

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

**For The Fiscal Year Ended
June 30, 2018**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS**

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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 Michael R. Williams, Bourbon County Judge/Executive

Members of the Bourbon County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statement of Bourbon County, Kentucky, for the year ended June 30, 2018.

We engaged Tichenor & Associates, LLP to perform the audit of this financial statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Bourbon County Fiscal Court's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

Enclosure



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Independent Auditors' Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Bourbon County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Bourbon County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

To the People of Kentucky
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Bourbon 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 Bourbon County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Bourbon County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Bourbon County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky
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Finance and Administration Cabinet
The Honorable Michael R. Williams, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2019, on our consideration of the Bourbon 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 Bourbon County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2018-001 The Bourbon County Fiscal Court Exceeded The Budget In The Debt Service Category In The Jail Construction Fund At Fiscal Year End June 30, 2018, In Violation of KRS 68.300
- 2018-002 The Bourbon County Fiscal Court Is Not Following Its Personnel Vacation Policy
- 2018-003 The Bourbon County Fiscal Court's Capital Asset Schedule Was Inaccurate
- 2018-004 The Bourbon County Fiscal Court Did Not Properly Record All Activity Related To The Jail Construction Fund
- 2018-005 The Bourbon County Fiscal Court's Debt Balances Per The Lead Schedule Do Not Agree To The Long-Term Liabilities On The Fourth Quarter Report
- 2018-006 The Bourbon County Fiscal Court's Payroll Reports Prepared By The Service Organization Are Not Checked For Accuracy
- 2018-007 The Bourbon County Fiscal Court's Fourth Quarter Report Contained Errors

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Certified Public Accountants
Louisville, Kentucky

February 8, 2019

BOURBON COUNTY OFFICIALS

For The Year Ended June 30, 2018

Fiscal Court Members:

Michael R. Williams	County Judge/Executive
Donald R. McCarty	Magistrate
Mike W. Grooms	Magistrate
Mark D. Offutt	Magistrate
John N. Smoot	Magistrate
Don E. Menke	Magistrate
James A. Mason	Magistrate
Cecil E. Foley	Magistrate

Other Elected Officials:

Gordon D. Wilson	County Attorney
John A. Ransdell	Jailer/Transport Officer
Richard S. Eads	County Clerk
Beverly Smits	Circuit Court Clerk
Mark L. Matthews	Sheriff
Woodford Wayne Turner	Property Valuation Administrator
Dee Gee M. Roe	Coroner

Appointed Personnel:

Dana H. Boone	County Treasurer
Tina Ritchie	Occupational Tax Collector
Holly Lovell	Finance Officer

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	Budgeted Funds				
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Courthouse E Bond Fund
RECEIPTS					
Taxes	\$ 4,331,237	\$	\$	\$	\$
Excess Fees	1,273,340				
Licenses and Permits	76,101				
Intergovernmental	693,043	1,404,046	164,252	92,358	
Charges for Services	14,760				
Miscellaneous	189,643	11,429			
Interest	20,728	11,768	4,068	1,200	
Total Receipts	6,598,852	1,427,243	168,320	93,558	
DISBURSEMENTS					
General Government	2,127,290				
Protection to Persons and Property	1,771,776		87,730	68,824	
General Health and Sanitation	327,798	22,622			
Social Services	222,775				
Recreation and Culture	241,973				
Roads		661,338			
Debt Service	430,891				
Capital Projects		637,647			
Administration	1,424,016	296,998	33,946		
Total Disbursements	6,546,519	1,618,605	121,676	68,824	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	52,333	(191,362)	46,644	24,734	
Other Adjustments to Cash (Uses)					
Payroll Revolving Account	38,573				
Lease Proceeds	185,000				
Transfers from Other Funds					
Transfers to Other Funds					
Total Other Adjustments to Cash (Uses)	223,573				
Net Change in Fund Balance	275,906	(191,362)	46,644	24,734	
Fund Balance - Beginning (Restated)	1,729,428	832,640	256,500	72,345	
Fund Balance - Ending	\$ 2,005,334	\$ 641,278	\$ 303,144	\$ 97,079	\$ 0
Composition of Fund Balance					
Bank Balance	\$ 1,760,479	\$ 709,257	\$ 303,144	\$ 102,742	\$
Payroll Revolving Account Reconciled Balance	38,573				
Less: Outstanding Checks	(59,183)	(67,979)		(5,663)	
Certificates of Deposit	265,465				
Investments					
Fund Balance - Ending	\$ 2,005,334	\$ 641,278	\$ 303,144	\$ 97,079	\$ 0

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

BOURBON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

<u>Budgeted Funds</u>		<u>Unbudgeted Funds</u>
<u>Jail Construction Fund</u>	<u>Phase I Fund</u>	<u>Educational Trust Fund Checking</u>
\$	\$	\$
	329,321	
		3,407
<u>19,515</u>	<u>2,036</u>	<u>316</u>
<u>19,515</u>	<u>331,357</u>	<u>3,723</u>
201,401		
		272,370
151,850		
3,065,312		
	<u>300,286</u>	
<u>3,418,563</u>	<u>300,286</u>	<u>272,370</u>
<u>(3,399,048)</u>	<u>31,071</u>	<u>(268,647)</u>
		303,755
		<u>303,755</u>
(3,399,048)	31,071	35,108
<u>4,357,136</u>	<u>74,591</u>	<u>619,693</u>
<u>\$ 958,088</u>	<u>\$ 105,662</u>	<u>\$ 654,801</u>
\$ 958,088	\$ 121,046	\$ 656,801
	(15,384)	(2,000)
<u>\$ 958,088</u>	<u>\$ 105,662</u>	<u>\$ 654,801</u>

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

BOURBON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

	Private Purpose Trust Funds				
	John Marston Education Trust Fund	Clifton Gillespie Trust Fund	Willmott Memorial Trust Fund	Robert Meteer Trust Fund	Lucy Anderson Trust Fund
RECEIPTS					
Taxes	\$	\$	\$	\$	\$
Excess Fees					
Licenses and Permits					
Intergovernmental		.			
Charges for Services					
Miscellaneous	77,870	113,629	189,964	59,418	38,954
Interest	14,260	910	809	2,332	89
Total Receipts	<u>92,130</u>	<u>114,539</u>	<u>190,773</u>	<u>61,750</u>	<u>39,043</u>
DISBURSEMENTS					
General Government					
Protection to Persons and Property					
General Health and Sanitation					
Social Services	21,405	28,010	34,226	88,170	7,527
Recreation and Culture					
Roads					
Debt Service					
Capital Projects					
Administration					
Total Disbursements	<u>21,405</u>	<u>28,010</u>	<u>34,226</u>	<u>88,170</u>	<u>7,527</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other					
Adjustments to Cash (Uses)	<u>70,725</u>	<u>86,529</u>	<u>156,547</u>	<u>(26,420)</u>	<u>31,516</u>
Other Adjustments to Cash (Uses)					
Payroll Revolving Account					
Lease Proceeds					
Transfers from Other Funds					
Transfers to Other Funds	(81,929)	(12,105)	(129,814)	(20,486)	(19,753)
Total Other Adjustments to Cash (Uses)	<u>(81,929)</u>	<u>(12,105)</u>	<u>(129,814)</u>	<u>(20,486)</u>	<u>(19,753)</u>
Net Change in Fund Balance	(11,204)	74,424	26,733	(46,906)	11,763
Fund Balance - Beginning (Restated)	1,321,787	1,777,679	2,679,482	942,425	480,711
Fund Balance - Ending	<u>\$ 1,310,583</u>	<u>\$ 1,852,103</u>	<u>\$ 2,706,215</u>	<u>\$ 895,519</u>	<u>\$ 492,474</u>
Composition of Fund Balance					
Bank Balance	\$ 141,203	\$ 26,248	\$ 38,788	\$ 21,583	\$ 10,372
Payroll Revolving Account Reconciled Balance					
Less Outstanding Checks					
Certificates of Deposit					
Investments	<u>1,169,380</u>	<u>1,825,855</u>	<u>2,667,427</u>	<u>873,936</u>	<u>482,102</u>
Fund Balance - Ending	<u>\$ 1,310,583</u>	<u>\$ 1,852,103</u>	<u>\$ 2,706,215</u>	<u>\$ 895,519</u>	<u>\$ 492,474</u>

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

BOURBON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Private Purpose Trust Funds							
Talbott Clay Trust Fund	Ella Davis Trust Fund	Howard Forquer Trust Fund	Education #1 E.M. Costello, Garth, Costello, Hamilton, Champ Trust Fund	Education #2 Kennedy, Hinkle, Redmon, Goff Trust Fund	Health and Welfare Trust Fund	Total Funds	
\$	\$	\$	\$	\$	\$	\$ 4,331,237	
						1,273,340	
						76,101	
						2,683,020	
						14,760	
27,238	5,638	41,567	2,932	13,733	1,334	776,756	
76	47	108	11,324	54	46	89,686	
<u>27,314</u>	<u>5,685</u>	<u>41,675</u>	<u>14,256</u>	<u>13,787</u>	<u>1,380</u>	<u>9,244,900</u>	
						2,127,290	
						2,129,731	
						350,420	
15,164	2,000	12,529	2,670	2,787	902	710,535	
						241,973	
						661,338	
						582,741	
						3,702,959	
						2,055,246	
<u>15,164</u>	<u>2,000</u>	<u>12,529</u>	<u>2,670</u>	<u>2,787</u>	<u>902</u>	<u>12,562,233</u>	
						12,150	
						3,685	
						29,146	
						11,586	
						11,000	
						478	(3,317,333)
						38,573	
						185,000	
						303,755	
(693)		(21,644)	(12,327)	(5,004)		(303,755)	
(693)		(21,644)	(12,327)	(5,004)		223,573	
11,457	3,685	7,502	(741)	5,996	478	(3,093,760)	
347,146	84,273	593,976	217,627	163,312	14,158	16,564,909	
<u>\$ 358,603</u>	<u>\$ 87,958</u>	<u>\$ 601,478</u>	<u>\$ 216,886</u>	<u>\$ 169,308</u>	<u>\$ 14,636</u>	<u>\$ 13,471,149</u>	
\$ 8,475	\$ 4,182	\$ 7,884	\$ 2,585	\$ 2,967	\$ 1,453	\$ 4,877,297	
						38,573	
						(150,209)	
						278,648	
350,128	83,776	593,594	214,301	166,341	13,183	8,426,840	
<u>\$ 358,603</u>	<u>\$ 87,958</u>	<u>\$ 601,478</u>	<u>\$ 216,886</u>	<u>\$ 169,308</u>	<u>\$ 14,636</u>	<u>\$ 13,471,149</u>	

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

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TO THE FINANCIAL STATEMENT**

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BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(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.

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

Courthouse E Bond Fund - The primary purpose of this fund was previously for tracking expense activity for courthouse renovations.

Jail Construction Fund - The primary purpose of this fund is to account for the jail expansion project. The primary sources of receipts for this fund are drawdowns from Series 2016 and Series 2017 bond issues.

Phase I Fund - The primary purpose of this fund is to account for a settlement between tobacco-growing states and the four largest cigarette manufacturers to offset income losses farmers are expected to experience as a result of changes within the tobacco industry. Compensation is limited to those individuals, residing in the state of Kentucky, who maintain a vested interest in tobacco production, compensation designated for this party would revert to the pool of compensation to be shared by active tobacco producers (quota owners and tenants).

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

Educational Trust Fund Checking - The educational trust fund checking accounts for the activities of the private purpose trust funds. The Department for Local Government does not require the fiscal court to budget this fund.

D. Budgetary Information

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

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

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

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The state local finance officer does not require the educational trust fund checking to be budgeted.

E. Bourbon County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 2. Deposits and Investments

A. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met as of June 30, 2018.

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 fiscal court 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Cash and Investments

As of June 30, 2018, the fiscal court had the following investments and maturities:

I. Cash:

	<u>Cost</u>
Cash	\$ 4,765,661
Certificates of Deposit	278,648
Total Cash	<u>\$ 5,044,309</u>

II. Investments:

Type	Cost Basis	<u>Maturities (In Years)</u>			
		Less Than 1	1-5	6-10	More Than 10
Fixed Income Investments:					
Corporate Bonds	\$ 124,068	\$ 50,000	\$ 74,068	\$	\$
Government Bonds	244,000		163,735		80,265
Totals	<u>\$ 368,068</u>	<u>\$ 50,000</u>	<u>\$ 237,803</u>	<u>\$ 0</u>	<u>\$ 80,265</u>

III. Other Investments:

	<u>Cost</u>
Common Stock	\$ 357,215
Mutual Funds	7,701,557
Total Other Investments	<u>\$ 8,058,772</u>
Total Investments	<u>\$ 8,426,840</u>

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 2. Deposits and Investments (Continued)

B. Cash and Investments (Continued)

Custodial Credit Risk is the risk that, in the event of failure of the counterparty, the fiscal court will not be able to recover the value of its certificates of deposit, investments or collateral securities that are in the possession of an outside party. The fiscal court's investment policy requires counterparties to provide sufficient collateral or other insurance if any investments or deposits exceed the insurance provided by Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). All certificates of deposit and investments must be held by the counterparty in the fiscal court's name. The fiscal court has \$278,648 of certificates of deposits and \$8,426,840 of investments in securities held by the counterparties' trust departments in the fiscal court's name. The counterparty maintains the \$278,648 of certificates of deposit at depository institutions insured by the FDIC and limits certificates of deposit at each depository institution to \$250,000 FDIC coverage limit. In addition, the SIPC provides up to \$500,000 coverage for securities and cash (limit of \$250,000 for cash) per client and the counterparties maintain additional insurance coverage for loss of securities and cash above the coverage provided by FDIC and SIPC.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fiscal court is statutorily limited as to credit ratings, at the time of purchase. KRS 66.480 and the fiscal court's investment policy define the following items as permissible investments:

- 1) Obligations of the United States and of its agencies and instrumentalities.
- 2) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- 3) Obligations of any corporation of the United States Government.
- 4) 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 or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240.
- 5) Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by nationally recognized rating agency.
- 6) Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.
- 7) Commercial paper rated in the highest category by a nationally recognized rating agency.
- 8) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- 9) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency.
- 10) Shares of mutual funds, each of which shall have the following characteristics:
 - a) The mutual funds shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
 - b) The management company of the investment company shall have been in operation for at least five years.
 - c) All of the securities in the mutual fund shall be eligible investments pursuant to this section.

The fiscal court is limited to investing no more than 20 percent in categories 5, 6, 7, and 9 above per state statute. The county had no investment policy that would further limit its investment choices. As of June 30, 2018, the fiscal court does not have investments in these categories that exceed the 20 percent limit set by state statute.

The fiscal court's rated investments, as of June 30, 2018, and the ratings are presented in the table below. All issuers of the municipal bonds are located in the Commonwealth of Kentucky.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 2. Deposits and Investments (Continued)

B. Cash and Investments (Continued)

Type	Standard & Poor's/Moody's Credit Ratings						Cost Basis
	AAA	AA2	A2	A3	B	Unrated	
Fixed Income Investments:							
Corporate Bonds	\$	\$	\$ 50,000	\$ 74,068	\$	\$	\$ 124,068
Government Bonds	80,265	163,735					244,000
Common Stock					357,215		357,215
Mutual Funds						7,701,557	7,701,557
Total Investments	\$ 80,265	\$ 163,735	\$ 50,000	\$ 74,068	\$ 357,215	\$ 7,701,557	\$ 8,426,840

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the fiscal court's investment in a single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The fiscal court does have 5 percent or more of the fiscal court's investments invested in any single security. All of the investments reported in the fiscal court's private purpose trust funds are Corporate Bonds, Government Bonds, Common Stock, and Mutual Funds.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The fiscal court's policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. See table above for investments listed by type and duration.

Note 3. Private Purpose Trust Funds

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

The fiscal court has the following private purpose trust funds:

John Marston Education Trust Fund - This fund was established by the will and codicil of John Marston. The will imposed that the funds be held in perpetuity, meaning that the original principal amount remains intact. The primary purpose of this fund is to account for income generated by the principal. The income, less applicable administrative costs, is to be spent for educational scholarships. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Clifton Gillespie Trust Fund - This fund was established by the will and codicil of Clifton Gillespie. The will imposed that the funds be held in perpetuity, meaning that the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance with hospital care to indigent residents of Bourbon County. The county judge/executive decides who shall receive assistance from this fund by applications submitted. Each eligible person is limited to \$2,000.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 3. Private Purpose Trust Funds (Continued)

Willmott Memorial Trust Fund - This fund was established by the will and codicil of James Worthington Willmott. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance to college students, or potential college students, residing in Bourbon County, Kentucky and the counties adjacent to Bourbon County. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Robert Meter Trust Fund - This fund was established by the will and codicil of Robert Meter. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance to young women residing in Bourbon County, Kentucky who want to continue their education at a college institution. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Lucy Anderson Trust Fund - This fund was established by the will and codicil of Lucy D. Anderson. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance to male college students or potential male college students residing in Bourbon County, Kentucky. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Talbott Clay Trust Fund - This fund was established by the will and codicil of Talbott Clay. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide educational scholarships for clothing, school supplies, means of transportation to and from school, and any equipment other than tuition fees to young men and women residing in Bourbon County, Kentucky. These benefits are to be granted to the heirs of Albert R. Talbott and Ayletti H. Bedford first. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Ella Davis Trust Fund - This fund was established by the will and codicil of Ella Davis. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance, for transportation, to cancer patients residing in Bourbon County, Kentucky. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Howard Forquer Trust Fund - This fund was established by the will and codicil of Hallie H. Forquer. The will imposed that the funds be held in perpetuity, meaning the original principal amount remains intact. The primary purpose of this fund is to provide financial assistance with education to young girls and boys residing in Bourbon County, Kentucky. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Education #1 E.M. Costello, Garth, Costello, Hamilton, Champ Trust Fund - This fund was established to consolidate the following trust funds: E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, and Frances Champ Fund in 2014. The primary purpose of this fund is to account for income generated by the principal. The income, less applicable administrative costs, is to be spent for educational scholarships to young men and women residing in Bourbon County, Kentucky. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 3. Private Purpose Trust Funds (Continued)

Education #2 Kennedy, Hinkle, Redmon, Goff Trust Fund - This fund was established to consolidate the following trust funds: Harrell-Kennedy Fund, Brooks Hinkle Fund, Lou Davis Redmon Fund, and May Goff Fund in 2014. The primary purpose of this fund is to account for income generated by the principal. The income, less applicable administrative costs, is to be spent for educational scholarships to young men and women residing in Bourbon County, Kentucky. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Health and Welfare Trust Fund - This fund was established by two deposits from a trust account for financial assistance to Bourbon County residents with medical expenses. These deposits were for the assistance of the health and welfare fund and not for the creation of the fund. The county has a committee, appointed by the county judge/executive, which decides how the money shall be disbursed based on applications received by the county judge/executive's office.

Note 4. Long-term Debt

A. Promissory Term Note Agreement

During fiscal year ended June 30, 1998, the Bourbon County Public Properties Corporation entered into a promissory term note agreement with Community Ventures Corporation for the purchase and renovation of a manufacturing facility. The public properties corporation was obligated to pay \$131,500 in principal payments over seven years, beginning in 1997 and ending in 2004. On November 15, 2004, the public properties corporation refinanced this promissory term note, with an obligation to pay \$98,656 in principal payments over 60 months, beginning December 15, 2004, with a balloon payment scheduled to be made at the end of the note. On February 18, 2010, the public properties corporation refinanced this promissory term note again, with an obligation to pay \$73,157 in principal payments over 60 months at a stated interest rate of 6.25 percent, beginning March 15, 2010, with a balloon payment scheduled to be made at the end of the note. On October 10, 2014, the public properties corporation refinanced this promissory term note again, with an obligation to pay \$40,843 in principal payments, over 55 months at a stated interest rate of 6.25 percent, beginning November 15, 2014. As of June 30, 2018, the outstanding principal balance of this note was \$7,586.

Future principal and interest requirements are:

Fiscal Year Ended	Principal	Interest
June 30	Principal	Interest
2019	\$ 7,586	\$ 197
Totals	\$ 7,586	\$ 197

The note is secured by a mortgage on the real estate located at 8 Legion Drive in Bourbon County.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 4. Long-term Debt (Continued)

B. Kentucky Association of Counties Revenue Bonds, Series 2014A (Energy Savings Project)

On April 3, 2014, the Kentucky Association of Counties Finance Corporation issued Financing Program Revenue Bonds, Series 2014A, in the amount of \$275,000 for the purpose of acquisition and installation of energy efficiency improvements to the courthouse. Principal payments are due annually on December 20, beginning in 2014, and interest, which varies from 2.48 percent to 3.25 percent, is payable semi-annually on June 20 and December 20, beginning on June 20, 2014. As of June 30, 2018, the outstanding principal balance was \$175,000.

Future principal and interest requirements are:

Fiscal Year Ended		
June 30	Principal	Interest
2019	\$ 25,000	\$ 5,563
2020	30,000	4,675
2021	30,000	3,700
2022	30,000	2,725
2023	30,000	1,750
2024	30,000	775
Totals	<u>\$ 175,000</u>	<u>\$ 19,188</u>

C. Kentucky Association of Counties Revenue Bonds, Series 2014B (Jail Project)

On April 3, 2014, the Kentucky Association of Counties Finance Corporation issued Financing Program Revenue Bonds, Series 2014A, in the amount of \$120,000 for the purpose of renovating the jail. Principal payments are due annually on December 20, beginning in 2014, and interest, which varies from 1.51 percent to 2.41 percent, is payable semi-annually on June 20 and December 20, beginning on June 20, 2014. As of June 30, 2018, the outstanding principal balance was \$25,000.

Future principal and interest requirements are:

Fiscal Year Ended		
June 30	Principal	Interest
2019	\$ 25,000	\$ 438
Totals	<u>\$ 25,000</u>	<u>\$ 438</u>

D. Bank Fixed Rate Lease (Fire Trucks)

On June 24, 2013, Kentucky Bank issued a fixed rate lease in the amount of \$322,442 for the purpose of leasing fire trucks. Principal and interest, which is calculated at fixed rate of 2.5 percent, are due biannually on June 20 and December 20, beginning on December 20, 2013. The debt was paid off in full on June 19, 2018.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 4. Long-term Debt (Continued)

E. Refunding Revenue Lease, Series 2016 (Courthouse Facilities Project)

On March 23, 2016, the Bourbon County Fiscal Court issued \$2,055,371 of Refunding Revenue Lease, Series 2016 for the purpose of refinancing the Court Facilities Project, Series 2006 bonds. The bond requires semi-annual interest payments due on August 1 and February 1. The lease will mature on February 1, 2022. As of June 30, 2018, the outstanding principal balance was \$1,445,415.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2019	\$ 361,196	\$ 22,404
2020	364,255	16,806
2021	366,641	11,160
2022	<u>353,323</u>	<u>5,475</u>
Totals	<u>\$ 1,445,415</u>	<u>\$ 55,845</u>

F. General Obligation Refunding and Improvement Bonds, Series 2016 (Jail Expansion Project)

On August 10, 2016, the Bourbon County Fiscal Court issued \$7,300,000 of General Obligation Refunding and Improvement Bonds, Series 2016 for the purpose of expansion of the regional jail. The bond requires semi-annual interest payments due on December 1 and June 1. The bond will mature on June 1, 2036. As of June 30, 2018, the outstanding principal balance was \$7,165,000.

Future principal and interest requirements are:

Fiscal Year Ended June 30,	Principal	Interest
2019	\$ 355,000	\$ 224,550
2020	360,000	217,450
2021	365,000	210,250
2022	375,000	202,950
2023	395,000	187,950
2024-2028	2,085,000	695,750
2029-2033	1,930,000	372,000
2034-2036	<u>1,300,000</u>	<u>78,750</u>
Totals	<u>\$ 7,165,000</u>	<u>\$ 2,189,650</u>

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 4. Long-term Debt (Continued)

G. General Obligation Refunding and Improvement Bonds, Series 2017 (Additional Funding for Jail Expansion Project)

On February 23, 2017, the Bourbon County Fiscal Court issued \$1,735,000 of General Obligation Refunding and Improvement Bonds, Series 2017 for the purpose of additional funding for the expansion of the regional jail. The bond requires semi-annual interest payments due on December 1 and June 1. The bond will mature on June 1, 2036. As of June 30, 2018, the outstanding principal balance was \$1,735,000.

Future principal and interest requirements are:

Fiscal Year Ended June 30,	Principal	Interest
2019	\$ 75,000	\$ 53,800
2020	75,000	51,550
2021	80,000	49,300
2022	80,000	46,900
2023	85,000	44,500
2024-2028	455,000	183,200
2029-2033	525,000	110,500
2034-2036	360,000	24,494
Totals	<u>\$ 1,735,000</u>	<u>\$ 564,244</u>

H. Body Scanner Lease

On July 20, 2017, the Bourbon County Fiscal Court entered into a fixed rate lease in the amount of \$185,000 for the purpose of leasing a body scanner. Principal and interest, which is calculated at a rate of 3.5 percent, are due biannually on June 20 and December 20, beginning on December 20, 2017. The lease terminates on June 20, 2024. As of June 30, 2018, the outstanding principal balance was \$160,661.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2019	\$ 24,836	\$ 5,407
2020	25,582	4,532
2021	26,350	3,630
2022	27,141	2,701
2023	27,956	1,743
2024	28,796	758
Totals	<u>\$ 160,661</u>	<u>\$ 18,771</u>

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 4. Long-term Debt (Continued)

I. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 9,035,000	\$	\$ 135,000	\$ 8,900,000	\$ 430,000
Revenue Bonds	2,053,224		407,810	1,645,414	411,196
Financing Obligations	84,351	185,000	101,103	168,248	32,422
Total Long-term Debt	<u>\$ 11,172,575</u>	<u>\$ 185,000</u>	<u>\$ 643,913</u>	<u>\$10,713,662</u>	<u>\$ 873,618</u>

Note 5. Commitments and Contingencies

The county is involved in two lawsuits. The first lawsuit is dealing with land use. The second lawsuit is a wrongful death case concerning the Bourbon County-Nicholas County Regional Jail. The fiscal court believes that since it does not have a county jail, the entity that should be named in the suit is the regional jail and not the fiscal court. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 6. Employee Retirement System

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

The county's contribution for FY 2016 was \$466,304, FY 2017 was \$510,839, and FY 2018 was \$553,551.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

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

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System (Continued)

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

The county's contribution rate for nonhazardous employees was 19.18 percent.

Hazardous

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

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

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute 8 percent of their annual creditable compensation and also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for hazardous employees was 31.55 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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%

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System (Continued)

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

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 161.714 with exception of cost of living adjustment (COLA) and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, earn fifteen 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 by 1.5%. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System (Continued)

D. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic COLA provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

E. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

F. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 7. Deferred Compensation

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

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

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

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 8. Health Reimbursement Account

The Bourbon County Fiscal Court established a health reimbursement account on July 1, 2009, to provide employees an additional health benefit. The county has contracted with FEBCO, Inc., a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing \$2,000 each year to pay for qualified medical expenses.

Note 9. Insurance

For the fiscal year ended June 30, 2018, the Bourbon County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Conduit Debt

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

Note 11. Private Purpose Trust Funds Transfers

The table below shows the Private Purpose Trust Fund interfund transfers for fiscal year 2018.

	Total Transfers Out	Total Transfers In
John Marston Education Trust Fund	\$ 81,929	\$
Clifton Gillespie Trust Fund	12,105	
Willmott Memorial Trust Fund	129,814	
Robert Meteer Trust Fund	20,486	
Lucy Anderson Trust Fund	19,753	
Talbott Clay Trust Fund	693	
Howard Forquer Trust Fund	21,644	
Education Trust Fund Checking		303,755
Education #1 E.M. Costello, Garth, Costello, Hamilton, Champ Trust Fund	12,327	
Education #2 Kennedy, Hinkle, Redmon, Goff Trust Fund	5,004	
	<hr/>	<hr/>
Total Transfers Out	<u>\$ 303,755</u>	<u>\$ 303,755</u>

Reason for transfers:

To move resources from the investment accounts to the account that will expend them.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 12. Bourbon County-Nicholas County Regional Jail Authority

Under KRS 441.800, the Bourbon County Fiscal Court approved an order to form the Bourbon County - Nicholas County Regional Jail Authority, effective July 1, 2010, which houses inmates from both Bourbon and Nicholas Counties. Under KRS 441.810, the regional jail authority is composed of members appointed by the county judges/executive of the respective counties. Also, the Bourbon County Fiscal Court approved a management and use agreement, inclusive of a lease clause for the use of the Bourbon County Detention Center at \$1 per year.

Note 13. Beginning Balance Restatement

The Bourbon County Fiscal Court determined that it does not have any obligation or interest under the FM Gillespie Trust Fund, which was included on the prior year financial statement as a Private Purpose Trust Fund. The resulting adjustment totaled \$234,348.

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BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,987,500	\$ 3,987,500	\$ 4,331,237	\$ 343,737
Excess Fees	683,953	1,468,249	1,273,340	(194,909)
Licenses and Permits	77,700	77,700	76,101	(1,599)
Intergovernmental	2,092,714	2,092,714	693,043	(1,399,671)
Charges for Services	15,000	15,000	14,760	(240)
Miscellaneous	167,015	167,015	189,643	22,628
Interest	12,000	12,000	20,728	8,728
Total Receipts	<u>7,035,882</u>	<u>7,820,178</u>	<u>6,598,852</u>	<u>(1,221,326)</u>
DISBURSEMENTS				
General Government	1,983,668	2,747,748	2,127,290	620,458
Protection to Persons and Property	1,410,452	1,877,051	1,771,776	105,275
General Health and Sanitation	1,692,519	1,725,149	327,798	1,397,351
Social Services	244,169	246,146	222,775	23,371
Recreation and Culture	293,464	301,964	241,973	59,991
Debt Service	457,364	430,892	430,891	1
Capital Projects	30,000	30,000		30,000
Administration	2,124,246	1,634,328	1,424,016	210,312
Total Disbursements	<u>8,235,882</u>	<u>8,993,278</u>	<u>6,546,519</u>	<u>2,446,759</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,200,000)</u>	<u>(1,173,100)</u>	<u>52,333</u>	<u>1,225,433</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account			38,573	38,573
Lease Proceeds			185,000	185,000
Total Other Adjustments to Cash (Uses)			<u>223,573</u>	<u>223,573</u>
Net Change in Fund Balance	(1,200,000)	(1,173,100)	275,906	1,449,006
Fund Balance - Beginning	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,729,428</u>	<u>529,428</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 26,900</u>	<u>\$ 2,005,334</u>	<u>\$ 1,978,434</u>

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,365,937	\$ 1,365,937	\$ 1,404,046	\$ 38,109
Miscellaneous	20,000	20,000	11,429	(8,571)
Interest	7,000	7,000	11,768	4,768
Total Receipts	<u>1,392,937</u>	<u>1,392,937</u>	<u>1,427,243</u>	<u>34,306</u>
DISBURSEMENTS				
General Health and Sanitation	40,000	40,000	22,622	17,378
Roads	737,927	737,927	661,338	76,589
Capital Projects	824,326	886,523	637,647	248,876
Administration	640,684	578,487	296,998	281,489
Total Disbursements	<u>2,242,937</u>	<u>2,242,937</u>	<u>1,618,605</u>	<u>624,332</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(850,000)</u>	<u>(850,000)</u>	<u>(191,362)</u>	<u>658,638</u>
Net Change in Fund Balance	(850,000)	(850,000)	(191,362)	658,638
Fund Balance - Beginning	<u>850,000</u>	<u>850,000</u>	<u>832,640</u>	<u>(17,360)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 641,278</u>	<u>\$ 641,278</u>

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 176,350	\$ 176,350	\$ 164,252	\$ (12,098)
Miscellaneous	2,000	2,000		(2,000)
Interest	2,500	2,500	4,068	1,568
Total Receipts	<u>180,850</u>	<u>180,850</u>	<u>168,320</u>	<u>(12,530)</u>
DISBURSEMENTS				
Protection to Persons and Property	151,326	153,446	87,730	65,716
Administration	229,524	227,404	33,946	193,458
Total Disbursements	<u>380,850</u>	<u>380,850</u>	<u>121,676</u>	<u>259,174</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(200,000)</u>	<u>(200,000)</u>	<u>46,644</u>	<u>246,644</u>
Net Change in Fund Balance	(200,000)	(200,000)	46,644	246,644
Fund Balance - Beginning	<u>200,000</u>	<u>200,000</u>	<u>256,500</u>	<u>56,500</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 303,144</u>	<u>\$ 303,144</u>

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 77,500	\$ 77,500	\$ 92,358	\$ 14,858
Interest	900	900	1,200	300
Total Receipts	<u>78,400</u>	<u>78,400</u>	<u>93,558</u>	<u>15,158</u>
DISBURSEMENTS				
Protection to Persons and Property	67,500	70,100	68,824	1,276
Capital Projects	75,900	73,300		73,300
Total Disbursements	<u>143,400</u>	<u>143,400</u>	<u>68,824</u>	<u>74,576</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(65,000)</u>	<u>(65,000)</u>	<u>24,734</u>	<u>89,734</u>
Net Change in Fund Balance	(65,000)	(65,000)	24,734	89,734
Fund Balance - Beginning	<u>65,000</u>	<u>65,000</u>	<u>72,345</u>	<u>7,345</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 97,079</u>	<u>\$ 97,079</u>

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	COURTHOUSE E BOND FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Protection to Persons and Property	\$ 1	\$ 1	\$	\$ 1
Total Disbursements	<u>1</u>	<u>1</u>	<u></u>	<u>1</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1)</u>	<u>(1)</u>	<u></u>	<u>1</u>
Net Change in Fund Balance	(1)	(1)		1
Fund Balance - Beginning	<u>1</u>	<u>1</u>	<u></u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

JAIL CONSTRUCTION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 4,000	\$ 4,000	\$ 19,515	\$ 15,515
Total Receipts	<u>4,000</u>	<u>4,000</u>	<u>19,515</u>	<u>15,515</u>
DISBURSEMENTS				
Protection to Persons and Property	321,950	334,297	201,401	132,896
Debt Service			151,850	(151,850)
Capital Projects	<u>3,626,241</u>	<u>4,063,303</u>	<u>3,065,312</u>	<u>997,991</u>
Total Disbursements	<u>3,948,191</u>	<u>4,397,600</u>	<u>3,418,563</u>	<u>979,037</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,944,191)</u>	<u>(4,393,600)</u>	<u>(3,399,048)</u>	<u>994,552</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds	<u>3,944,191</u>	<u>4,366,700</u>		<u>(4,366,700)</u>
Total Other Adjustments to Cash (Uses)	<u>3,944,191</u>	<u>4,366,700</u>		<u>(4,366,700)</u>
Net Change in Fund Balance		(26,900)	(3,399,048)	(3,372,148)
Fund Balance Beginning			<u>4,357,136</u>	<u>4,357,136</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (26,900)</u>	<u>\$ 958,088</u>	<u>\$ 984,988</u>

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	PHASE I FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 256,800	\$ 329,321	\$ 329,321	\$
Interest	6,000	6,000	2,036	(3,964)
Total Receipts	<u>262,800</u>	<u>335,321</u>	<u>331,357</u>	<u>(3,964)</u>
DISBURSEMENTS				
Administration	295,406	409,912	300,286	109,626
Total Disbursements	<u>295,406</u>	<u>409,912</u>	<u>300,286</u>	<u>109,626</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(32,606)</u>	<u>(74,591)</u>	<u>31,071</u>	<u>105,662</u>
Net Change in Fund Balance	(32,606)	(74,591)	31,071	105,662
Fund Balance - Beginning	<u>32,606</u>	<u>74,591</u>	<u>74,591</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 105,662</u>	<u>\$ 105,662</u>

BOURBON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

Jail construction fund debt service disbursements exceeded budgeted appropriations by \$151,850.

BOURBON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018

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BOURBON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 856,877	\$	\$	\$ 856,877
Construction In Progress	3,990,660		3,990,660	
Buildings and Building Improvements	12,351,436	7,029,710		19,381,146
Equipment and Vehicles	1,830,281	25,113	19,000	1,836,394
Other Equipment	1,943,947	242,500	43,142	2,143,305
Infrastructure	9,052,354	637,646		9,690,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 30,025,555</u>	<u>\$ 7,934,969</u>	<u>\$ 4,052,802</u>	<u>\$ 33,907,722</u>

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

June 30, 2018

Note 1. Capital Assets

Capital assets, which include land and land improvements, buildings and building improvements, equipment and vehicles, other 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 and Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment and Vehicles	\$ 2,500	3-25
Other Equipment	\$ 2,500	3-25
Infrastructure	\$ 25,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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The Honorable Michael R. Williams, Bourbon County Judge/Executive
Members of the Bourbon 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 Auditors' 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 Bourbon County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Bourbon County Fiscal Court's financial statement and have issued our report thereon dated February 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Bourbon County Fiscal Court's internal control over financial reporting (internal control) to determine 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 Bourbon County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bourbon County Fiscal Court's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2018-004 and 2018-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-006 and 2018-007 to be significant deficiencies.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bourbon County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, and 2018-003.

Views of Responsible Official and Planned Corrective Actions

Bourbon County's views and planned corrective actions for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Certified Public Accountants
Louisville, Kentucky

February 8, 2019

**BOURBON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**BOURBON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

STATE LAWS AND REGULATIONS:

2018-001 The Bourbon County Fiscal Court Exceeded The Budget In The Debt Service Category In The Jail Construction Fund At Fiscal Year End June 30, 2018, In Violation of KRS 68.300

This is a repeat issue and was included in a similar finding in the prior year audit report as finding 2017-002. During our audit, we noted that after making audit adjustments to include all activity that occurred in the jail construction fund for the fiscal year, the debt service disbursement category exceeded the budget. The fiscal court budgeted zero but spent \$151,850. The fiscal court budgeted jail construction fund debt payments under the protection to persons and property expense category instead of the debt service expense category. Not properly monitoring the budget can cause the fiscal court to overspend the budget categories. KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any fiscal court warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.” We recommend the Bourbon County Fiscal Court review the budget to ensure that debt related expenditures are included in the debt service expense category. We also recommend the Bourbon County Fiscal Court monitor and prepare a budget amendment in any future instance of possible budget overage.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The Bourbon County Fiscal Court will not Exceed The Budget In The Debt Service Category In The Jail Construction Fund in the future.

2018-002 The Bourbon County Fiscal Court Is Not Following Its Personnel Vacation Policy

This is a repeat finding and was included in the prior year audit report as finding 2017-003. Fiscal court employees can accumulate vacation throughout the year. For fiscal year 2018, the fiscal court had a policy stating that for vacation time, a maximum of 10 days were allowed to be accumulated. During our review of the vacation (leave) schedule for fiscal court personnel, the auditors noted that several employees had accumulated vacation balances in excess of 10 days. Furthermore, the auditors noted that two employees who retired during the current fiscal year were paid out for accumulated vacation in excess of 10 days’ pay. Employee A had accumulated 292 hours of vacation upon retirement. Employee A was paid a lump sum of \$6,334 in gross pay on November 3, 2017, for these accumulated vacation hours. However, according to the policy in place at the time, Employee A was only entitled to 10 days’ worth of pay, or \$1,735 of gross pay. In total, Employee A was overpaid by \$4,599 in gross pay. Employee B had accumulated 1,362 hours of vacation upon retirement. Beginning on December 15th, 2017, Employee B was paid for this vacation in 10 bi-weekly checks of \$2,001, for a total payout of \$20,011. However, according to the policy in place at the time, Employee B was only entitled to 10 days’ worth of pay, or \$2,001. In total, Employee B was overpaid by \$18,010 in gross pay.

**BOURBON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2018-002 The Bourbon County Fiscal Court Is Not Following Its Personnel Vacation Policy (Continued)

The Bourbon County Fiscal Court did not follow its written personnel vacation policy. Also, the county judge/executive approved these payments to Employee A and B and was one of the two check signers on the payments. The auditors did not receive any documents showing prior approval of these payments by the fiscal court. The Bourbon County Fiscal Court was not in compliance with their written personnel vacation policy. By not following the policy, the fiscal court overpaid two employees by a total of \$22,609. The Bourbon County Fiscal Court had a written personnel policy stating that for vacation time, only a maximum of 10 days will be allowed to be accumulated and carried over to the next year and the maximum to be paid at termination is 10 days. We recommend the county judge/executive not approve any transactions that are not in accordance with the Bourbon County Fiscal Court policy. We further recommend the Bourbon County Fiscal Court seek to recover the \$22,609 in overpayments of gross pay to Employees A and B.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Bourbon County Fiscal Court (the "Court") had not followed its written policy with regards accumulated vacation days and the payment of retired employees accumulated vacation days since before the enactment of the said policy by the Court on 3/9/1989. Further, given the small number of Court employees, many employees felt that they could not use the said vacation days due to lack of coverage. Court employees were under the belief that the nearly three decades practice of the Court paying accumulated vacation was in fact the policy. The Court would have been unjustly enriched had they not paid employees for accumulated vacation days, after it, previous Court's and previous County Judge Executives had carried out the practice during the entire term of both employees who retired in 2018. As soon as I realized there was an issue, I worked with the Court and elected officials to pass an ordinance and to implement a new administrative code to address the issue and codify the practice that the Court had used over the last three decades.

2018-003 The Bourbon County Fiscal Court's Capital Asset Schedule Was Inaccurate

During fiscal year ending June 30, 2018, the Bourbon County Fiscal Court's Detention Center renovations were substantially completed, but were not properly included on the capital asset schedule as building improvements. As of June 30, 2018, the total value of these building improvements was \$7,029,710. The Bourbon County Fiscal Court also did not include \$637,646 in infrastructure assets on the capital asset schedule. This was due to an oversight when preparing the capital asset schedule. The fiscal court's capital assets were not accurately reported as of June 30, 2018. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long-range planning for property placement. We recommend the fiscal court maintain an up to date capital asset schedule and ensure that these records are accurate throughout the fiscal year.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: The Bourbon County Fiscal Court Capital Asset Schedule will be updated 2/6/2019.

BOURBON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES:

2018-004 The Bourbon County Fiscal Court Did Not Properly Record All Activity Related To The Jail Construction Fund

This is a repeat finding and was included in the prior year audit report as finding 2017-001. The fiscal court did not prepare the financial statement in accordance with appropriate accounting principles. During our audit, we noted that the fiscal court has a jail construction fund to record activity related to the jail expansion. On the Fourth Quarter Report, the fiscal court recorded \$3,364,763 as refunding and improvement bond proceeds. However, these funds were received in the prior year, and should have been recorded as a prior year carryover. An additional \$992,373 in bond proceeds received in the prior year should have also been recorded as a prior year carryover, but were not accounted for on the Fourth Quarter Report. The fiscal court also failed to record \$19,515 in interest earned and an interest payment of \$26,900. These misstatements resulted in material adjustments to jail construction receipts and the jail construction fund balance. The fiscal court did not properly record activity in the jail construction fund for bond related bank accounts. Certain adjustments were required to be made to the account records subsequent to the start of the audit process. A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare the financial statement. We recommend the Bourbon County Fiscal Court apply the appropriate accounting principles required to prepare the financial statement.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: The Jail Construction Fund will be properly reported.

2018-005 The Bourbon County Fiscal Court's Debt Balances Per The Lead Schedule Do Not Agree To The Long-Term Liabilities On The Fourth Quarter Report

Debt balances per the fiscal court's lead schedule did not agree to the fourth quarter report. Total principal outstanding per the lead schedule is \$10,713,662. Total principal outstanding per the fourth quarter report is \$10,552,970, a difference of \$160,692. Total interest outstanding per the lead schedule is \$2,848,332. Total interest outstanding per the fourth quarter report is \$2,871,481, a difference of \$23,149. The long-term liabilities on the fourth quarter report were not accurately reported. The largest difference was due to the omission of the body scanner lease from the fourth quarter report. Not having the correct debt amounts on the fourth quarter report makes the fiscal court appear to have less debt than it actually does. Proper internal control requires that the fourth quarter report and other financials be as accurate as possible. We recommend the Bourbon County Fiscal Court ensure that actual principal and interest balances agree to the fourth quarter report.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: The Long-Term Liabilities report will be updated on 2/6/2019.

BOURBON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2018-006 The Bourbon County Fiscal Court's Payroll Reports Prepared By The Service Organization Are Not Checked For Accuracy

The fiscal court contracts with a service organization to process payroll bi-weekly. This third party calculates amounts due employees, prepares payroll tax reports, and submits payments for these taxes. The fiscal court transfers funds to the payroll revolving account for payroll and payroll taxes. The service organization sweeps funds from the payroll revolving account into their bank account, where funds are swept for federal and state taxes due and checks are issued for local taxes. During our review, we noted adequate controls were not in place to ensure the accuracy of payroll tax reports prepared by the service organization. While the bi-weekly payroll processed by the service organization is checked by the treasurer and her staff, payroll tax returns prepared for federal, state, and local taxes are not compared to payroll reports to ensure accuracy. In addition, the fiscal court does not receive documentation when tax payments are made from the service organization's bank account. Therefore, they would not be aware if payments were accurate and made timely.

Payroll tax returns prepared by the service organization are not being compared to payroll tax reports due to time constraints. The fiscal court has not requested documentation be sent to them when payroll tax payments are made because the service organization is responsible for timely submissions. If payroll tax payments are not submitted timely or submitted incorrectly, the fiscal court may incur penalty and interest. Proper internal controls dictate that the fiscal court cannot abdicate their responsibility to make timely and accurate payments to the IRS and other tax agencies to their service organization. We recommend the fiscal court ensure payroll tax reports prepared by their service organization agree to payroll reports. In addition, the fiscal court should require the service organization to provide documentation that tax payments were accurate and submitted timely.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: The payroll company, [Name Redacted], has been notified on 2/6/2019 to send quarterly reports starting with the 12/31/18 quarter so we may check for accuracy. These reports will be checked quarterly for accuracy and filed in the Treasurer's office.

2018-007 The Bourbon County Fiscal Court's Fourth Quarter Report Contained Errors

While reviewing the fourth quarter report, we noted that the revenue listed for account 77-4543 (county ag investment program) was incorrectly listed as \$239,321. The revenue, per the fiscal court's ledger, was correctly recorded as \$329,321. As a result, revenue was understated by \$90,000. This error also impacted the cash balance for the phase 1 fund on the financial cover sheet, where the cash balance is listed at two different amounts. The cash balance is both incorrectly listed as \$15,662, and correctly listed as \$105,662.

Revenue and cash balances per the fourth quarter report were not agreed to the ledger prior to submission of the fourth quarter report.

Revenue on the fourth quarter report for the phase 1 fund was understated by \$90,000, and the cash balance was understated by the same amount.

Proper internal controls require that the fourth quarter report and other financials be as accurate as possible.

We recommend the Bourbon County Fiscal Court ensure that revenue and cash balances per the fourth quarter report agree to their ledger.

BOURBON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-007 The Bourbon County Fiscal Court's Fourth Quarter Report Contained Errors (Continued)

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: Bourbon County Fiscal Court will ensure that revenue and cash balances per the 4th Quarter Report will agree to the ledger.

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

BOURBON COUNTY FISCAL COURT

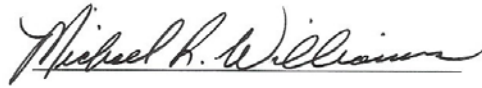
**For The Fiscal Year Ended
June 30, 2018**

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BOURBON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2018

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

Handwritten signature of Michael R. Williams in cursive script, written over a horizontal line.

County Judge/Executive

Handwritten signature of Dana H. Boone in cursive script, written over a horizontal line.

County Treasurer