

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

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT OF THE
BALLARD COUNTY FISCAL COURT

June 30, 2015

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

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

Financial Condition:

The Ballard County Fiscal Court had total receipts of \$5,500,796 and disbursements of \$5,473,550 in fiscal year 2015. This resulted in a total ending fund balance of \$795,785, which is an increase of \$118,661 from the prior year.

Report Comments:

- 2015-001 The Ballard County Fiscal Court Has Material Weaknesses Over The Health Reimbursement Account Which Resulted In Misuse
- 2015-002 The Ballard County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting
- 2015-003 The Ballard County Fiscal Court Is Not Properly Maintaining The Payroll Revolving Account
- 2015-004 The Ballard County Fiscal Court Expended Funds In Excess Of Revenues Collected Resulting In Fund Deficits
- 2015-005 The Ballard County Fiscal Court Failed To Approve Cash Transfers
- 2015-006 The Ballard County Fiscal Court Has Material Weaknesses And Noncompliances Regarding Payroll And Timekeeping
- 2015-007 The Ballard County Fiscal Court Did Not Distribute Federal Tax Liabilities Properly
- 2015-008 The Ballard County Fiscal Court Did Not Properly Withhold Retirement From Employees' Checks And Did Not Properly Report And Pay Withholdings To CERS
- 2015-009 The Ballard County Fiscal Court Did Not Properly Withhold Health Insurance From Employees' Checks
- 2015-010 The Ballard County Fiscal Court Has Material Weaknesses Over Disbursements
- 2015-011 The Former Ballard County Judge/Executive Charged Personal Items To The County's Charge Account
- 2015-012 The Ballard County Fiscal Court Failed To Advertise For Bids As Required By The Ballard County Administrative Code And KRS 424.260
- 2015-013 The Ballard County Fiscal Court Failed To Pay Invoices Within 30 Working Days
- 2015-014 The Ballard County Fiscal Court Did Not Pay Off Short-term Notes By The End Of The Fiscal Year As Required
- 2015-015 The Ballard County Fiscal Court Has Material Weaknesses Over The Reporting Of Liabilities And Debt
- 2015-016 The Ballard County Fiscal Court Has Weak Internal Controls Over Capital Assets Which Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets
- 2015-017 The Ballard County Detention Center Has Internal Control Weaknesses And Noncompliances Over The Jail Inmate Account
- 2015-018 The Ballard County Detention Center Lacks Segregation Of Duties Over Jail Commissary Operations
- 2015-019 The Ballard County Jailer Failed To Maintain The Minimum Accounting Records For The Jail Commissary

EXECUTIVE SUMMARY
AUDIT OF THE BALLARD COUNTY FISCAL COURT
June 30, 2015
(Continued)

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Todd Cooper, Ballard County Judge/Executive

The Honorable Vicki Viniard, Former Ballard County Judge/Executive

Members of the Ballard 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 Ballard County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Ballard County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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



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Auditor's Responsibility (Continued)

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

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

As described more fully in Note 1 of the financial statement, the financial statement is prepared by the Ballard 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 Ballard County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

Ballard County's Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis, includes the fund balance of the payroll revolving account as part of the general fund. The payroll revolving account did not have adequate supporting accounting records to determine the accurate amount of receivables and liabilities. Since the accounting records for the payroll revolving account were not adequate, the financial information presented for the fund balance of the Ballard County General Fund cannot be determined to be reasonably accurate.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Ballard County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

To the People of Kentucky

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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 Ballard 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 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 August 9, 2017, on our consideration of the Ballard 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 Ballard County Fiscal Court's internal control over financial reporting and compliance.

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

- 2015-001 The Ballard County Fiscal Court Has Material Weaknesses Over The Health Reimbursement Account Which Resulted In Misuse
- 2015-002 The Ballard County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting
- 2015-003 The Ballard County Fiscal Court Is Not Properly Maintaining The Payroll Revolving Account
- 2015-004 The Ballard County Fiscal Court Expended Funds In Excess Of Revenues Collected Resulting In Fund Deficits
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- 2015-009 The Ballard County Fiscal Court Did Not Properly Withhold Health Insurance From Employees' Checks

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Other Reporting Required by *Government Auditing Standards* (Continued)

- 2015-010 The Ballard County Fiscal Court Has Material Weaknesses Over Disbursements
- 2015-011 The Former Ballard County Judge/Executive Charged Personal Items To The County's Charge Account
- 2015-012 The Ballard County Fiscal Court Failed To Advertise For Bids As Required By The Ballard County Administrative Code And KRS 424.260
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- 2015-018 The Ballard County Detention Center Lacks Segregation Of Duties Over Jail Commissary Operations
- 2015-019 The Ballard County Jailer Failed To Maintain The Minimum Accounting Records For The Jail Commissary

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 9, 2017

BALLARD COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Vickie Viniard	County Judge/Executive
Delaine Hazelwood	Magistrate
Steve Cooper	Magistrate
Robert Renfrow	Magistrate
John Summers	Magistrate
Stonnie Dennis	Magistrate

Other Elected Officials:

Vicki Hayden	County Attorney
Mike Horn	Jailer
Lynn Lane	County Clerk
Holly Dunker	Circuit Court Clerk
Carey Batts	Sheriff
Anita Campbell	Property Valuation Administrator
Robert Morrow	Coroner

Appointed Personnel:

Belinda Foster	County Treasurer
Leslie Story	Finance Officer

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 1,136,888	\$	\$
In Lieu Tax Payments	9,502		
Excess Fees	78,277		
Licenses and Permits	750		
Intergovernmental	155,759	1,295,590	652,847
Charges for Services			32,557
Miscellaneous	22,338	130,352	63,622
Interest	358	221	83
Total Receipts	<u>1,403,872</u>	<u>1,426,163</u>	<u>749,109</u>
DISBURSEMENTS			
General Government	979,834		
Protection to Persons and Property	23,727		776,745
General Health and Sanitation	21,181	84,434	
Social Services	1,320		
Recreation and Culture	39,702		
Roads		1,162,574	
Debt Service		74,610	
Capital Projects			
Administration	453,642	231,644	173,312
Total Disbursements	<u>1,519,406</u>	<u>1,553,262</u>	<u>950,057</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(115,534)</u>	<u>(127,099)</u>	<u>(200,948)</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account	91,415		
Transfers From Other Funds	476,000	518,000	207,000
Transfers To Other Funds	(373,125)	(357,052)	
Total Other Adjustments to Cash (Uses)	<u>194,290</u>	<u>160,948</u>	<u>207,000</u>
Net Change in Fund Balances	78,756	33,849	6,052
Fund Balances - Beginning (Restated)	(32,647)	(22,243)	(20,133)
Fund Balances - Ending	<u>\$ 46,109</u>	<u>\$ 11,606</u>	<u>\$ (14,081)</u>
Composition of Fund Balance			
Bank Balance	\$ 14,380	\$ 12,194	\$ 27,139
Payroll Revolving Account Balance (See Note 11)	91,415		
Less: Outstanding Checks	(757)	(588)	(53)
Less: Liabilities	(58,929)		(41,167)
Fund Balances - Ending	<u>\$ 46,109</u>	<u>\$ 11,606</u>	<u>\$ (14,081)</u>

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

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

Budgeted Funds			Unbudgeted Funds			Internal Service Fund
Disaster Emergency Services Fund	Ambulance Fund	Occupational Tax Fund	Public Properties Corporation Fund	Jail Commissary Fund	Total Funds	Medical Reimbursements Fund
\$	\$	\$ 1,268,371	\$	\$	\$ 2,405,259	\$
					9,502	
					78,277	
					750	
35,427	10,303	17,810	128,922		2,296,658	
	432,343				464,900	
	6,402			11,391	234,105	82,000
9	68	1,385	9,212	9	11,345	37
<u>35,436</u>	<u>449,116</u>	<u>1,287,566</u>	<u>138,134</u>	<u>11,400</u>	<u>5,500,796</u>	<u>82,037</u>
		114,750			1,094,584	
33,342	633,819				1,467,633	
30,588					136,203	
					1,320	
				12,918	52,620	
					1,162,574	
	17,332	7,280	406,018		505,240	
		34,937			34,937	
8,171	148,573	1	3,096		1,018,439	81,214
<u>72,101</u>	<u>799,724</u>	<u>156,968</u>	<u>409,114</u>	<u>12,918</u>	<u>5,473,550</u>	<u>81,214</u>
(36,665)	(350,608)	1,130,598	(270,980)	(1,518)	27,246	823
					91,415	
50,000	343,000	61,552	272,165		1,927,717	
(3,000)		(1,194,540)			(1,927,717)	
<u>47,000</u>	<u>343,000</u>	<u>(1,132,988)</u>	<u>272,165</u>		<u>91,415</u>	
10,335	(7,608)	(2,390)	1,185	(1,518)	118,661	823
(27)	(6,599)	532,009	215,311	11,453	677,124	13,616
<u>\$ 10,308</u>	<u>\$ (14,207)</u>	<u>\$ 529,619</u>	<u>\$ 216,496</u>	<u>\$ 9,935</u>	<u>\$ 795,785</u>	<u>\$ 14,439</u>
\$ 11,162	\$ 53,262	\$ 529,770	\$ 216,496	\$ 9,995	\$ 874,398	\$ 15,294
					91,415	
(854)	(1,160)	(151)		(60)	(3,623)	(855)
	(66,309)				(166,405)	
<u>\$ 10,308</u>	<u>\$ (14,207)</u>	<u>\$ 529,619</u>	<u>\$ 216,496</u>	<u>\$ 9,935</u>	<u>\$ 795,785</u>	<u>\$ 14,439</u>

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

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TO THE FINANCIAL STATEMENT**

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BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal 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.

Disaster Emergency Services Fund - The primary purpose of this fund is to account for the grants and related disbursements when disaster and emergency events occur. The primary sources of receipts for this fund are grants from the state and federal governments.

Ambulance Fund - The primary purpose of this fund is to account for funds received and disbursed in the operation of the ambulance services provided by the county.

Occupational Tax Fund - The primary purpose of this fund is to account for payroll tax receipts and expenses. The occupational tax fund may be used for general purpose expenses which the county budgeted for general government, debt service, capital projects, and administration for the fiscal year or transferred to other operating funds.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation - The purpose of this fund is to account for debt service requirements of the general obligation bonds of the fiscal court. The State Local Finance Officer does not require the fiscal court to report or budget these funds.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund. The State Local Finance Officer does not require this fund to be budgeted.

Internal Service Fund

Medical Reimbursements Fund - This fund was established to account for Health Reimbursement Accounts (HRA) offered to the Ballard County employees who waive the county's health insurance. If an employee elects not to participate in the county's health insurance program, their employer's monthly health premium contribution is deposited and held in their name to be used by the employee for qualifying medical expenses.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

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

The State Local Finance Officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of these funds.

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. Ballard County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Ballard 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 Ballard 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).

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

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	DES Fund	Occupational Tax Fund	Total Transfers In
General Fund	\$	\$ 183,000	\$	\$ 293,000	\$ 476,000
Road Fund	228,000			290,000	518,000
Jail Fund	36,000	27,000		144,000	207,000
DES Fund	12,000	6,500		31,500	50,000
Ambulance Fund	93,000	79,000	3,000	168,000	343,000
Occupational Tax Fund		61,552			61,552
Public Properties Corporation	4,125			268,040	272,165
Total Transfers Out	<u>\$ 373,125</u>	<u>\$ 357,052</u>	<u>\$ 3,000</u>	<u>\$ 1,194,540</u>	<u>\$ 1,927,717</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.

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

Note 4. Agency Trust Funds

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, 2015 was \$13,895.

Note 5. Long-term Debt

A. General Obligation Detention Facility Refinancing Bonds, Series 2002

Ballard County issued General Obligation Detention Facility Refinancing Bonds, Series 2002, dated October 1, 2002, for the purpose of 1) advance refunding all of the outstanding Series 1995A bonds issued by the Ballard County Public Properties Corporation; and 2) paying the cost of issuance on the bonds. As of June 30, 2005, the Series 1995A bonds had been called. Ballard County issued \$2,070,000 of refinancing bonds, the proceeds of which were used to discharge all prior bonds. As of June 30, 2015, these bonds had been called.

B. Courthouse Facility First Mortgage Refunding Revenue Bonds, Series 2007

The Ballard County Public Properties Corporation issued First Mortgage Refunding Revenue Bonds, Series 2007, dated February 8, 2007, for the purpose of 1) advance refunding all of the outstanding Series 1995B bonds issued by the Ballard County Public Properties Corporation; and 2) paying the cost of issuance on the bonds. As of June 30, 2007, the Series 1995B bonds had been called. Ballard County issued \$1,675,000 of refinancing bonds, the proceeds of which were used to discharge all prior bonds. As of June 30, 2015, outstanding bond principal was \$385,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 190,000	\$ 10,875
2017	195,000	3,656
Totals	<u>\$ 385,000</u>	<u>\$ 14,531</u>

C. Financing Agreement - Road Project #2

On October 1, 2007, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program for the financing of a road paving project to be located and used in Ballard County, Kentucky. The principal of the lease is \$650,000 with repayment to be made over a seven year period. Principal payments are due monthly on the twentieth of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2015, this agreement was paid in full.

D. Financing Agreement - Ambulance

On January 19, 2012, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of an ambulance to be used in Ballard County. The principal of the lease is \$79,999 with repayment to be made over a six year period. Principal payments are due monthly on the twentieth of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2015, outstanding lease principal was \$43,291. Future principal and interest requirements are as follows:

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

Note 5. Long-term Debt (Continued)

D. Financing Agreement - Ambulance (Continued)

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 11,574	\$ 1,730
2017	11,960	1,195
2018	12,359	643
2019	7,398	112
Totals	<u>\$ 43,291</u>	<u>\$ 3,680</u>

E. Financing Agreement - Ambulance Equipment

On October 3, 2012, Ballard County entered into a financing agreement with U.S. Bank Equipment Finance for the purchase of ambulance equipment. The principal of the lease is \$14,079 with repayment to be made over a four year period. Principal payments are due monthly on the thirtieth of each month. As of June 30, 2015, outstanding lease principal was \$5,003. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 3,721	\$ 163
2017	1,282	13
Totals	<u>\$ 5,003</u>	<u>\$ 176</u>

F. Financing Agreement - Tractor Mower

On August 11, 2010, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of a tractor mower to be used in Ballard County. The principal of the lease is \$97,436 with repayment to be made over a five year period. Principal payments are due monthly on the twentieth of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2015, outstanding lease principal was \$3,587. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 3,587	\$ 21
Totals	<u>\$ 3,587</u>	<u>\$ 21</u>

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

Note 5. Long-term Debt (Continued)

G. Financing Agreement - Trucks/Bush Hog/Salt Spreader

On April 25, 2014, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of two trucks, a bush hog, and a salt spreader to be used in Ballard County. The principal of the lease is \$67,685 with repayment to be made over a five year period. Principal payments are due monthly on the twentieth of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2015, outstanding lease principal was \$52,859. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 13,181	\$ 1,851
2017	13,602	1,322
2018	14,037	777
2019	12,039	219
Totals	<u>\$ 52,859</u>	<u>\$ 4,169</u>

H. Changes in Long-Term Debt

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

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 200,000	\$	\$ 200,000	\$	\$
Revenue Bonds	565,000		180,000	385,000	190,000
Financing Obligations	190,586		85,846	104,740	32,063
Total Long-term Debt	<u>\$ 955,586</u>	<u>\$</u>	<u>\$ 465,846</u>	<u>\$ 489,740</u>	<u>\$ 222,063</u>

Note 6. Short-term Debt

A. Financial Agreement - Operating Loan

On April 17, 2014, Ballard County entered into a financing agreement with First Community Bank for the purpose of operating funds in Ballard County. The principal of the lease is \$300,000 with a maturity date of December 31, 2014. On January 12, 2015, the maturity date was extended to March 30, 2015. As of June 30, 2015, the note was outstanding.

B. Financial Agreement - Operating Loan

On June 12, 2014, Ballard County entered into a financing agreement with First Community Bank for the purpose of operating funds in Ballard County. The principal of the lease is \$150,000 with a maturity date of December 31, 2014. On January 12, 2015, the maturity date was extended to March 30, 2015. As of June 30, 2015, the note was outstanding.

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

Note 6. Short-term Debt (Continued)

C. Changes in Short-Term Debt

Short-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Promissory Notes	\$ 450,000	\$	\$	\$ 450,000	\$ 450,000
Total Short-term Debt	\$ 450,000	\$	\$	\$ 450,000	\$ 450,000

Note 7. Employee Retirement System

A. Plan Description

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

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

The county's contribution for FY 2013 was \$458,201, FY 2014 was \$451,915, and FY 2015 was \$386,952.

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 (members 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.

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

Note 7. Employee Retirement System (Continued)

A. Plan Description (Continued)

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

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

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

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

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

B. Net Pension Liability

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

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	\$ 3,581,000	\$ 3,165,000
Totals	<u>\$ 3,581,000</u>	<u>\$ 3,165,000</u>

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

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

Note 8. Deferred Compensation

For the year ended June 30, 2015, the Ballard 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 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 9. Insurance

For the fiscal year ended June 30, 2015, Ballard County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of 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. Health Reimbursement Account/Flexible Spending Account

The Ballard County Fiscal Court established a flexible spending account to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$2,700 each year to pay for qualified medical expenses. The balance as of June 30, 2015, is \$69,811.

Note 11. Payroll Revolving Account

The balance of the payroll revolving account as of June 30, 2015, \$91,415, was added to the general fund cash balance for financial reporting purposes. The balance consists of the June 30, 2015 payroll bank account balance of \$20,769 plus known receivables of \$166,405, less outstanding checks of \$5,149, and known liabilities of \$90,610.

Note 12. Fund Balance - Deficits

As of June 30, 2015, the jail fund and the ambulance fund had deficit balances in the amounts of \$14,081 and \$14,207, respectively. These deficits were due to expending funds in excess of revenues.

Note 13. Related Party Transactions

The Ballard County Fiscal Court conducted business with a mowing service that was owned and operated by the son and nephew of two of the county magistrates. During the fiscal year, the county paid \$12,870 to this mowing service.

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

Note 14. Prior Period Adjustments

A. Fund Balances

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>	<u>Jail Commissary</u>
Ending Cash Balance Prior Year	\$ 1,453	\$ (3,258)	\$ 24,984	\$ 42,327	\$ 10,934
Adjustments:					
Prior Year Voided Checks		46		40	
Commissary Profits due from Inmate Acct					519
PY Payroll Liabilities	(34,100)			(48,966)	
PY Payroll		(19,031)	(45,118)		
Rounding			1		
Beginning Fund Balance - Restated	<u>\$ (32,647)</u>	<u>\$ (22,243)</u>	<u>\$ (20,133)</u>	<u>\$ (6,599)</u>	<u>\$ 11,453</u>

B. Long-term Debt

The beginning balance of long-term debt financing obligations (see Note 5) decreased by \$288 from the prior year due to a prior year error.

Note 15. Subsequent Events

A. Road Equipment Lease

On July 8, 2015, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of a John Deere grader, a Kubota tractor, and a 2015 Freightliner truck to be used in Ballard County. The principal of the lease is \$400,000 with repayment to be made over a seven year period.

B. Promissory Note

On January 27, 2016, Ballard County entered into a financing agreement with First Community Bank for the purpose of opening an all funds account. The principal amount of the note is \$210,000, with a maturity date of January 26, 2017.

C. Promissory Note

On April 18, 2016, Ballard County entered into a financing agreement with First Community Bank for the purpose of paying off the short-term promissory note dated October 14, 2015. The principal amount of the note is \$300,000, with a maturity date of January 6, 2017.

D. Senior Citizens Center

On October 3, 2016, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program to finance part of the construction of the Ballard County Senior Citizens Center. The principal of the lease is \$500,000, and requires monthly interest payments for a period of five years. The total principal amount is due with the final interest payment.

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BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

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BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,021,977	\$ 1,021,977	\$ 1,136,888	\$ 114,911
In Lieu Tax Payments	15,056	15,056	9,502	(5,554)
Excess Fees	49,000	49,000	78,277	29,277
Licenses and Permits	1,300	1,300	750	(550)
Intergovernmental	615,964	615,964	155,759	(460,205)
Charges for Services	40,000	40,000		(40,000)
Miscellaneous	175,878	175,878	22,338	(153,540)
Interest	2,400	2,400	358	(2,042)
Total Receipts	<u>1,921,575</u>	<u>1,921,575</u>	<u>1,403,872</u>	<u>(517,703)</u>
DISBURSEMENTS				
General Government	928,595	1,042,955	979,834	63,121
Protection to Persons and Property	28,828	29,036	23,727	5,309
General Health and Sanitation	23,873	23,873	21,181	2,692
Social Services	7,500	7,500	1,320	6,180
Recreation and Culture	90,000	83,402	39,702	43,700
Debt Service	365,500	298,766		298,766
Capital Projects	500,000	500,000		500,000
Administration	753,484	708,123	453,642	254,481
Total Disbursements	<u>2,697,780</u>	<u>2,693,655</u>	<u>1,519,406</u>	<u>1,174,249</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(776,205)</u>	<u>(772,080)</u>	<u>(115,534)</u>	<u>656,546</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	490,430	490,430	476,000	(14,430)
Transfers To Other Funds	(114,225)	(118,350)	(373,125)	(254,775)
Borrowed Money	350,000	350,000		(350,000)
Total Other Adjustments to Cash (Uses)	<u>726,205</u>	<u>722,080</u>	<u>102,875</u>	<u>(619,205)</u>
Net Change in Fund Balance	(50,000)	(50,000)	(12,659)	37,341
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>(32,647)</u>	<u>(82,647)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (45,306)</u>	<u>\$ (45,306)</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,142,417	\$ 1,142,417	\$ 1,295,590	\$ 153,173
Miscellaneous	144,224	144,224	130,352	(13,872)
Interest	200	200	221	21
Total Receipts	<u>1,286,841</u>	<u>1,286,841</u>	<u>1,426,163</u>	<u>139,322</u>
DISBURSEMENTS				
General Health and Sanitation	103,860	103,860	84,434	19,426
Roads	1,176,168	1,244,102	1,162,574	81,528
Debt Service	168,374	129,238	74,610	54,628
Administration	311,500	282,702	231,644	51,058
Total Disbursements	<u>1,759,902</u>	<u>1,759,902</u>	<u>1,553,262</u>	<u>206,640</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(473,061)</u>	<u>(473,061)</u>	<u>(127,099)</u>	<u>345,962</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	278,061	278,061	518,000	239,939
Transfers To Other Funds			(357,052)	(357,052)
Borrowed Money	<u>185,000</u>	<u>185,000</u>		<u>(185,000)</u>
Total Other Adjustments to Cash (Uses)	<u>463,061</u>	<u>463,061</u>	<u>160,948</u>	<u>(302,113)</u>
Net Change in Fund Balance	(10,000)	(10,000)	33,849	43,849
Fund Balance - Beginning	<u>10,000</u>	<u>10,000</u>	<u>(22,243)</u>	<u>(32,243)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,606</u>	<u>\$ 11,606</u>

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

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 483,000	\$ 483,000	\$ 652,847	\$ 169,847
Charges for Services	31,250	31,250	32,557	1,307
Miscellaneous	18,000	18,000	63,622	45,622
Interest	100	100	83	(17)
Total Receipts	<u>532,350</u>	<u>532,350</u>	<u>749,109</u>	<u>216,759</u>
DISBURSEMENTS				
Protection to Persons and Property	800,890	813,963	776,745	37,218
Administration	261,985	248,912	173,312	75,600
Total Disbursements	<u>1,062,875</u>	<u>1,062,875</u>	<u>950,057</u>	<u>112,818</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(530,525)</u>	<u>(530,525)</u>	<u>(200,948)</u>	<u>329,577</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	530,525	530,525	207,000	(323,525)
Total Other Adjustments to Cash (Uses)	<u>530,525</u>	<u>530,525</u>	<u>207,000</u>	<u>(323,525)</u>
Net Change in Fund Balance			6,052	6,052
Fund Balance - Beginning			<u>(20,133)</u>	<u>(20,133)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (14,081)</u>	<u>\$ (14,081)</u>

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

DISASTER EMERGENCY SERVICES FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 82,963	\$ 82,963	\$ 35,427	\$ (47,536)
Miscellaneous	17,696	17,696		(17,696)
Interest			9	9
Total Receipts	<u>100,659</u>	<u>100,659</u>	<u>35,436</u>	<u>(65,223)</u>
DISBURSEMENTS				
Protection to Persons and Property	88,415	66,415	33,342	33,073
General Health and Sanitation	13,200	35,200	30,588	4,612
Administration	12,043	12,043	8,171	3,872
Total Disbursements	<u>113,658</u>	<u>113,658</u>	<u>72,101</u>	<u>41,557</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(12,999)</u>	<u>(12,999)</u>	<u>(36,665)</u>	<u>(23,666)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	12,999	12,999	50,000	37,001
Transfers To Other Funds			(3,000)	(3,000)
Total Other Adjustments to Cash (Uses)	<u>12,999</u>	<u>12,999</u>	<u>47,000</u>	<u>34,001</u>
Net Change in Fund Balance			10,335	10,335
Fund Balance - Beginning			(27)	(27)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,308</u>	<u>\$ 10,308</u>

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

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 20,838	\$ 20,838	\$ 10,303	\$ (10,535)
Charge For Services	564,922	564,922	432,343	(132,579)
Miscellaneous	11,000	11,000	6,402	(4,598)
Interest			68	68
Total Receipts	<u>596,760</u>	<u>596,760</u>	<u>449,116</u>	<u>(147,644)</u>
DISBURSEMENTS				
Protection to Persons and Property	654,604	650,075	633,819	16,256
Debt Service		17,333	17,332	1
Administration	137,000	145,196	148,573	(3,377)
Total Disbursements	<u>791,604</u>	<u>812,604</u>	<u>799,724</u>	<u>12,880</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(194,844)</u>	<u>(215,844)</u>	<u>(350,608)</u>	<u>(134,764)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	194,844	194,844	343,000	148,156
Total Other Adjustments to Cash (Uses)	<u>194,844</u>	<u>194,844</u>	<u>343,000</u>	<u>148,156</u>
Net Change in Fund Balance		(21,000)	(7,608)	13,392
Fund Balance - Beginning			<u>(6,599)</u>	<u>(6,599)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (21,000)</u>	<u>\$ (14,207)</u>	<u>\$ 6,793</u>

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

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,181,265	\$ 1,181,265	\$ 1,268,371	\$ 87,106
Intergovernmental Revenue			17,810	17,810
Interest	17,000	17,000	1,385	(15,615)
Total Receipts	<u>1,198,265</u>	<u>1,198,265</u>	<u>1,287,566</u>	<u>89,301</u>
DISBURSEMENTS				
General Government	393,430	384,211	114,750	269,461
Debt Service	951,007	692,185	7,280	684,905
Capital Projects	521,333	500,333	34,937	465,396
Administration	316,320	316,320	1	316,319
Total Disbursements	<u>2,182,090</u>	<u>1,893,049</u>	<u>156,968</u>	<u>1,736,081</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(983,825)</u>	<u>(694,784)</u>	<u>1,130,598</u>	<u>1,825,382</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	228,450	228,450	61,552	(166,898)
Transfers To Other Funds	(1,621,084)	(1,889,125)	(1,194,540)	694,585
Borrowed Money	350,000	350,000		(350,000)
Total Other Adjustments to Cash (Uses)	<u>(1,042,634)</u>	<u>(1,310,675)</u>	<u>(1,132,988)</u>	<u>177,687</u>
Net Change in Fund Balance	(2,026,459)	(2,005,459)	(2,390)	2,003,069
Fund Balance - Beginning	<u>2,026,459</u>	<u>2,026,459</u>	<u>532,009</u>	<u>(1,494,450)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 21,000</u>	<u>\$ 529,619</u>	<u>\$ 508,619</u>

BALLARD COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to laws of Kentucky as required by the State Local Finance Officer.

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

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

Note 2. Reconciliation of the General Fund

The Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis differs from the Budgetary Comparison Schedule for the General Fund in Other Adjustments to Cash (Uses) due to the revolving payroll account balance, as noted below.

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ 102,875
Payroll Revolving Account	<u>91,415</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ 194,290</u>
Fund Balance Ending - Budgetary Basis	\$ (45,306)
Payroll Revolving Account	<u>91,415</u>
Total Fund Balance Ending - Regulatory Basis	<u>\$ 46,109</u>

Note 3. Excess of Disbursements Over Appropriations

Ambulance Fund General Government Administration exceeded budgeted appropriations by \$3,377.

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BALLARD COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

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BALLARD COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 221,845	\$	\$	\$ 221,845
Buildings	5,954,728			5,954,728
Vehicles and Equipment	1,923,402	27,000		1,950,402
Infrastructure	2,614,875	91,146		2,706,021
Total Capital Assets	<u>\$ 10,714,850</u>	<u>\$ 118,146</u>	<u>\$ 0</u>	<u>\$ 10,832,996</u>

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

June 30, 2015

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land	\$ 25,000	10-60
Buildings	\$ 25,000	10-75
Building Improvements	\$ 25,000	10-20
Machinery and Equipment	\$ 25,000	3-10
Vehicles	\$ 25,000	1-10
Infrastructure	\$ 25,000	10-30

**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 Todd Cooper, Ballard County Judge/Executive
The Honorable Vicki Viniard, Former Ballard County Judge/Executive
Members of the Ballard 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 Ballard County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Ballard County Fiscal Court's financial statement and have issued our report thereon dated August 9, 2017, wherein we issued a qualified opinion. Since the accounting records for the payroll revolving account were not adequate, the financial information presented for the fund balance of the Ballard County General Fund cannot be determined to be reasonably accurate.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Ballard 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 Ballard County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ballard County Fiscal Court's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-003, 2015-005, 2015-006, 2015-007, 2015-008, 2015-009, 2010-010, 2015-015, 2015-016, and 2015-017 to be material weaknesses.



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

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2015-018 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ballard County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-004, 2015-006, 2015-007, 2015-008, 2015-011, 2015-012, 2015-013, 2015-014, 2015-017, and 2015-019.

County Judge/Executive and County Jailer's Responses to Findings

The Ballard County Judge/Executive and the Ballard County Jailer's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 9, 2017

**BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

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BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Ballard County Fiscal Court Has Material Weaknesses Over The Health Reimbursement Account Which Resulted In Misuse

The following findings were noted with Ballard County's health reimbursement account (HRA):

- Prescriptions were reimbursed more than once, and in some cases up to four times, including reimbursements for the former county treasurer who received duplicate payments totaling \$2,136.
- The county made reimbursements that do not qualify under IRS guidelines to employees, including finance charges, over-the-counter medication, and items for a non-dependent child.
- Lack of proper supporting documentation for reimbursement amounts.
- Lack of fiscal court approval for reimbursements.
- Employees were not required to submit reimbursement forms prior to being reimbursed for medical expenses.
- No formal policy for health reimbursements.
- A lack of segregation of duties over the health reimbursement account.

The health reimbursement account was maintained by the former county treasurer for those employees who waived the county's health insurance coverage. Each month, the county contributes \$500 for each employee who participates. These funds are then used to reimburse participating employees for medical expenses.

Strong internal controls and a written policy governing the health reimbursement account are vital in ensuring that it is accounted for properly and that all reimbursement amounts are appropriate and qualify under federal guidelines. They are also important in protecting the county's assets and those given the responsibility of accounting for them. Lack of strong internal controls and written policies resulted in the weaknesses identified above.

In response to these findings, we make the following recommendations:

- Ballard County should adopt a formal policy in compliance with federal guidelines that governs health reimbursement accounts offered to employees who waive the county's health insurance.
- The county should implement strong fiscal court oversight and monitoring of the account and ledgers, ensuring all disbursements are properly supported, properly approved, properly recorded, and valid according to the county's HRA policy.
- All claims submitted by employees for reimbursement should be subject to review and approval in order to ensure employees are only reimbursed once for any medical expenses.
- The county should maintain accurate ledgers, detailing reimbursement amounts issued to employees who waive the county's insurance coverage.
- The county should eliminate all reimbursements for non-qualifying expenses according to IRS guidelines.
- Employees should be required to submit reimbursement forms, accompanied by proper supporting documentation, prior to any reimbursement check being issued.

County Judge/Executive's Response: The Medical Reimbursement Account has been closed. We are using an outside contractor [name redacted].

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-002 The Ballard County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting

The Ballard County's Fourth Quarter Financial Report and the County Treasurer's Settlement were both materially misstated. According to the county's Fourth Quarter Financial Report, the total fund balance of all budgeted operating funds was \$576,473 as of June 30, 2015. The former county treasurer's annual settlement for fiscal year 2015 reported a total fund balance of \$139,941 for budgeted funds, a variance of \$436,532 between the two reports. The audited financial statement reports an ending fund balance of \$569,354 for budgeted funds, a variance of \$7,119 with the Fourth Quarter Financial Report and \$429,413 with the former treasurer's settlement.

The variances and misstatements noted are the result of a weak internal control system over the cash and financial reporting system. Because of this weak internal control system, the transactions posted to the receipts and disbursements ledgers are not always in agreement with the actual transaction amounts, especially with payroll transactions and transfers. When the amounts posted to the receipts and disbursements ledgers do not agree with actual transactions, these misstatements occur.

Strong internal controls over cash and financial reporting are vital in ensuring the county's annual financial reports accurately reflect the financial activity of the county. To remedy the misstatements associated with cash and financial reporting, we recommend the county implement stronger internal controls. Controls such as a thorough review of the receipts and disbursements ledgers and bank reconciliations by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing fund balances between the quarterly report and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Once the ledgers and reconciliations are deemed accurate, the reviewer should document that fact, and submit the review to the fiscal court for approval. By implementing these procedures, the fiscal court can strengthen its internal control system, and help ensure accurate financial reporting.

County Judge/Executive's Response: The Finance Officer OR Judge Executive will also check monthly statements.

2015-003 The Ballard County Fiscal Court Is Not Properly Maintaining The Payroll Revolving Account

Ballard County's payroll revolving account had a June 30, 2015 known reconciled balance of \$91,415, consisting of the following:

Bank Balance	\$ 20,769
Plus:	
Receivables	166,405
Less:	
Outstanding Checks	(5,149)
Liabilities	(90,610)
Reconciled Balance	<u>\$ 91,415</u>

The noted known receivables consist of payroll obligations of the general fund, jail fund, and ambulance fund that were not transferred to the payroll revolving account in a timely manner. The noted known liabilities consist of payroll withholdings and county contributions, including federal and state income taxes, Social Security, Medicare, and retirement. The county was unable to make these payments in a timely manner

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 Ballard County Is Not Properly Maintaining The Payroll Revolving Account (Continued)

because the former treasurer failed to make timely transfers from the operating funds to the payroll revolving account.

Due to the nature of revolving accounts, the reconciled balance of the payroll fund should be \$0, or possibly a small reserve if the county so chooses. Strong internal controls over the account should be implemented to ensure that proper amounts are transferred timely. Strong internal controls should also be implemented to ensure that withholdings and county contributions are paid over to the proper authorities timely. Because the county failed to realize the importance of such controls, and instead, relied on a single employee without sufficient oversight, the payroll revolving account and records had not been properly maintained, resulting in the above balance. Because the county has failed properly maintain the payroll revolving account, the county's financial statement may be misstated.

We recommend the fiscal court implement strong internal controls over the payroll revolving account. These controls should include somebody independent of the payroll function verifying proper payroll amounts are transferred to the payroll revolving account from the corresponding operating funds prior to each pay period. These controls should also include verifying that withholding amounts and county contributions are handled properly, and paid over to the proper authorities timely.

County Judge/Executive's Response: Transfer checks are cut the same day as payroll. We have resolved the issue.

2015-004 The Ballard County Fiscal Court Expended Funds In Excess Of Revenues Collected Resulting In Fund Deficits

As of June 30, 2015, Ballard County had fund deficits in both the jail fund and ambulance fund. These deficits were caused by disbursements in excess of revenues as a result of inaccurate financial reporting. In the jail fund, disbursements totaling \$950,057 were offset by revenues and financing sources totaling \$935,976, resulting in an ending fund deficit of \$14,081. In the ambulance fund, disbursements totaling \$799,724 were offset by revenues and financing sources totaling \$785,517, resulting in an ending fund deficit of \$14,207.

KRS 68.110(1) states "[t]he fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year or levied, collected or appropriated for any special purpose." Because the county disbursed funds in excess of the revenues collected, the county was not in compliance with KRS 68.110. We recommend the county comply with KRS 68.110 by monitoring fund balances closely and not appropriating funds which are not available.

County Judge/Executive's Response: We will keep accurate receipts and disbursement ledgers.

2015-005 The Ballard County Fiscal Court Failed To Approve Cash Transfers

Ballard County has deficiencies in internal controls over cash that resulted in unauthorized cash transfers. Due to a lack of proper oversight and emphasis placed on proper accounting procedures, inter-fund transfers occurred that were not approved by the fiscal court or reported in the fiscal court minutes. Of the 28 cash transfers that were tested, auditors were unable to find fiscal court approval of five transfers totaling \$269,552. Without proper approval, county funds could be misappropriated and restricted funds could be misused.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-005 The Ballard County Fiscal Court Failed To Approve Cash Transfers (Continued)

Good internal controls over cash should include documented approval of inter-fund transfers by the fiscal court prior to transferring any county funds. Therefore, we recommend the fiscal court require all cash transfers be approved by the fiscal court prior to the transfer being made. We also recommend such approvals be adequately documented in the fiscal court minutes.

County Judge/Executive's Response: We will and have been getting Fiscal Court approval of all fund transfers and including F/C minutes.

2015-006 The Ballard County Fiscal Court Has Material Weaknesses And Noncompliances Regarding Payroll And Timekeeping

The following findings were noted with Ballard County's payroll:

- The fiscal court did not approve an annual salary order. Instead, they approved a one percent pay raise for each employee. The lack of an annual salary order appears to have resulted in employees being compensated at the wrong pay rate.
- Timesheets were not maintained for the former county treasurer or former finance officer as required by KRS 337.320(1)(b); however, overtime was paid to them despite the fact that there were no timesheets to document the additional hours worked.
- Of the individuals selected for testing, five employees did not have timesheets as required by KRS 337.320(1)(b), two employees' timesheets were not signed by the employee or the supervisor, and three employees' timesheets were not signed by the supervisor signifying approval.
- Three additional hours of overtime were given to the road supervisor each week regardless of the amount of hours actually worked.
- Overtime hours were not properly attributed to ambulance service employees as required by KRS 337.285(1).
- Personnel files were incomplete as to withholdings authorizations.
- FICA wages did not agree with the amounts reported on the 2014 W-2's for nine employees that were tested.
- The backs of cancelled checks, to verify proper endorsements, were not provided with the payroll fund bank statements.
- The former county treasurer was compensated twice for the same training incentive.

Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. KRS 337.320(1) requires that "[e]very employer shall keep a record of: (a) The amount paid each pay period of each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information the commissioner requires." Also, KRS 337.285(1) states "[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed." Rather than implement a strong internal control system, the Ballard County Fiscal Court relied on a single employee without sufficient oversight. As a result, the aforementioned findings occurred.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-006 The Ballard County Fiscal Court Has Material Weaknesses And Noncompliances Regarding Payroll And Timekeeping (Continued)

We make the following recommendations to address these findings:

- The fiscal court should approve a salary schedule, fixing the compensation of county employees consistent with KRS 64.530. Any adjustments to this schedule should be properly reflected in the fiscal court minutes and included in employees' personnel files.
- Timesheets should be maintained by all non-exempt employees as required by KRS 337.320(1)(b). Timesheets should document the hours worked each day and each week by each employee.
- All timesheets should be signed by the corresponding employee and his or her supervisor.
- Overtime should be awarded to all employees based on hours actually worked, including any applicable overtime in accordance with KRS 337.285.
- Personnel files should be complete as to all withholdings authorizations and updated when any changes occur.
- Year-end W-2 reports should agree with annual earnings records.
- The fiscal court should require the bank to provide the backs of cancelled checks with the bank statements.
- An individual independent of the payroll process should review payroll transactions, including payroll checks, to verify that amounts have been calculated properly and that they are properly supported.
- The fiscal court should consult with the county attorney about seeking reimbursement from the former county treasurer for being compensated twice for the same training incentive, and regarding the payroll discrepancies.

By implementing the above recommendations, the county can strengthen its internal control system over payroll and timekeeping and reduce the risks of non-compliance and payroll errors. Such procedures will also protect the county against potential payroll disputes.

County Judge/Executive's Response: We are continuing to work on these issues and have resolved most of these weaknesses and non-compliances. As of July 18th we have update our Administrative Codes.

2015-007 The Ballard County Fiscal Court Did Not Distribute Federal Tax Liabilities Properly

During fiscal year 2015, \$69,577 of federal tax withholdings and employer contributions were not properly turned over to the Internal Revenue Service (IRS). Additionally, \$34,823 of federal tax withholdings and employer contributions were turned over twice.

Strong internal controls over the payroll process are essential in ensuring that employee withholdings and employer contributions are turned over to the appropriate taxing authorities. Because the Ballard County Fiscal Court failed to implement internal controls and instead relied on a single employee without sufficient oversight, federal taxes, including Social Security and Medicare, were not distributed in accordance with the federal deposit withholdings deposit schedule as determine by *Employers Tax Guide* published by the IRS. As a result, the fiscal court incurred \$30,286 in penalties for the fiscal year.

We recommend the fiscal court implement internal controls over federal tax liabilities. Internal controls such as a thorough review of payroll earnings records should be performed by an individual independent of the payroll process. This review should include a comparison of the federal tax payment report worksheets to payroll summaries of each pay period to verify that federal taxes are properly submitted to the IRS. Once

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-007 The Ballard County Fiscal Court Did Not Distribute Federal Tax Liabilities Properly (Continued)

completed, the review should be signed by the individual performing the review, and submitted to the county judge/executive and fiscal court.

County Judge/Executive's Response: The Federal Tax Liabilities will be reviewed at the time.

2015-008 The Ballard County Fiscal Court Did Not Properly Withhold Retirement From Employees' Checks And Did Not Properly Report And Pay Withholdings To CERS

The following errors or problems were noted with the county's retirement (CERS) benefits:

- One employee was excluded from the retirement report.
- One employee had withholdings reported on the monthly CERS report, but amounts were not withheld from the employee's wages.
- Gross wages reported on the CERS report differed from the earnings records for two employees.
- The county's retirement contribution for three retired employees was not calculated on the payroll earnings records.
- The county's retirement contribution rate in the payroll software did not agree with the actual contribution rate for CERS.
- One employee's withholdings did not agree with the monthly CERS report.
- The additional one percent employee contribution for employees hired on or after September 1, 2008, was properly withheld from three employees' wages, but was not properly reported or turned over to CERS.
- The additional one percent employee contribution for employees hired on or after September 1, 2008, was not withheld from one employee's wages, but was reported on the monthly retirement report.
- Retirement withholdings and contributions for at least one month were not turned over to CERS timely, resulting in a \$1,000 penalty.
- Total retirement paid per the Fourth Quarter Financial Report does not agree with the retirement reports.

A strong internal control system over retirement is essential in ensuring that retirement benefits are calculated, reported, and paid over to CERS properly. Because the county did not devote sufficient resources to such controls, the aforementioned errors occurred. In order to strengthen internal controls over retirement, we recommend an individual independent of the payroll process reconcile the monthly retirement reports to monthly payroll summaries. This reconciliation should include tying all wage and retirement amounts on the retirement report to the payroll summary. This reconciliation should then be reviewed by the County Judge/Executive and/or the fiscal court. Once the retirement report and payroll summary are deemed accurate, retirement benefits should be submitted to CERS on a timely basis.

Because of their nature and severity, the findings associated with retirement will be referred to CERS.

County Judge/Executive's Response: We will have personnel reconcile on monthly basis and produce copy to magistrates. Retirement has been very good to work with on resolving this issue.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-009 The Ballard County Fiscal Court Did Not Properly Withhold Health Insurance From Employees' Checks

The Ballard County Fiscal Court was not withholding enough from employees' wages to cover the cost of health insurance; therefore, the county was incurring more of the cost of employees' insurance than was approved by the fiscal court. According to the former county treasurer, the county was to contribute \$325 per month for those employees that enrolled in the county's health insurance coverage. In addition to that, the county contributed \$225 per month towards a health reimbursement account (HRA) for those employees, plus the \$6 HRA administrator's fee, for a total monthly contribution of \$556. Employees were responsible for any amount in excess of the county's contribution. Our examination of health insurance premiums and payroll records revealed the proper amount of funds was not being withheld from employees' wages, resulting in the county overpaying for employees' health insurance coverage.

This overpayment was the result of weak internal controls over payroll and health insurance withholdings, including not having proper reviews of employees' withholding calculations. Strong internal controls over payroll withholdings, including health insurance, are vital in ensuring that proper amounts are withheld from employees' earnings, and that they are turned over to the appropriate parties. Strong internal controls also protect those individuals responsible for processing payroll. Because of their importance, we recommend the county strengthen internal controls over payroll withholdings. Controls such as a review of payroll earnings records, employee withholdings authorizations, and county personnel policies should be performed by an individual independent of the payroll process. This review should include a recalculation of withholding amounts and verification that these amounts are properly deducted from employees' earnings. This review should also include verification that withholding amounts are reported properly and turned over to the appropriate parties. Once completed, the review should be signed by the individual performing the review and submitted to the county judge/executive and the fiscal court.

County Judge/Executive's Response: The new Treasurer will implement balance sheet to be reviewed monthly by the Fiscal/Court.

2015-010 The Ballard County Fiscal Court Has Material Weaknesses Over Disbursements

Material weaknesses exist over the disbursements of the Ballard County Fiscal Court. For fiscal year 2015, the county had 12 disbursements that did not have proper supporting documentation and 28 disbursements that did not have proper fiscal court approval out of the 106 disbursements in our test samples.

Strong internal controls over disbursements are essential in ensuring disbursements are properly approved and recorded. They are also vital to ensuring that all disbursements are for the official business of the county. Because the fiscal court has failed to place an emphasis on having a strong internal control system, the above exceptions occurred. By having weak internal controls over disbursements, the county assumes a higher risk of misstatement and fraud.

Because of their importance, we recommend the county strengthen internal controls over disbursements. By requiring all disbursements to have proper supporting documentation and fiscal court approval prior to payment, the county can strengthen its internal control system and reduce the risks associated with disbursements.

County Judge/Executive's Response: Treasurer puts the information in and the Finance Officer prints the checks. The duties are split. Also, a new P.O. system has been implemented.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-011 The Former Ballard County Judge/Executive Charged Personal Items To The County's Charge Account

On July 5, 2014, the former county judge/executive purchased \$309 worth of food at a local vendor using the county's charge account. On July 10, 2014, the former county judge/executive wrote a personal check, reimbursing the county for this charge.

According to KRS 64.850, "[i]t shall be unlawful for any county official. . .to withdraw public funds for any purpose other than that for which they were received and deposited." By purchasing personal items on the county's charge account, the former judge/executive was in violation of KRS 64.850. We recommend the county abide by KRS 64.850, and eliminate any practice of charging personal items to the county.

County Judge/Executive's Response: We shall abide by KRS 64.850 accordingly.

2015-012 The Ballard County Fiscal Court Failed To Advertise For Bids As Required By The Ballard County Administrative Code And KRS 424.260

The county approved the purchase of oil and asphalt in the amount of \$119,300 and a chipper in the amount of \$21,000 without properly advertising for bids. Ballard County's administrative code states, "The Judge Executive, with the assistance of Department Heads, shall annually prepare a list of supplies and materials that the county expects to purchase where the value of which is \$20,000 or more. This list shall be made available to vendors who will be requested to submit their bids for such items for the forthcoming fiscal year." Additionally, KRS 424.260(1) prohibits a county from entering into a contract for material or services "involving an expenditure of more than twenty thousand dollars (\$20,000) without first making a newspaper advertisement for bids." Given the fact that the fiscal court overlooked this requirement for the two items tested, the county is noncompliant with their administrative code and KRS 424.260. Therefore, we recommend the county abide by the administrative code set by the Ballard County Fiscal Court and KRS 424.260 by advertising for bids on all disbursements for applicable goods or services in excess of \$20,000.

County Judge/Executive's Response: We will comply and have put into advertise for bids for 2018.

2015-013 The Ballard County Fiscal Court Failed To Pay Invoices Within 30 Working Days

The Ballard County Fiscal Court failed to pay all invoices within 30 working days as required by KRS 65.140. In one instance, this resulted in the county paying \$1,396 in late fees. According to KRS 65.140(2), "[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." Because there was no evidence of a contract between the county and its vendors, no written letter of disapproval, and the fact that the county incurred late fees and penalties, the county is not in compliance with KRS 65.140. We recommend the county comply with KRS 65.140 by paying all claims within 30 working days of the receipt of a vendor's invoice. We also recommend the county stamp the date received on claims and invoices in order to help the county ensure compliance.

County Judge/Executive's Response: As of September 2017, we are having 2 monthly meetings to meet compliance.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-014 The Ballard County Fiscal Court Did Not Pay Off Short-term Notes By The End Of The Fiscal Year As Required

Two short-term notes taken out in fiscal year 2014 were carried over into the 2015 fiscal year. Due to a lack of knowledge and understanding of state statutes and bank institutions agreements, the county's short-term debt obligations were still outstanding as of June 30, 2015. These notes were initiated to meet the financial obligations of the Ballard County Fiscal Court. While such short-term notes are allowable, KRS 65.7707 requires the notes to "mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued." Although an extension waiver agreement was signed by the county judge/executive and former county treasurer with the banking institution agreeing to extend the notes' maturity dates to March 30, 2015, that agreement violates KRS 65.7707. The county did not meet the extended maturity date, even though that extended date was beyond the statutory maximum maturity period.

Because the 2014 notes were not paid off in fiscal year 2014, the county is noncompliant with KRS 65.7707. We recommend the fiscal court comply with KRS 65.7707 by satisfying short-term debt obligations by the maturity date set by the banking institution, which should be no later than the end of the fiscal year.

County Judge/Executive's Response: In the future, we will obtain approval on ALL Loans from DLG and F/C.

2015-015 The Ballard County Fiscal Court Has Material Weaknesses Over The Reporting Of Liabilities And Debt

Material weaknesses exist over the reporting of liabilities and debt of Ballard County. The June 30, 2015 outstanding debt balances reported on the Fourth Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Because the county failed to have a strong internal control system over liabilities and debt service, these misstatements were able to occur without detection. Therefore, we recommend the county strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive's Response: We are currently reporting all liabilities and debts on monthly and quarterly reports.

2015-016 The Ballard County Fiscal Court Has Weak Internal Controls Over Capital Assets Which Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets

Material weaknesses exist over the reporting of capital assets and infrastructure of Ballard County. The county's schedule of capital assets and infrastructure for the period of audit failed to recognize all asset purchases and disposals that occurred throughout the year.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-016 The Ballard County Fiscal Court Has Weak Internal Controls Over Capital Assets Which Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets (Continued)

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. By having weak internal controls over capital assets, they are left vulnerable to misappropriation or misstatement. Because the county failed to emphasize strong internal controls over the reporting of capital assets and infrastructure, these misstatements were able to occur without detection.

In order to strengthen the county's internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of each county asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

County Judge/Executive's Response: We are in process of making schedule for capital assets.

2015-017 The Ballard County Detention Center Has Internal Control Weaknesses And Noncompliances Over The Jail Inmate Account

Material weaknesses and non-compliances exist over the Ballard County jail inmate account including the following:

- Receipts are not issued in accordance with KRS 64.840.
- Receipt forms are not batched.
- Receipts and disbursements ledgers are not properly maintained.
- Receipts are not deposited daily.
- Auditor could not determine if procedures were in place for increases or reductions to inmates' cash balances.
- Auditor could not determine if all jail fees were turned over to the county treasurer properly, or if additional fee were due to the county.

According to KRS 64.840, all county officials shall issue receipt forms upon the receipt of any fine, forfeiture, tax, or fee. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires at the end of each business day, the jailer or assigned personnel, to separate receipts into categories and make daily deposits into a federally insured banking institution. In addition to state statute, a good internal control systems allows for a trail of funds from receipt to disbursement.

We recommend the jailer comply with KRS 64.840 and KRS 68.210 by issuing receipt forms for all receipts and depositing them daily. We also recommend the jailer maintain proper accounting records and reports to support the source of these funds, their intended purpose, and their use.

County Jailer's Response: Most of the issues listed pertained to problems from the prior administration and issues that arose during our vendor change that deals with our accounting software.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-018 The Ballard County Detention Center Lacks Segregation Of Duties Over Jail Commissary Operations

The Ballard County Detention Center lacks adequate segregation of duties over the jail commissary operations. The chief deputy is responsible for reconciling the inmate fund. She also takes money out of the kiosks and posts receipts and payments to each inmate's account. She also prepares deposits, takes deposits to the bank, and writes checks to released inmates who have an available fund on their account. The jailer maintains ledgers for the commissary account. He also reconciles the commissary account and prepares all corresponding reports. The chief deputy reviews his work.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by staff, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately prevent the misappropriation of assets, we recommend the jailer separate the duties of collecting receipts, deposit preparation, bank reconciliations, and other accounting functions. If these duties cannot be separated due to limited staff, then strong oversight should be provided to the employee or employees responsible for these duties.

County Jailer's Response: The lack of segregation of duties was discussed during the exit and changes will be made to correct the issue.

2015-019 The Ballard County Jailer Failed To Maintain The Minimum Accounting Records For The Jail Commissary

The Ballard County Jailer failed to utilize daily checkout sheets and the receipts and disbursements journals were not categorized. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts as set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires the jailer to maintain accounting records for the jail commissary funds, including daily checkout sheets, detailed receipts and disbursements journals, and year-to-date summary report. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, at the end of each business day the jailer or assigned personnel should separate individual receipts into categories listed on the check-out sheet and deposit them on a daily basis. These receipts should then be posted by category to the jail commissary receipts journal. Each check written from the jail commissary account must be posted to the proper category listed on the jail commissary disbursements journal.

We recommend the jailer comply with the minimum accounting and reporting standards by implementing daily checkout procedures. We also recommend the jailer use detailed receipts and disbursements journals to properly report the activities of the jail commissary.

County Jailer's Response: The accounting records for the Jail Commissary account was discussed during the exit and changes will be made to correct the issue.