,374	225,103	109,271
Social Services	68,350	72,856	68,884	3,972
Recreation and Culture	15,308	15,308		15,308
Airports	25,000	25,795	25,795	
Debt Service			75,377	(75,377)
Administration	2,727,200	2,534,194	2,463,810	70,384
Total Disbursements	<u>6,342,808</u>	<u>6,245,810</u>	<u>5,780,199</u>	<u>465,611</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>271,639</u>	<u>450,616</u>	<u>1,798,342</u>	<u>1,347,726</u>
Other Adjustments to Cash (Uses)				
Financing Odligation Proceeds			69,864	69,864
Transfers To Other Funds	(2,053,653)	(2,053,653)	(1,480,432)	573,221
Total Other Adjustments to Cash (Uses)	<u>(2,053,653)</u>	<u>(2,053,653)</u>	<u>(1,410,568)</u>	<u>643,085</u>
Net Change in Fund Balance	(1,782,014)	(1,603,037)	387,774	1,990,811
Fund Balance - Beginning (Restated)	<u>1,782,014</u>	<u>1,782,014</u>	<u>2,959,447</u>	<u>1,177,433</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 178,977</u>	<u>\$ 3,347,221</u>	<u>\$ 3,168,244</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,156,448	\$ 1,306,956	\$ 1,309,113	\$ 2,157
Miscellaneous	4,000	4,000	1,850	(2,150)
Total Receipts	<u>1,160,448</u>	<u>1,310,956</u>	<u>1,310,963</u>	<u>7</u>
DISBURSEMENTS				
Transportation Facility and Services	37,500	37,500	6,177	31,323
Roads	1,627,045	1,952,553	1,606,815	345,738
Administration	321,200	321,200	290,972	30,228
Total Disbursements	<u>1,985,745</u>	<u>2,311,253</u>	<u>1,903,964</u>	<u>407,289</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(825,297)</u>	<u>(1,000,297)</u>	<u>(593,001)</u>	<u>407,296</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>825,297</u>	<u>825,297</u>	<u>324,074</u>	<u>(501,223)</u>
Total Other Adjustments to Cash (Uses)	<u>825,297</u>	<u>825,297</u>	<u>324,074</u>	<u>(501,223)</u>
Net Change in Fund Balance		(175,000)	(268,927)	(93,927)
Fund Balance - Beginning		<u>175,000</u>	<u>356,760</u>	<u>181,760</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 87,833</u>	<u>\$ 87,833</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,262,100	\$ 1,295,283	\$ 1,494,156	\$ 198,873
Charges for Services	86,000	87,558	102,228	14,670
Miscellaneous	164,000	197,613	243,632	46,019
Interest	70	70	74	4
Total Receipts	<u>1,512,170</u>	<u>1,580,524</u>	<u>1,840,090</u>	<u>259,566</u>
DISBURSEMENTS				
Protection to Persons and Property	1,972,243	2,371,412	2,302,177	69,235
Debt Service	86,176	84,510	84,509	1
Administration	605,607	553,348	553,348	
Total Disbursements	<u>2,664,026</u>	<u>3,009,270</u>	<u>2,940,034</u>	<u>69,236</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,151,856)</u>	<u>(1,428,746)</u>	<u>(1,099,944)</u>	<u>328,802</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>1,151,856</u>	<u>1,151,856</u>	<u>1,117,906</u>	<u>(33,950)</u>
Total Other Adjustments to Cash (Uses)	<u>1,151,856</u>	<u>1,151,856</u>	<u>1,117,906</u>	<u>(33,950)</u>
Net Change in Fund Balance		(276,890)	17,962	294,852
Fund Balance - Beginning		<u>97,913</u>	<u>97,912</u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (178,977)</u>	<u>\$ 115,874</u>	<u>\$ 294,851</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 55,000	\$ 65,968	\$ 74,493	\$ 8,525
Total Receipts	55,000	65,968	74,493	8,525
DISBURSEMENTS				
Roads	55,000	86,623	86,623	
Total Disbursements	55,000	86,623	86,623	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(20,655)	(12,130)	8,525
Net Change in Fund Balance		(20,655)	(12,130)	8,525
Fund Balance - Beginning		20,655	20,655	
Fund Balance - Ending	\$ 0	\$ 0	\$ 8,525	\$ 8,525

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

	JUVENILE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Protection to Persons and Property	\$ 76,500	\$ 76,500	\$ 38,452	\$ 38,048
Total Disbursements	<u>76,500</u>	<u>76,500</u>	<u>38,452</u>	<u>38,048</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(76,500)</u>	<u>(76,500)</u>	<u>(38,452)</u>	<u>38,048</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	76,500	76,500	38,452	(38,048)
Total Other Adjustments to Cash (Uses)	<u>76,500</u>	<u>76,500</u>	<u>38,452</u>	<u>(38,048)</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

HEALTH AND CIVIC CENTER FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 187,609	\$ 187,609	\$ 187,609	\$
Charges for Services	16,500	16,500	17,892	1,392
Miscellaneous	151,000	151,000	127,493	(23,507)
Total Receipts	<u>355,109</u>	<u>355,109</u>	<u>332,994</u>	<u>(22,115)</u>
DISBURSEMENTS				
General Health and Sanitation	190,500	196,809	161,341	35,468
Debt Service	115,338	118,974	115,338	3,636
Administration	497,000	487,055	36,115	450,940
Total Disbursements	<u>802,838</u>	<u>802,838</u>	<u>312,794</u>	<u>490,044</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(447,729)</u>	<u>(447,729)</u>	<u>20,200</u>	<u>467,929</u>
Net Change in Fund Balance	(447,729)	(447,729)	20,200	467,929
Fund Balance - Beginning	<u>447,729</u>	<u>447,729</u>	<u>617,744</u>	<u>170,015</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 637,944</u>	<u>\$ 637,944</u>

**MONTGOMERY 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

The Montgomery County Fiscal Court disbursements exceeded budgeted appropriations in the general fund debt service line item, due to not recording payments made by others on the fiscal court's behalf.

Note 3. Reconciliation of General Fund

Reconciliation of the General Fund

Other Adjustments to Cash (Uses)-Budgetary Basis	\$ (1,410,568)
To adjust for Change in Payroll Revolving Account	<u>(17,222)</u>
Total Other Adjustments to Cash (Uses)-Regulatory Basis	<u>\$ (1,427,790)</u>
Fund Balance - Ending-Budgetary Basis	\$ 3,347,221
To adjust for Change in Payroll Revolving Account	<u>(17,222)</u>
Total Fund Balance - Ending-Regulatory Basis	<u>\$ 3,329,999</u>

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

For The Year Ended June 30, 2017

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MONTGOMERY 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	\$ 567,333	\$	\$	\$ 567,333
Land Improvements	32,575			32,575
Buildings/Building Improvements	10,274,814	68,343		10,343,157
Vehicles	1,596,256	313,131		1,909,387
Equipment	1,078,514	111,296		1,189,810
Infrastructure	7,853,047	632,269		8,485,316
 Total Capital Assets	 \$ 21,402,539	 \$ 1,125,039	 \$ 0	 \$ 22,527,578

**MONTGOMERY 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 Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Building Improvements	\$ 5,000	10-60
Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5
Infrastructure	\$ 5,000	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 Wallace Johnson, Montgomery County Judge/Executive
Members of the Montgomery 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 Montgomery County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Montgomery County Fiscal Court's financial statement and have issued our report thereon dated July 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Montgomery 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 Montgomery County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montgomery 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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-002, 2017-004, and 2017-005 to be significant deficiencies.



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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montgomery County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, and 2017-003.

Views of Responsible Officials and Planned Corrective Action

Montgomery 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

July 18, 2018

**MONTGOMERY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**MONTGOMERY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Montgomery County Fiscal Court Did Not Approve All Transfers Timely

During our review of transfers, we noted there were instances where the transfer was not properly approved and all transfers were approved the month following the approval of the claims list payments. Of 11 cash transfers tested, two transfers were not documented in the fiscal court orders and all 11 were approved after the payment of the claims list.

The fiscal court was not aware that claims could not be paid prior to transferring funds. If transfers are not submitted to fiscal court for approval prior to the transfer being made or made in a timely manner, magistrates are not fully informed to make appropriate financial decisions for the county.

The Department for Local Government (DLG)'s *County Budget and State Local Finance Officer Policy Manual* states that all transfers require a court order. Furthermore, the manual states, "[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made."

We recommend the county ensures all transfers receive proper fiscal court approval and that they are approved in a timely manner as required by DLG.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Upon the appointment of the County Treasurer in 2014, the treasurer was advised by the prior County Treasurer on how to prepare the monthly financial statements, interfund transfers, and budget transfers. I did have Fiscal Court approval for all transfers, but the approval for the transfers were included in my prior month financial report. My understanding of this procedure was not accurate. I will ensure that all transfers are approved in advance by the Fiscal Court.

2017-002 The Montgomery County Fiscal Court Did Not Properly Handle Disbursements

The auditor noted numerous issues when testing disbursements:

- Seven instances where adequate supporting documentation was not available for a disbursement. Therefore, the auditor was unable to determine if it was properly recorded and a valid obligation of the county.
- Nine instances where evidence was not available to show that the disbursement was presented to fiscal court.
- Seven disbursements were not paid timely.
- Twenty-five instances where a purchase order was not prepared in accordance with the Department for Local Government (DLG) requirements. Of these 25 instances, six were issued without proper funding available for that account code, two were lump sum expense allowance payments made to employees, and four were for utilities.

The fiscal court was not aware that they were not following the DLG budget manual. Failure to receive adequate documentation for the disbursement could result in paying a bill that is not actually owed by the county or allow an unauthorized transaction to be posted to their account without detection. Furthermore, incurring expenses prior to fiscal court approval and without ensuring adequate funding is available could lead to financial strains on the county due to overspending. Without this information, management is unable to determine potential issues with spending before the expense is already incurred, creating the opportunity for waste, fraud, or abuse.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Montgomery County Fiscal Court Did Not Properly Handle Disbursements (Continued)

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling public funds, including required purchasing procedures for counties. These requirements prescribe that, "[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made."

Good internal controls for purchase requests exceeding budget appropriations would lead to discussion with both the county treasurer and county judge/executive as to whether the purchase order will be issued, the necessity and appropriateness of a budget transfer to cover the expense, and if other issues need to be address related to spending. Purchase orders should be issued for all goods and services utilized by the fiscal court. DLG issued a memorandum on August 4, 2016, in which it "highly recommends" implementation of issuing purchase orders for payroll and utilities. This control allows for fiscal court to ensure that sufficient budget allocation is available for all expenses.

Per KRS 68.300, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable."

KRS 64.710, "[n]o public officer or employee shall receive or be allowed or paid any lump sum expense allowance, or contingent fund for personal or official expenses, except where such allowance or fund either is expressly provided for by statute or is specifically appropriated by the General Assembly."

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." Without invoices with adequate information, there is not proper justification for the disbursement.

We recommend the fiscal court work to ensure they adhere with DLG's requirements and guidance for the purchase order procedures according to the *County Budget Preparation and State Local Finance Officer Policy Manual*. Furthermore, we recommend the county strengthen controls over the disbursements process to ensure compliance with applicable statutes and to provide better oversight to ensure funds are available prior to issuing purchase orders.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court office staff has implemented and follows a strict procedure for purchasing and disbursement of funds. The following will address each issue as noted:

- *Seven instances where adequate supporting documentation was not available for a disbursement. These disbursements were for program support given to each school's family resource center to help with the needs of disadvantaged students. We did not have an invoice because it was program support. In the future, we will document any such support and attach documentation to the claim.*

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Montgomery County Fiscal Court Did Not Properly Handle Disbursements (Continued)

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

- *Nine instances where evidence was not available to show that the disbursement was presented to the fiscal court. On two instances the claims list was not attached to the July 2016 minutes. They were reviewed and approved at the Fiscal court meeting in July. The others were pre-approved recurring expenses. I will ensure that the Fiscal Court secretary has the claims list.*
- *Seven disbursements were not paid timely. There are times when an invoice due date comes between Fiscal Court Meetings. Most of our vendors understand our billing and payment process, that we can only pay once a month on the date of our Fiscal Court meeting. We do not have to pay late fees or any penalty.*
- *25 instances where a purchase order was not prepared in accordance with DLG requirements. *The six instances where PO was issued without proper funding in the account code is in direct result of the budget transfer issue. The procedure for making and receiving approval for budget transfers has been corrected. *Two employees received payment for a uniform allowance and the allowance is calculated as a fringe on their payroll check. We feel this followed the proper procedures. *Four PO were processed for utilities. A PO is processed for a utility on the date we receive the bill not the beginning date of service. We receive utilities bill for multiple county buildings each month, it would be unnecessary to process the PO based on the beginning date of service on each bill. *Some of the other instances were based on PO's for Payroll. Our payroll system and accounting software are linked, and the payroll automatically post. I checked with my software support and was advised how to connect a PO to a payroll post. Other issues included processing monthly PO's instead of on the date of purchase.*

A memo was sent on April 26, 2018, to all departments and supervisors, to remind them of our purchasing procedure. Monthly PO's will only be given for contracted services. Co. Treasurer will insure that the Finance Officer and her secretary have necessary budget information to see that funds are available before a PO is issued. All departments have been notified that if funds are not available that a PO will not be issued, and the purchase cannot be made until Fiscal Court approves a budget transfer. Documentation for non-budgeted program support will be attached to a claim.

2017-003 The Jailer Did Not Obtain Fiscal Court Approval For All Contracts

In September 2011, the Montgomery County Jailer, without fiscal court approval, executed a food service contract with a provider for the provision of food service for the inmates at the jail.

The jailer was not aware of the dual responsibility over jail contracts and expenditures.

By doing this, the Jailer is, in effect, expending county funds without them being budgeted and approved by the fiscal court as part of the jail fund.

Jailers do not have the authority to expend county funds from the jail fund without approval of the fiscal court according to KRS 441.225. Both the county and the jailer have a joint responsibility for jail purchases. Per KRS 441.225(1), the jailer “shall have authority to authorize expenditures from the jail budget[.]” but “[s]uch expenditure shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county.”

We recommend the jailer acquire fiscal court approval of all contracts as required by statute.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Jailer Did Not Obtain Fiscal Court Approval For All Contracts (Continued)

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: [The jailer] has implemented procedures where the Montgomery County Fiscal Court will approve all contracts. This process has been discussed with the Montgomery County Fiscal Court and is an active process as of this date, July 27, 2018.

2017-004 The Jailer's Annual Commissary Report Contained Inaccuracies

The jailer's annual report of the commissary fund provided to fiscal court contained inaccuracies. The beginning balance utilized was not the reconciled balance. The jailer failed to remove prior year outstanding check amounts from the balance and overstated this amount by \$33,411. Then the jailer utilized the incorrect amount when reconciling the bank balance to the book balance. The book balance was overstated by \$97,209.

The official made an error in the report preparation that went undetected. As a result of the errors, the annual report submitted to the fiscal court contained immaterial inaccuracies that overstated beginning and ending balances. These errors prevent the county from receiving a complete picture of the financial standing of the commissary fund.

Good internal controls dictate that strong review and oversight helps detect errors and omissions that could be material to the county.

We recommend the jailer strengthen oversight by reviewing all reports for accuracy prior to submission to the fiscal court.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: The auditing team recommended that the Jail's Commissary Report begin with the jail's book balance vs the bank balance. This recommendation would improve the clarity of the report. The Commissary Report for the 2016-2017 Fiscal Year was correct and submitted on April 20, 2018.

2017-005 The Jailer Lacked Adequate Controls Over Disbursements

The jailer failed to pay three invoices timely and one invoice did not have adequate supporting documentation. The three invoices were paid five to six business days past the due date on the bill. The other exception was for meals paid for inmates working with the road crew. Receipts were maintained but there was no documentation of how many inmates were fed or the project/assignment they were working on.

The invoices received were not given to the bookkeeper timely and multiple invoices were paid at one time. The jailer did not require the food purchasers to provide detailed information.

Bills not being paid on time can be an indication of a cash flow issue or can result in late fees being charged to the county. In addition, without adequate support for expenditures, undetected disallowed purchases could be made.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Jailer Lacked Adequate Controls Over Disbursements (Continued)

Good internal controls dictate that invoices be paid timely and all purchases be properly supported to ensure allowability.

We recommend the jailer pay all invoices timely and ensure adequate supporting documentation is provided to ensure purchases are allowable.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: Due to multiple orders in a short amount of time for E-cigarettes from the [vendor], one of the invoices was left out of the shipping box. The missing invoice wasn't detected until several weeks later, the vendor sent us another invoice, but we were already past the 30-day time to pay promptly. The [vendor] now sends the invoices by email which has resolved this issue.

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

MONTGOMERY COUNTY FISCAL COURT

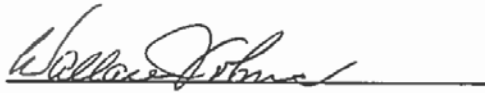
For The Year Ended June 30, 2017

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MONTGOMERY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

The Montgomery 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