

**REPORT OF THE AUDIT OF THE
TAYLOR 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 Eddie Rogers, Taylor County Judge/Executive
Members of the Taylor 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 Taylor County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Taylor 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 Taylor 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 Taylor 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 Taylor 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 Taylor 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 the 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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Members of the Taylor County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 08, 2018, on our consideration of the Taylor 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 Taylor 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, which discusses the following report findings:

- 2017-001 The Taylor County Fiscal Court Materially Misstated Liabilities On The Fourth Quarter Financial Report
- 2017-002 The Taylor County Fiscal Court Did Not Issue Purchase Orders On All Disbursements As Required
- 2017-003 The Taylor County Fiscal Court Did Not Properly Account For Encumbrances At Year End
- 2017-004 The Taylor County Fiscal Court And Jailer Did Not Follow Bidding And Contract Procedures Required By The County's Administrative Code

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

March 8, 2018

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

Eddie Rogers	County Judge/Executive
Dr. James Jones	Magistrate
John Gaines	Magistrate
Tommy Corbin	Magistrate
Zuel Yarberry	Magistrate
Ed Gorin	Magistrate
Richard Phillips	Magistrate

Other Elected Officials:

John Bertram	County Attorney
Eddie "Hack" Marcum	Jailer
Mark Carney	County Clerk
Rodney Burress	Circuit Court Clerk
Allen Newton	Sheriff
Chad Shively	Property Valuation Administrator
Daniel Cook	Coroner

Appointed Personnel:

Melissa Williams	County Treasurer
Brian Smothers	Road Foreman
Rick Benningfield	Animal Control

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds			Local Government Economic Assistance Fund
	General Fund	Road Fund	Jail Fund	
RECEIPTS				
Taxes	\$ 5,605,256	\$	\$	\$
In Lieu Tax Payments	55,022			
Excess Fees	208,238			
Licenses and Permits	142,472			
Intergovernmental	515,408	1,575,920	2,418,993	
Charges for Services	35,351	111,200	51,030	
Miscellaneous	158,737	61,493	207,877	
Interest	21,353	9,195	5,977	
Total Receipts	<u>6,741,837</u>	<u>1,757,808</u>	<u>2,683,877</u>	
DISBURSEMENTS				
General Government	2,011,532	20		
Protection to Persons and Property	172,475		2,200,404	
General Health and Sanitation	309,610	26,293		
Social Services	12,377			
Recreation and Culture	212,011			
Transportation Facility and Services		37,884		
Roads	600,000	1,281,839		
Airports	91,658			
Debt Service	348,332		657,808	
Capital Projects	1,450,974			
Administration	885,650	193,791	669,586	
Total Disbursements	<u>6,094,619</u>	<u>1,539,827</u>	<u>3,527,798</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>647,218</u>	<u>217,981</u>	<u>(843,921)</u>	
Other Adjustments to Cash (Uses)				
Lease Proceeds	1,200,000			
Transfers From Other Funds			1,036,080	
Transfers To Other Funds	<u>(1,036,080)</u>			
Total Other Adjustments to Cash (Uses)	<u>163,920</u>		<u>1,036,080</u>	
Net Change in Fund Balance	811,138	217,981	192,159	
Fund Balance - Beginning (Restated)	<u>1,937,951</u>	<u>609,124</u>	<u>514,609</u>	49
Fund Balance - Ending	<u>\$ 2,749,089</u>	<u>\$ 827,105</u>	<u>\$ 706,768</u>	<u>\$ 49</u>
Composition of Fund Balance				
Bank Balance	\$ 2,739,049	\$ 833,620	\$ 710,776	\$ 49
Plus: Deposits In Transit	58,537			
Less: Outstanding Checks	<u>(48,497)</u>	<u>(6,515)</u>	<u>(4,008)</u>	
Fund Balance - Ending	<u>\$ 2,749,089</u>	<u>\$ 827,105</u>	<u>\$ 706,768</u>	<u>\$ 49</u>

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

TAYLOR 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 Funds</u>		
<u>ASAP Fund</u>	<u>Public Properties Corporation Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
\$	\$	\$	\$ 5,605,256
			55,022
			208,238
			142,472
7,750	1,003,624	5,642	5,527,337
			197,581
		406,556	834,663
	431		36,956
<u>7,750</u>	<u>1,004,055</u>	<u>412,198</u>	<u>12,607,525</u>
			2,011,552
			2,372,879
			335,903
11,306			23,683
		374,678	586,689
			37,884
			1,881,839
			91,658
	1,001,424		2,007,564
			1,450,974
			1,749,027
<u>11,306</u>	<u>1,001,424</u>	<u>374,678</u>	<u>12,549,652</u>
<u>(3,556)</u>	<u>2,631</u>	<u>37,520</u>	<u>57,873</u>
			1,200,000
			1,036,080
			(1,036,080)
			1,200,000
(3,556)	2,631	37,520	1,257,873
12,553	344,052	273,384	3,691,722
<u>\$ 8,997</u>	<u>\$ 346,683</u>	<u>\$ 310,904</u>	<u>\$ 4,949,595</u>
\$ 10,717	\$ 346,683	\$ 323,814	\$ 4,964,708
		1,775	60,312
(1,720)		(14,685)	(75,425)
<u>\$ 8,997</u>	<u>\$ 346,683</u>	<u>\$ 310,904</u>	<u>\$ 4,949,595</u>

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

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**TAYLOR COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The Taylor County Hospital District, Taylor County Hospital District Health Facility Corporation, and Taylor County Airport Board would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis they are no longer are required components of the reporting entity. Audits of these entities can be obtained from the Taylor County Fiscal Court, 203 N. Court Street, Suite 4, Campbellsville, Kentucky, 42718.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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.

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.

Agency On Substance Abuse Prevention (ASAP) Fund - The primary purpose of this fund is to reduce the prevalence of alcohol, tobacco, and other drug use among youth and adult populations across the Commonwealth of Kentucky. The primary source of receipts for this fund is state grants.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest for the Judicial Center.

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.

Internal Service Fund

Health Insurance Fund - This fund was used in the prior year to account for Taylor County's partially self-funded employee health insurance program. The fiscal court changed the health insurance program in FY 2017 so this fund is not needed.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the public properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Taylor County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 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	Total Transfers In
Jail Fund	\$ 1,036,080	\$ 1,036,080
Total Transfers Out	\$ 1,036,080	\$ 1,036,080

Reason for transfers:

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

Note 4. Agency Trust Fund

Trust funds report only those resources held in a trust of custodial capacity for individuals, private organizations, or other governments. The fiscal court has the following agency trust fund:

City Occupational Tax Fund – This fund is used to collect and pay occupational tax to the City of Campbellsville. The balance in this fund as of June 30, 2016 was \$2,813.

Note 5. Long-term Debt

A. General Obligation Bonds, Series 2007

On October 10, 2006, the Taylor County Fiscal Court issued \$11,000,000 General Obligation Bonds, Series 2007 for the purpose of constructing a Detention Center. These bonds were refinanced on September 9, 2015, with the issuance of General Obligation Refunding Bonds, Series 2015 but had a balance of \$350,000 at the end of fiscal year ending June 30, 2016. The balance was paid in the current year.

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

Note 5. Long-term Debt (Continued)

B. General Obligation Refunding Bonds, Series 2015

On September 9, 2015, the Taylor County Fiscal Court issued \$8,765,000 General Obligation Refunding Bonds, Series 2015 for the purpose of refinancing the General Obligation Bonds, Series 2007. The bonds mature serially through September 1, 2032, and require annual principal payments due on September 1 with the first payment due September 1, 2016. Semi-annual payments of interest at a variable interest rate between 1.5 percent and three percent are due on March 1 and September 1 of each year with the first payment due March 1, 2016. Bonds outstanding as of June 30, 2017 were \$8,665,000.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 465,000	\$ 196,570
2019	470,000	189,558
2020	480,000	182,433
2021	490,000	175,158
2022	495,000	167,770
2023-2027	2,615,000	694,380
2028-2032	2,995,000	318,050
2033	655,000	9,825
Totals	<u>\$ 8,665,000</u>	<u>\$ 1,933,744</u>

C. First Mortgage Revenue Bonds, Series 2007

On September 12, 2007, the Taylor County Fiscal Court issued \$14,970,000 First Mortgage Revenue Bonds, Series 2007 for the purpose of constructing a Judicial Center. The bonds were refunded by the issuance of the First Mortgage Refunding Revenue Bonds, Series 2016 on February 17, 2016, but had a balance of \$1,451,300 at the end of fiscal year ending June 30, 2016. During the current year a payment of \$727,100 was issued leaving a balance as of June 30, 2017, of \$724,200 which is due on September 17, 2017.

D. First Mortgage Refunding Revenue Bonds, Series 2016

On February 17, 2016, the Taylor County Fiscal Court issued \$9,080,000 First Mortgage Refunding Revenue Bonds, Series 2016 for the purpose of refunding the First Mortgage Revenue Bonds, Series 2007. The bonds mature serially through September 1, 2027, and require annual principal payments due on September 1 with the first payment due September 1, 2018. Semi-annual payments of interest at a variable interest rate between two percent and four percent are due on March 1 and September 1 of each year with the first payment due September 1, 2016. Bonds outstanding as of June 30, 2017, were \$9,080,000. The Taylor County Fiscal Court has entered into a sublease agreement with the Administrative Office of the Courts (AOC), which states the AOC agrees to pay the debt service requirements. Future principal and interest payments are:

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

Note 5. Long-term Debt (Continued)

D. First Mortgage Refunding Revenue Bonds, Series 2016 (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$	\$ 262,900
2019	560,000	257,300
2020	855,000	243,150
2021	870,000	225,900
2022	890,000	208,300
2023-2027	4,825,000	674,100
2028	1,080,000	21,600
Totals	<u>\$ 9,080,000</u>	<u>\$ 1,893,250</u>

E. HVAC Upgrade - Financing Obligation

On November 18, 2014, the Taylor County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for an HVAC upgrade. The principal was \$617,000 at an interest rate of 3.4 percent payable for a period of three years. Principal outstanding as of June 30, 2017, was \$88,808. Future lease payment requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	<u>\$ 88,808</u>	<u>\$ 756</u>
Totals	<u>\$ 88,808</u>	<u>\$ 756</u>

F. Fire Station - Financing Obligation

On December 16, 2016, the Taylor County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the construction, equipping, and installation of a new fire house for the volunteer fire department. The principal was \$1,200,000 at 3.30 percent for a period of five years. Principal outstanding as of June 30, 2017, was \$1,085,492. Future principal and interest payments requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 230,811	\$ 32,980
2019	236,636	25,291
2020	242,607	17,409
2021	248,729	9,327
2022	126,709	1,570
Totals	<u>\$ 1,085,492</u>	<u>\$ 86,577</u>

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

Note 5. Long-term Debt (Continued)

G. Changes In Long-term Debt

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

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds*	\$ 9,115,000	\$	\$ 450,000	\$ 8,665,000	\$ 465,000
Revenue Bonds*	10,531,300		727,100	9,804,200	724,200
Financing Obligations	298,069	1,200,000	323,769	1,174,300	319,619
Total Long-term Debt	<u>\$ 19,944,369</u>	<u>\$ 1,200,000</u>	<u>\$ 1,500,869</u>	<u>\$19,643,500</u>	<u>\$ 1,508,819</u>

*General Obligation Bonds beginning balance was restated by \$350,000 and First Mortgage Revenue Bonds was restated by \$1,451,300 due to outstanding bonds that were not paid off in the prior year.

Note 6. 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 \$527,125, FY 2016 was \$517,034, and FY 2017 was \$567,541.

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 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.

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

Note 6. Employee Retirement System (Continued)

Nonhazardous (Continued)

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.

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight 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. Hazardous members contribute eight percent of their annual creditable compensation and 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 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 seven and one-half 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:

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

Note 6. Employee Retirement System (Continued)

Health Insurance Coverage (Continued)

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

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

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

Note 7. Deferred Compensation

In 2002, the Taylor 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.

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

Note 7. Deferred Compensation (Continued)

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 8. Health Reimbursement Account and Flexible Spending Account

In 2010, the Taylor County Fiscal Court established a flexible spending account to provide employees an additional health benefit. The county elected to administer the plan as of July 1, 2016, which provides a debit card to each eligible employee providing \$1,500 each year to pay for qualified medical expenses. The balance of the health reimbursement account is \$59,624 as of June 30, 2017. Employees may also contribute additional pre-tax funds through payroll deduction. The balance of the flexible spending account is \$1,229 as of June 30, 2017.

Note 9. Insurance

For the fiscal year ended June 30, 2017, the Taylor 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 10. Prior Period Adjustment

The jail fund beginning balance was increased by \$1,072 to include the detention center bond fund activity that was shown as a separate fund in the prior year audit. This activity was budgeted for in the jail fund.

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

For The Year Ended June 30, 2017

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TAYLOR 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	\$ 4,620,010	\$ 5,220,345	\$ 5,605,256	\$ 384,911
In Lieu Tax Payments	32,000	32,069	55,022	22,953
Excess Fees	111,850	208,238	208,238	
Licenses and Permits	125,000	125,000	142,472	17,472
Intergovernmental	357,185	475,169	515,408	40,239
Charges for Services	26,000	29,864	35,351	5,487
Miscellaneous	77,030	112,778	158,737	45,959
Interest	15,000	15,000	21,353	6,353
Total Receipts	<u>5,364,075</u>	<u>6,218,463</u>	<u>6,741,837</u>	<u>523,374</u>
DISBURSEMENTS				
General Government	2,041,536	2,176,866	2,011,532	165,334
Protection to Persons and Property	184,310	190,513	172,475	18,038
General Health and Sanitation	385,236	393,169	309,610	83,559
Social Services	17,000	17,000	12,377	4,623
Recreation and Culture	168,000	219,474	212,011	7,463
Roads	600,000	600,000	600,000	
Airports	96,723	96,723	91,658	5,065
Debt Service	520,000	520,000	348,332	171,668
Capital Projects		2,094,554	1,450,974	643,580
Administration	969,830	1,593,724	885,650	708,074
Total Disbursements	<u>4,982,635</u>	<u>7,902,023</u>	<u>6,094,619</u>	<u>1,807,404</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>381,440</u>	<u>(1,683,560)</u>	<u>647,218</u>	<u>2,330,778</u>
Other Adjustments to Cash (Uses)				
Lease Proceeds		1,200,000	1,200,000	
Transfers To Other Funds	(1,381,440)	(1,381,440)	(1,036,080)	345,360
Total Other Adjustments to Cash (Uses)	<u>(1,381,440)</u>	<u>(181,440)</u>	<u>163,920</u>	<u>345,360</u>
Net Change in Fund Balance	(1,000,000)	(1,865,000)	811,138	2,676,138
Fund Balance - Beginning	1,000,000	1,865,000	1,937,951	72,951
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,749,089</u>	<u>\$ 2,749,089</u>

TAYLOR 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	\$ 1,317,688	\$ 1,594,825	\$ 1,575,920	\$ (18,905)
Charges For Services	113,000	113,000	111,200	(1,800)
Miscellaneous		61,493	61,493	
Interest	7,000	7,815	9,195	1,380
Total Receipts	<u>1,437,688</u>	<u>1,777,133</u>	<u>1,757,808</u>	<u>(19,325)</u>
DISBURSEMENTS				
General Government	100	100	20	80
General Health and Sanitation	35,000	44,479	26,293	18,186
Transportation Facilities and Services	40,000	40,000	37,884	2,116
Roads	1,359,196	1,699,025	1,281,839	417,186
Administration	303,392	293,529	193,791	99,738
Total Disbursements	<u>1,737,688</u>	<u>2,077,133</u>	<u>1,539,827</u>	<u>537,306</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(300,000)</u>	<u>(300,000)</u>	<u>217,981</u>	<u>517,981</u>
Net Change in Fund Balance	(300,000)	(300,000)	217,981	517,981
Fund Balance - Beginning	<u>300,000</u>	<u>300,000</u>	<u>609,124</u>	<u>309,124</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 827,105</u>	<u>\$ 827,105</u>

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

	JAIL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 1,751,910	\$ 2,149,747	\$ 2,418,993	\$ 269,246
Charges for Services	51,300	51,389	51,030	(359)
Miscellaneous	201,000	209,463	207,877	(1,586)
Interest	2,000	4,101	5,977	1,876
Total Receipts	<u>2,006,210</u>	<u>2,414,700</u>	<u>2,683,877</u>	<u>269,177</u>
DISBURSEMENTS				
Protection to Persons and Property	2,253,500	2,390,972	2,200,404	190,568
Debt Service	663,000	663,000	657,808	5,192
Administration	771,150	1,042,168	669,586	372,582
Total Disbursements	<u>3,687,650</u>	<u>4,096,140</u>	<u>3,527,798</u>	<u>568,342</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,681,440)</u>	<u>(1,681,440)</u>	<u>(843,921)</u>	<u>837,519</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>1,381,440</u>	<u>1,381,440</u>	<u>1,036,080</u>	<u>(345,360)</u>
Total Other Adjustments to Cash (Uses)	<u>1,381,440</u>	<u>1,381,440</u>	<u>1,036,080</u>	<u>(345,360)</u>
Net Change in Fund Balance	(300,000)	(300,000)	192,159	492,159
Fund Balance - Beginning (Restated)	<u>300,000</u>	<u>300,000</u>	<u>514,609</u>	<u>214,609</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 706,768</u>	<u>\$ 706,768</u>

TAYLOR 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	\$ 3,990	\$ 3,990	\$	\$ (3,990)
Interest	10	10		(10)
Total Receipts	<u>4,000</u>	<u>4,000</u>		<u>(4,000)</u>
DISBURSEMENTS				
Protection to Persons and Property	3,500	3,500		3,500
Road Facilities	500	500		500
Total Disbursements	<u>4,000</u>	<u>4,000</u>		<u>4,000</u>
Net Change in Fund Balance				
Fund Balance - Beginning			49	49
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 49</u>	<u>\$ 49</u>

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

	ASAP FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 15,500	\$ 15,500	\$ 7,750	\$ (7,750)
Total Receipts	<u>15,500</u>	<u>15,500</u>	<u>7,750</u>	<u>(7,750)</u>
DISBURSEMENTS				
Social Services	35,500	35,500	11,306	24,194
Total Disbursements	<u>35,500</u>	<u>35,500</u>	<u>11,306</u>	<u>24,194</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(3,556)</u>	<u>16,444</u>
Net Change in Fund Balance	(20,000)	(20,000)	(3,556)	16,444
Fund Balance - Beginning	<u>20,000</u>	<u>20,000</u>	<u>12,553</u>	<u>(7,447)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,997</u>	<u>\$ 8,997</u>

**TAYLOR 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.

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

For The Year Ended June 30, 2017

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TAYLOR 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 and Land Improvements	\$ 3,332,596	\$	\$	\$ 3,332,596
Construction In Progress	25,324	1,452,234		1,477,558
Buildings	26,118,488	44,505		26,162,993
Equipment	1,799,436	170,750	94,905	1,875,281
Vehicles	1,565,508	90,446	10,100	1,645,854
Infrastructure	11,542,698	935,087		12,477,785
 Total Capital Assets	 <u>\$ 44,384,050</u>	 <u>\$ 2,693,022</u>	 <u>\$ 105,005</u>	 <u>\$46,972,067</u>

**TAYLOR 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.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	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 Eddie Rogers, Taylor County Judge/Executive
Members of the Taylor 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 Taylor County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Taylor County Fiscal Court's financial statement and have issued our report thereon dated March 8, 2018.

Internal Control Over Financial Reporting

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

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a material weakness.



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 Taylor 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 item 2017-001, 2017-002, 2017-003, and 2017-004.

Views of Responsible Officials and Planned Corrective Action

Taylor 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

March 8, 2018

**TAYLOR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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**TAYLOR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Taylor County Fiscal Court Materially Misstated Liabilities On The Fourth Quarter Financial Report

Three of five liabilities reported on the fourth quarter financial statement were incorrect. Principal debt was understated by \$181,365 and interest was overstated by \$524,774. The fiscal court did not have controls in place to monitor or review amounts recorded on quarterly reports. As a result, the liabilities reported on the fourth quarter financial statement were materially overstated by a net amount of \$343,409.

KRS 68.210 gives the Department for Local Government (DLG) the authority to prescribe a uniform system of accounts. The uniform system of accounts is outlined in DLG's *County Budget Preparation and State Local Finance Office Policy Manual* which requires an accurate and complete schedule of liabilities be submitted with each quarterly report.

We recommend the fiscal court submit an accurate and complete liabilities schedule as required. We also recommend the county implement internal control procedures to ensure the schedule of liabilities is accurate and complete on each quarterly report.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Accurate liabilities were presented to the auditors.

Auditor's Reply: The Taylor County Fiscal Court reported incorrect principal amounts on the fourth quarter report for the fire station lease; First Mortgage Revenue Bond, series 2007; and First Mortgage Refunding Revenue Bonds, series 2016.

2017-002 The Taylor County Fiscal Court Did Not Issue Purchase Orders On All Disbursements As Required

The fiscal court did not issue purchase orders on all disbursements. The fiscal court has a purchase order system in place for small purchases; however, it does not include payroll and utility claims. In addition, not all disbursements get a purchase order and some purchase orders are prepared after the invoice is received.

The fiscal court was not aware all disbursements require a purchase order. As a result, appropriation line items may be depleted or have a negative balance due to not ensuring funds are available at the time of purchase.

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

We recommend the fiscal court implement procedures to ensure purchase orders are issued on all disbursements, including payroll and utility claims.

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

FINANCIAL STATEMENT FINDINGS (Continued):

2017-002 The Taylor County Fiscal Court Did Not Issue Purchase Orders On All Disbursements As Required
 (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: P.O.'s are not required for purchases under \$100 according to the Taylor County Administrative Code. Payroll and utilities are approved as a standing order by Taylor County Fiscal Court at the beginning of each Fiscal year. Each department is responsible for obtaining a P.O. and a letter will be sent to each department supervisor to make sure that they comply.

Auditor's Reply: Purchases were made prior to a purchase order being approved. Standing orders remove the requirement to present a disbursement to fiscal court, but purchase orders are still required to ensure there is sufficient funds in the budget to cover the expenditure. In addition, DLG highly recommends counties accept the practice of issuing purchase orders for payroll and utility claims.

2017-003 The Taylor County Fiscal Court Did Not Properly Account For Encumbrances At Year End

The fiscal court reported encumbrances on the fourth quarter financial report and maintained a list to support the amounts reported; however, the encumbrances were inaccurate. The encumbrances listed included old purchase orders that had not been cancelled out of the computer system and did not include all outstanding obligations at year end. Claims paid in July 2017 for invoices dated before July 1, 2017, that had a purchase order issued were not included on the outstanding encumbrance list and a purchase order was not prepared for all disbursements.

The fiscal court did not properly utilize the purchase order system and on numerous occasions issued purchase orders after they received the invoice.

Encumbrances are understated by approximately \$437,172. In addition, by not properly reporting encumbrances, the fiscal court is not in compliance with reporting requirements per the Department for Local Government. In addition, failure to report encumbrances will not accurately reflect cash balances and alert management to any possible cash flow issues.

The *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county to disclose encumbrances on the face of the fourth quarterly financial report. The manual states, "[e]nter the total dollar amount of unpaid purchase orders from the purchase order journal." Furthermore, KRS 68.360(2) states, in part, "[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfer made to or from the fund."

We recommend the fiscal court institute procedures to ensure all disbursements receive a purchase order including payroll and utilities and all purchase orders be issued prior to receiving an invoice or disbursement occurs. We recommend all purchase orders be entered into the computer system at the time of issuance and any old outstanding purchase orders be removed to ensure an accurate encumbrance listing.

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

FINANCIAL STATEMENT FINDINGS (Continued):

2017-003 The Taylor County Fiscal Court Did Not Properly Account For Encumbrances At Year End
 (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: In June a list of encumbrances will be created to satisfy the auditors. P.O.'s for payroll and utilities will not be given because the Taylor County Fiscal Court approves these expenses at the beginning of each new Fiscal year when salaries and operating expenses are presented. The encumbrance list will include these.

Auditor's Reply: The DLG County Budget Preparation and State Local Finance Officer Policy Manual requires that encumbrances be maintained. The encumbrance list should be maintained throughout the entire fiscal year and should include payroll and utilities.

2017-004 The Taylor County Fiscal Court And Jailer Did Not Follow Bidding And Contract Procedures
 Required By The County's Administrative Code

The fiscal court did not bid for the detention center's food service provider after the contract expired in November 2014 as required by the county's administrative code. The fiscal court disbursed a total of \$360,473 to this food service provider during fiscal year 2017.

In addition, the jailer renewed a medical service provider contract without fiscal court approval as required by the county's administrative code. On March 23, 2016, the jailer renewed a 12 month agreement with a medical service provider to provide health care for inmates. The fiscal court disbursed a total of \$281,591 to this medical service provider during fiscal year 2017. The renewal contract was not signed by either the jailer or the county judge/executive.

The fiscal court and the jailer were unaware the food service provider contract expired and the jailer was unaware of the need to obtain fiscal court approval for the medical service provider contract renewal and did not present it to the fiscal court. As a result, the fiscal court and jailer are not in compliance with the county's administrative code relating to bidding and contracts.

The fiscal court's administrative code states in Section 8.2 Selection of Vendors and Contractors (Procedures for Sealed Bidding) subsection C. "[a]ny expenditure or contract for materials, supplies (except perishable meat, fish, and vegetables), equipment, or for contractual services other than professional, involving an expenditure of more than Twenty Thousand Dollars (\$20,000) shall be subject to competitive bidding. Except State Bid Pricing."

The fiscal court's administrative code states in Section 8.1 Authorization of County Contracts, "[e]very contract, change or amendment thereto, shall be authorized or approved by the Fiscal Court before being executed by the County Judge, except for small purchases."

We recommend the fiscal court follow their own administrative code policy as it relates to bidding for contractual services over \$20,000 and we also recommend the jailer abstain from entering into any contracts unless authorized or approved by the fiscal court.

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

FINANCIAL STATEMENT FINDINGS (Continued):

2017-004 The Fiscal Court And Jailer Did Not Follow Bidding And Contract Procedures Required By The County's Administrative Code (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Referred to Jailer for response

Jailer's Response: Concerning the [Food Service Vendor] Contract:

Under "Term of Agreement," the contract states "By mutual agreement, this Agreement may be renewed on a year by year basis."

[Vendor] has continuously supplied the food services at Taylor County Detention Center and have invoiced as such. The invoices were submitted for payment and have been paid. Thus, the parties have mutually agreed to renew the Agreement.

Additionally, per the Section 8.2 of the administrative code, professional services are not subject to competitive bidding. The jail contracts with [Vendor] for their professional services which include the services of a Registered Dietician.

Concerning the [Medical Service Vendor] Contract:

In a letter dated March 23, 2016, [Vendor] advised that there would be no price increase for the contract period of July 1, 2016 through June 30, 2017.

The document did not provide a place for signatures but instead offered the following language:

"In lieu of a contract amendment, this correspondence serves to confirm the renewal and extension of our Health Services Agreement without an annual fee increase for the twelve-month period effective July 1, 2016 through June 30, 2017. If you have any concerns or wish to discuss renewal terms in further detail, then please contact me to advise. We will otherwise assume you and the County are in agreement, and all provisions of the contract will remain in full force and effect until such time as amended or modified in writing by the parties."

During the process of finalizing the jail's budget for FY 2016-17, it was made known to the Budget Committee, the County Treasurer, and the County Judge/Executive that there would be no annual price increase for medical services. As there were no concerns or desire to discuss the terms with the vendor, approval obviously is present.

The contract with [Vendor] states that the contract "may be extended for additional one-year terms, if mutually agreeable to both parties." Both parties were obviously in agreement as evidenced by the lack of communication back to [Vendor] by any person in authority to do so. It was assumed that no signatures were needed and none were obtained.

Auditor's Reply: All contracts are required to be approved by fiscal court and contracts over \$20,000 are required to go through the bidding process. The food services contract included food preparation which is not a professional service. Mutual agreements do not satisfy this requirement.