

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

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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

EXECUTIVE SUMMARY

AUDIT OF THE ELLIOTT COUNTY FISCAL COURT

June 30, 2015

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

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

Financial Condition:

The Elliott County Fiscal Court had total receipts of \$3,182,011 and disbursements of \$3,414,595 in fiscal year 2015. This resulted in a total ending fund balance of \$563,360, which is an increase of \$61,034 from the prior year.

Report Comments:

- 2015-001 The Fiscal Court Minutes Were Not Recorded Timely By The Fiscal Court Clerk
- 2015-002 The Fourth Quarterly Financial Report Was Not Submitted Timely
- 2015-003 Budget Amounts Were Not Properly Reported On The Quarterly Financial Reports
- 2015-004 The Forest Fire Fund Was Not Amended Into The Fiscal Court's Operating Budget And Included On The Quarterly Reports
- 2015-005 Disbursements Exceeded Approved Budget Appropriations For The General, Road, And Local Government Economic Assistance Funds
- 2015-006 Proper Records Were Not Maintained For Elliott County Properties, Incorporated
- 2015-007 Fund Transfers Were Made In Excess Of Amounts Approved By The Fiscal Court
- 2015-008 The Fiscal Court Failed To Make The June 2015 Library Lease Interest Payment Of \$13,368
- 2015-009 The Fiscal Court Did Not Properly Budget For And Record All Debt Transactions
- 2015-010 The Fiscal Court Paid Credit Card Statements Without Proper Supporting Documentation
- 2015-011 The Fiscal Court Expended More Than 65% Of The Budget In Both The Road Fund And Local Government Economic Assistance Fund During The First Half Of The Fourth Fiscal Year
- 2015-012 The General Fund Owes The Road Fund \$146,905 From Prior Years' Misuse Of Restricted Funds
- 2015-013 The Jail Fund Owes The Local Government Economic Assistance Fund \$21,795 From Prior Years' Misuse Of Restricted Funds
- 2015-014 The Fiscal Court Did Not Follow The Procurement Policy For Bid Purchases As Written In The County's Administrative Code
- 2015-015 Timesheets Were Not Always Prepared, Signed, And Approved Prior To Payment
- 2015-016 An Employee Was Not Paid The Salary Approved By The Fiscal Court
- 2015-017 The Road Supervisor's Employer-Provided Vehicle Was Not Included As A Taxable Fringe Benefit
- 2015-018 Employer's Quarterly Federal Tax Return 941 Forms Were Not Filed With The Internal Revenue Service
- 2015-019 The Fiscal Court Lacks Adequate Segregation Of Duties And Internal Controls Over Receipts, Disbursements, Payroll, And Record-Keeping Functions And Lacks A Designated Finance Officer
- 2015-020 The Fiscal Court Lacks Internal Controls Over The Payroll Revolving Accounts

Deposits:

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

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
ELLIOTT COUNTY OFFICIALS	5
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS	8
NOTES TO FINANCIAL STATEMENT	11
BUDGETARY COMPARISON SCHEDULES	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES	31
SCHEDULE OF CAPITAL ASSETS	35
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS	36
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 <i>GOVERNMENT AUDITING STANDARDS</i>	39
COMMENTS AND RECOMMENDATIONS.....	43
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Carl Fannin, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Elliott County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Elliott County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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



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

As described more fully in Note 1 of the financial statement, the financial statement is prepared by the Elliott 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 Elliott County Fiscal Court as of June 30, 2015, 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 Elliott County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matters

As discussed in Note 4 to the financial statement, Elliott County Fiscal Court has actual deficit fund balances in its general and jail funds totaling \$98,590. The deficit balances are the cumulative result of interfund payables created when restricted funds were transferred and used for general disbursements of the county. Management does not have a plan to ensure the restricted funds are transferred back to the appropriate funds. The financial statement does not include any adjustments for these interfund payables. This matter does not affect our opinion on the financial statement.

As discussed in Note 7.D to the financial statement, Elliott County Fiscal Court entered into a lease agreement with the Kentucky Public Agency Development Lease Program (KPAD) in the amount of \$1,076,000. This lease requires principal and interest payments as noted in Note 7.D to the financial statement. Interest totaling \$13,368 was due on June 1, 2015, but was not paid as required by the agreement. This matter does not affect our opinion on the financial statement.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
 Honorable Carl Fannin, Elliott County Judge/Executive
 Members of the Elliott County Fiscal Court

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 Elliott 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016 on our consideration of the Elliott 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 Elliott County Fiscal Court's internal control over financial reporting and compliance.

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

- 2015-001 The Fiscal Court Minutes Were Not Recorded Timely By The Fiscal Court Clerk
- 2015-002 The Fourth Quarterly Financial Report Was Not Submitted Timely
- 2015-003 Budget Amounts Were Not Properly Reported On The Quarterly Financial Reports
- 2015-004 The Forest Fire Fund Was Not Amended Into The Fiscal Court's Operating Budget And Included On The Quarterly Reports
- 2015-005 Disbursements Exceeded Approved Budget Appropriations For The General, Road, And Local Government Economic Assistance Funds
- 2015-006 Proper Records Were Not Maintained For Elliott County Properties, Incorporated
- 2015-007 Fund Transfers Were Made In Excess Of Amounts Approved By The Fiscal Court
- 2015-008 The Fiscal Court Failed To Make The June 2015 Library Lease Interest Payment Of \$13,368
- 2015-009 The Fiscal Court Did Not Properly Budget For And Record All Debt Transactions
- 2015-010 The Fiscal Court Paid Credit Card Statements Without Proper Supporting Documentation
- 2015-011 The Fiscal Court Expended More Than 65% Of The Budget In Both The Road Fund And Local Government Economic Assistance Fund During The First Half Of The Fourth Fiscal Year

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

- 2015-012 The General Fund Owes The Road Fund \$146,905 From Prior Years' Misuse Of Restricted Funds
- 2015-013 The Jail Fund Owes The Local Government Economic Assistance Fund \$21,795 From Prior Years' Misuse Of Restricted Funds
- 2015-014 The Fiscal Court Did Not Follow The Procurement Policy For Bid Purchases As Written In The County's Administrative Code
- 2015-015 Timesheets Were Not Always Prepared, Signed, And Approved Prior To Payment
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- 2015-019 The Fiscal Court Lacks Adequate Segregation Of Duties And Internal Controls Over Receipts, Disbursements, Payroll, And Record-Keeping Functions And Lacks A Designated Finance Officer
- 2015-020 The Fiscal Court Lacks Internal Controls Over The Payroll Revolving Accounts

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

December 2, 2016

ELLIOTT COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Carl Fannin	County Judge/Executive
Mike Dickerson	Magistrate
Angie Porter	Magistrate
James Salyers	Magistrate
Michelle Oney	Magistrate
Brian Dillon	Magistrate
Cheyenne Holbrook	Magistrate
Billy Wilson	Magistrate

Other Elected Officials:

Patrick Trent	County Attorney
Mark Lewis	Jailer
Shelia Blevins	County Clerk
Jason Ison	Circuit Court Clerk
Jim Stephens	Sheriff
Lovell Mayse	Property Valuation Administrator
Mark E. Lewis	Coroner

Appointed Personnel:

Heather Stevens	County Treasurer
Darren Fannin	Road Supervisor

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 575,294	\$	\$
In Lieu Tax Payments	18,861		
Excess Fees	376		
Intergovernmental	557,921	1,415,701	81,093
Charges for Services		2,000	370
Miscellaneous	27,338	13,248	9
Interest	57	191	
Total Receipts	<u>1,179,847</u>	<u>1,431,140</u>	<u>81,472</u>
DISBURSEMENTS			
General Government	682,114		
Protection to Persons and Property	316,856	3,053	158,852
General Health and Sanitation	24,143		
Recreation and Culture	24,114		
Roads		1,103,585	
Debt Service	96,162	10,297	
Administration	370,420	129,756	8,714
Total Disbursements	<u>1,513,809</u>	<u>1,246,691</u>	<u>167,566</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(333,962)</u>	<u>184,449</u>	<u>(86,094)</u>
Other Adjustments to Cash (Uses)			
Financing Obligations	274,368	27,250	
Note Receivable	(8,000)		
Transfers From Other Funds	153,747		80,000
Transfers To Other Funds	(87,599)	(173,741)	
Total Other Adjustments to Cash (Uses)	<u>332,516</u>	<u>(146,491)</u>	<u>80,000</u>
Net Change in Fund Balance	(1,446)	37,958	(6,094)
Fund Balance - Beginning (Restated)	71,303	96,038	6,345
Fund Balance - Ending	<u>\$ 69,857</u>	<u>\$ 133,996</u>	<u>\$ 251</u>
Composition of Fund Balance			
Bank Balance	\$ 75,793	\$ 138,345	\$ 3,227
Less: Outstanding Checks	(5,936)	(4,349)	(2,976)
Fund Balance - Ending	<u>\$ 69,857</u>	<u>\$ 133,996</u>	<u>\$ 251</u>

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

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

Local Government Economic Assistance Fund	Budgeted Funds		Unbudgeted Funds		Total Funds
	911 Fund	Library Construction Fund	Elliott County Properties, Incorporated Fund	Forest Fire Fund	
\$	\$ 158,022	\$	\$	\$ 245	\$ 733,561
					18,861
					376
57,018		125,000	149,110		2,385,843
					2,370
					40,595
97		60			405
<u>57,115</u>	<u>158,022</u>	<u>125,060</u>	<u>149,110</u>	<u>245</u>	<u>3,182,011</u>
15,033					697,147
9,985	123,883				612,629
11,319					35,462
2,000					26,114
					1,103,585
25,240		104,092	167,854		403,645
	27,063			60	536,013
<u>63,577</u>	<u>150,946</u>	<u>104,092</u>	<u>167,854</u>	<u>60</u>	<u>3,414,595</u>
(6,462)	7,076	20,968	(18,744)	185	(232,584)
					301,618
					(8,000)
	6,000		19,994	1,599	261,340
					(261,340)
	<u>6,000</u>		<u>19,994</u>	<u>1,599</u>	<u>293,618</u>
(6,462)	13,076	20,968	1,250	1,784	61,034
180,635	2,182	141,811	4,012		502,326
<u>\$ 174,173</u>	<u>\$ 15,258</u>	<u>\$ 162,779</u>	<u>\$ 5,262</u>	<u>\$ 1,784</u>	<u>\$ 563,360</u>
\$ 175,429	\$ 15,419	\$ 162,779	\$ 5,262	\$ 1,784	\$ 578,038
(1,256)	(161)				(14,678)
<u>\$ 174,173</u>	<u>\$ 15,258</u>	<u>\$ 162,779</u>	<u>\$ 5,262</u>	<u>\$ 1,784</u>	<u>\$ 563,360</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	11
NOTE 2.	DEPOSITS.....	13
NOTE 3.	TRANSFERS	14
NOTE 4.	INTERFUND RECEIVABLES AND LIABILITIES	14
NOTE 5.	SHORT-TERM NOTE RECEIVABLE	14
NOTE 6.	SHORT-TERM DEBT	15
NOTE 7.	LONG-TERM DEBT.....	15
NOTE 8.	INSURANCE	19
NOTE 9.	EMPLOYEE RETIREMENT SYSTEM	19
NOTE 10.	DEFERRED COMPENSATION	21
NOTE 11.	SUBSEQUENT EVENTS	22
NOTE 12.	PRIOR PERIOD ADJUSTMENTS	22

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Elliott County includes all budgeted and unbudgeted funds under the control of the Elliott 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 Government 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 90 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

911 Fund - The primary purpose of this fund is to account for dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Library Construction Fund - The primary purpose of this fund is to account for bond payments for the financing of the Elliott County Public Library. The primary sources of receipts for this fund are state grants.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Elliott County Properties, Incorporated Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

Forest Fire Fund - The primary purpose of this fund is to account for forest fire tax proceeds and remittance to the state.

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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

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

The State Local Finance Officer does not require the Elliott County Properties, Incorporated Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Elliott County Elected Officials

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

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

F. Deposits

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.

Note 2. Deposits

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

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

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

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

Note 3. Transfers

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

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 153,747	\$ 153,747
Jail Fund	80,000		80,000
Forest Fire Fund	1,599		1,599
911 Fund	6,000		6,000
Elliott County Properties, Incorporated Fund		19,994	19,994
Total Transfers Out	<u>\$ 87,599</u>	<u>\$ 173,741</u>	<u>\$ 261,340</u>

Reason for transfers:

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

Note 4. Interfund Receivables and Liabilities

The table below reflects fund balances after accounting for receivables and liabilities that are not included on the financial statement prepared in accordance with the regulatory basis of accounting.

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
Fund Balance - Ending	\$ 69,859	\$ 133,996	\$ 251	\$ 174,173
Interfund Receivables/Liabilities	<u>(146,905)</u>	<u>146,905</u>	<u>(21,795)</u>	<u>21,795</u>
Fund Balance - Ending	<u>\$ (77,046)</u>	<u>\$ 280,901</u>	<u>\$ (21,544)</u>	<u>\$ 195,968</u>

Note 5. Short-term Note Receivable

On October 21, 2014, the Elliott County Fiscal Court approved loaning the Elliott County Ambulance Service up to \$20,000 for payroll costs. In November 2014, \$8,000 was loaned to and repaid by the Elliott County Ambulance Service. As of June 30, 2015, the note receivable was paid in full.

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

Note 6. Short-term Debt

A. Financing Obligation - Chevrolet Silverado

On July 17, 2014, the Elliott County Fiscal Court entered into a loan agreement with Kentucky Bank to purchase a 2009 Chevrolet Silverado Crew Cab Pickup in the amount of \$9,624. The loan was to be paid in full by June 30, 2015. As of June 30, 2015, this loan was paid in full.

B. Financing Obligation - Ambulance Service

On June 30, 2015, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties to pay Elliott County Ambulance Service's outstanding FY 2012-2013 and FY 2013-2014 workers compensation premiums in the amount of \$74,368. The lease required 12 monthly payments of \$6,319. As of June 30, 2015, this lease was paid in full.

C. Financing Obligation - Dump Truck and Bridge Parts

In June 2015, the Elliott County Fiscal Court entered into a promissory note agreement with Kentucky Bank to purchase a dump truck and bridge parts in the amount of \$27,250. The promissory note is to be paid in full by June 30, 2016. As of June 30, 2015, the principal balance was \$27,250.

D. Changes In Short-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 9,624	\$ 101,618	\$ 83,992	\$ 27,250	\$ 27,250
Total Short-term Debt	<u>\$ 9,624</u>	<u>\$ 101,618</u>	<u>\$ 83,992</u>	<u>\$ 27,250</u>	<u>\$ 27,250</u>

Note 7. Long-term Debt

A. First Mortgage Refunding Revenue Bonds, Courthouse Renovation

On November 16, 2006, Elliott County Properties, Incorporated, a component unit of the Elliott County Fiscal Court, issued \$1,770,000 in First Mortgage Refunding Revenue Bonds, Series 2006, for the purpose of defeasing the First Mortgage Revenue Bonds, Series 2000. The 2000 series bonds were issued to renovate the existing courthouse facility. On May 1, 2000, the county entered into a lease agreement with the Administrative Office of the Courts in order to provide funding to meet annual debt service requirements. Interest on the bonds is payable semi-annually in September and March for each year commencing March 1, 2007. Principal payments are payable annually commencing March 1, 2007. As of June 30, 2015, the principal balance on these bonds was \$1,000,000. Future principal and interest requirements are as follows:

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

Note 7. Long-term Debt (Continued)

A. First Mortgage Refunding Revenue Bonds, Courthouse Renovation (Continued)

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 110,000	\$ 39,975
2017	110,000	35,905
2018	115,000	31,725
2019	120,000	2,753
2020	125,000	27,353
2021-2023	420,000	36,400
Totals	<u>\$ 1,000,000</u>	<u>\$ 174,111</u>

B. General Obligation Refunding Bonds, Series 2010

On June 17, 2010, the Elliott County Fiscal Court issued General Obligation Refunding Bonds, Series 2010, for the purpose of defeasing the General Obligation Bond Series 2007 in the amount of \$1,495,000. Semiannual principal and interest payments are required in January and July of each year. As of June 30, 2015, the principal balance remaining was \$1,110,000. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 135,000	\$ 38,131
2017	140,000	34,175
2018	145,000	29,628
2019	150,000	24,369
2020	155,000	18,553
2021-2023	385,000	19,475
Totals	<u>\$ 1,110,000</u>	<u>\$ 164,331</u>

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

Note 7. Long-term Debt (Continued)

C. Financing Obligation - Courthouse Renovation

On September 27, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust (KADD) to finance the completion of the renovation of the courthouse facility in the amount of \$240,000. The agreement requires two semiannual interest payments be made in March and September of each year. Principal payments are due in September of each year. As of June 30, 2015, the principal balance remaining was \$155,000. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 10,000	\$ 9,808
2017	10,000	9,283
2018	10,000	8,750
2019	10,000	8,210
2020	10,000	7,660
2021-2025	75,000	26,400
2026-2027	30,000	3,930
Totals	<u>\$ 155,000</u>	<u>\$ 74,041</u>

D. Financing Obligation - Public Library Facility

On December 7, 2010, the Elliott County Fiscal Court entered into an agreement with the Kentucky Public Agency Development (KPAD) Lease Program in the amount of \$1,076,000 to refinance the Kentucky Area Development District agreement dated December 20, 2001 that was used for the construction of the Elliott County Public Library. Semiannual principal and interest payments are required in June and December of each year. As of June 30, 2015, the principal balance remaining was \$722,000. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 93,000	\$ 38,709
2017	95,000	22,402
2018	99,000	19,176
2019	101,000	15,599
2020	105,000	11,605
2021-2022	229,000	9,625
Totals	<u>\$ 722,000</u>	<u>\$ 103,748</u>

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

Note 7. Long-term Debt (Continued)

E. Financing Obligation - Asphalt Paver

On January 7, 2014, the Elliott County Fiscal Court entered into a lease agreement with Republic Bank & Trust Company in the amount of \$118,100 to purchase an asphalt paver. Annual principal and interest payments are required in December of each year. As of June 30, 2015, the principal balance remaining was \$95,334. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 23,017	\$ 2,223
2017	23,549	1,691
2018	24,103	1,137
2019	24,665	575
Totals	<u>\$ 95,334</u>	<u>\$ 5,626</u>

F. Financing Obligation - Ambulance Service

On June 30, 2015, the Elliott County Fiscal Court entered into a lease agreement with Kentucky Bank in the amount of \$200,000 to repay and satisfy outstanding bills held by the Elliott County Ambulance Service. Annual principal and interest payments are due in November of each year. As of June 30, 2015, the principal balance remaining was \$200,000. Future lease principal and interest payments are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 40,867	\$ 4,288
2017	36,877	8,057
2018	38,762	6,173
2019	40,719	4,216
2020	42,775	2,160
Totals	<u>\$ 200,000</u>	<u>\$ 24,894</u>

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

Note 7. Long-term Debt (Continued)

G. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
First Mortgage Revenue					
Refunding Bonds	\$ 1,105,000	\$	\$ 105,000	\$ 1,000,000	\$ 110,000
General Obligation					
Refunding Bonds	1,240,000		130,000	1,110,000	135,000
Financing Obligations	1,094,100	200,000	121,765	1,172,335	198,423
Total Long-term Debt	<u>\$ 3,439,100</u>	<u>\$ 200,000</u>	<u>\$ 356,765</u>	<u>\$ 3,282,335</u>	<u>\$ 443,423</u>

Note 8. Insurance

For the fiscal year ended June 30, 2015, Elliott County was a member of the Kentucky Association of Counties All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses occurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Employee Retirement System

A. Plan Description

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

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

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent.

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

Note 9. Employee Retirement System (Continued)

A. Plan Description (Continued)

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

The county's contribution for FY 2013 was \$185,673, FY 2014 was \$180,650, and FY 2015 was \$232,875.

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.

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.

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

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

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

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

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

Note 9. Employee Retirement System (Continued)

A. Plan Description (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives 10 dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

B. Net Pension Liability

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

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Hazardous	\$ 210,000	\$ 188,000
Non-Hazardous	<u>1,316,000</u>	<u>1,163,000</u>
Totals	<u>\$ 1,526,000</u>	<u>\$ 1,351,000</u>

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

Note 10. Deferred Compensation

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

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

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

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

Note 11. Subsequent Events

As disclosed in Note 7.D. to the financial statement, Elliott County entered into a lease agreement with the Kentucky Public Agency Development Lease Program (KPAD) for the amount of \$1,076,000. This lease requires principal and interest payments as noted in Note 7.D to the financial statement. Interest of \$13,368 was due on June 1, 2015, but was not paid as required by the agreement. The principal and interest payments for FYE June 30, 2016 have also not been made.

Note 12. Prior Period Adjustments

Road Fund - Beginning fund balance was increased by \$9,624 due to a prior year misstatement.

Jail Fund - Beginning fund balance was increased by \$1 due to rounding.

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 515,130	\$ 515,130	\$ 575,294	\$ 60,164
In Lieu Tax Payments	17,500	17,500	18,861	1,361
Excess Fees			376	376
Licenses and Permits	2,000	2,000		(2,000)
Intergovernmental	475,028	475,028	557,921	82,893
Miscellaneous	13,900	13,900	27,338	13,438
Interest	70	70	57	(13)
Total Receipts	<u>1,023,628</u>	<u>1,023,628</u>	<u>1,179,847</u>	<u>156,219</u>
DISBURSEMENTS				
General Government	642,322	642,322	682,114	(39,792)
Protection to Persons and Property	27,478	27,478	316,856	(289,378)
General Health and Sanitation	23,800	23,800	24,143	(343)
Recreation and Culture	34,800	34,800	24,114	10,686
Debt Service	26,500	26,500	96,162	(69,662)
Administration	269,919	269,919	372,019	(102,100)
Total Disbursements	<u>1,024,819</u>	<u>1,024,819</u>	<u>1,515,408</u>	<u>(490,589)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,191)</u>	<u>(1,191)</u>	<u>(335,561)</u>	<u>(334,370)</u>
Other Adjustments to Cash (Uses)				
Financing Obligations			274,368	274,368
Note Receivable			(8,000)	(8,000)
Transfers From Other Funds	204,285	204,285	153,747	(50,538)
Transfers To Other Funds	(215,000)	(215,000)	(86,000)	129,000
Total Other Adjustments to Cash (Uses)	<u>(10,715)</u>	<u>(10,715)</u>	<u>334,115</u>	<u>78,462</u>
Net Change in Fund Balance	(11,906)	(11,906)	(1,446)	10,460
Fund Balance Beginning			71,303	71,303
Fund Balance - Ending	<u>\$ (11,906)</u>	<u>\$ (11,906)</u>	<u>\$ 69,857</u>	<u>\$ 81,763</u>
Reconciliation of the General Fund:				
Administration-Budgetary Basis		\$ 372,019		
To adjust for Transfer to unbudgeted Forest Fire Fund		<u>(1,599)</u>		
Total Administration-Regulatory Basis		<u>\$ 370,420</u>		
Transfer To Other Funds-Budgetary Basis		\$ (86,000)		
To adjust for Transfer To unbudgeted Forest Fire Fund		<u>(1,599)</u>		
Total Transfers To Other Funds-Regulatory Basis		<u>\$ (87,599)</u>		

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,237,588	\$ 1,237,588	\$ 1,415,701	\$ 178,113
Charges For Services	2,000	2,000	2,000	
Miscellaneous			13,248	13,248
Interest	300	300	191	(109)
Total Receipts	<u>1,239,888</u>	<u>1,239,888</u>	<u>1,431,140</u>	<u>191,252</u>
DISBURSEMENTS				
General Government	29,000	29,000		29,000
Protection To Persons And Property			3,053	(3,053)
Roads	698,557	698,557	1,103,585	(405,028)
Debt Service	173,000	173,000	30,291	142,709
Administration	135,046	135,046	129,756	5,290
Total Disbursements	<u>1,035,603</u>	<u>1,035,603</u>	<u>1,266,685</u>	<u>(231,082)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>204,285</u>	<u>204,285</u>	<u>164,455</u>	<u>(39,830)</u>
Other Adjustments to Cash (Uses)				
Financing Obligations			27,250	27,250
Transfers To Other Funds	(204,285)	(204,285)	(153,747)	50,538
Total Other Adjustments to Cash (Uses)	<u>(204,285)</u>	<u>(204,285)</u>	<u>(126,497)</u>	<u>77,788</u>
Net Change in Fund Balance			37,958	37,958
Fund Balance Beginning			<u>96,038</u>	<u>96,038</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 133,996</u>	<u>\$ 133,996</u>
Reconciliation of the Road Fund:				
Debt Service-Budgetary Basis			\$ 30,291	
To adjust for Transfer to unbudgeted Public Facilities Corporation Fund			<u>(19,994)</u>	
Total Debt Service-Regulatory Basis			<u>\$ 10,297</u>	
Transfers To Other Funds-Budgetary Basis			\$ (153,747)	
To adjust for Transfer to unbudgeted Public Facilities Corporation Fund			<u>(19,994)</u>	
Total Debt Service-Regulatory Basis			<u>\$ (173,741)</u>	

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 85,500	\$ 85,500	\$ 81,093	\$ (4,407)
Miscellaneous			370	370
Interest	10	10	9	(1)
Total Receipts	<u>85,510</u>	<u>85,510</u>	<u>81,472</u>	<u>(4,038)</u>
DISBURSEMENTS				
Protection to Persons and Property	290,360	290,360	158,852	131,508
Administration	10,150	10,150	8,714	1,436
Total Disbursements	<u>300,510</u>	<u>300,510</u>	<u>167,566</u>	<u>132,944</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(215,000)</u>	<u>(215,000)</u>	<u>(86,094)</u>	<u>128,906</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	215,000	215,000	80,000	(135,000)
Total Other Adjustments to Cash (Uses)	<u>215,000</u>	<u>215,000</u>	<u>80,000</u>	<u>(135,000)</u>
Net Change in Fund Balance			(6,094)	(6,094)
Fund Balance - Beginning			<u>6,345</u>	<u>6,345</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 251</u>	<u>\$ 251</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 30,000	\$ 30,000	\$ 57,018	\$ 27,018
Interest			97	97
Total Receipts	<u>30,000</u>	<u>30,000</u>	<u>57,115</u>	<u>27,115</u>
DISBURSEMENTS				
General Government	14,950	14,950	15,033	(83)
Protection to Persons and Property			9,985	(9,985)
General Health and Sanitation	15,050	15,050	11,319	3,731
Recreation and Culture			2,000	(2,000)
Roads			25,240	(25,240)
Total Disbursements	<u>30,000</u>	<u>30,000</u>	<u>63,577</u>	<u>(33,577)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(6,462)</u>	<u>(6,462)</u>
Net Change in Fund Balance			(6,462)	(6,462)
Fund Balance - Beginning			<u>180,635</u>	<u>180,635</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 174,173</u>	<u>\$ 174,173</u>

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

911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 150,000	\$ 150,000	\$ 158,022	\$ 8,022
Intergovernmental	25,000	25,000		(25,000)
Total Receipts	<u>175,000</u>	<u>175,000</u>	<u>158,022</u>	<u>(16,978)</u>
DISBURSEMENTS				
Protection to Persons and Property	143,000	143,000	123,883	19,117
Administration	32,000	32,000	27,063	4,937
Total Disbursements	<u>175,000</u>	<u>175,000</u>	<u>150,946</u>	<u>24,054</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>7,076</u>	<u>7,076</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			<u>6,000</u>	<u>6,000</u>
Total Other Adjustments to Cash (Uses)			<u>6,000</u>	<u>6,000</u>
Net Change in Fund Balance			13,076	13,076
Fund Balance Beginning			<u>2,182</u>	<u>2,182</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,258</u>	<u>\$ 15,258</u>

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

LIBRARY CONSTRUCTION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 125,000	\$ 125,000	\$ 125,000	\$ -
Interest			60	60
Total Receipts	<u>125,000</u>	<u>125,000</u>	<u>125,060</u>	<u>60</u>
DISBURSEMENTS				
Debt Service	<u>125,080</u>	<u>125,080</u>	<u>104,092</u>	<u>20,988</u>
Total Disbursements	<u>125,080</u>	<u>125,080</u>	<u>104,092</u>	<u>20,988</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(80)</u>	<u>(80)</u>	<u>20,968</u>	<u>21,048</u>
Net Change in Fund Balance	(80)	(80)	20,968	21,048
Fund Balance Beginning			<u>141,811</u>	<u>141,811</u>
Fund Balance - Ending	<u>\$ (80)</u>	<u>\$ (80)</u>	<u>\$ 162,779</u>	<u>\$ 162,859</u>

ELLIOTT COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

General Fund

The following general fund disbursements categories exceeded budgeted appropriations:

General Government by \$39,792.
Protection to Persons and Property by \$289,378.
General Health and Sanitation by \$343.
Debt Service by \$69,662.
Administration by \$103,562.

Road Fund

The following road fund disbursements categories exceeded budgeted appropriations:

Protection to Persons and Property by \$3,053.
Roads by \$405,028.

Local Government Economic Assistance Fund

The following local government economic assistance fund disbursements categories exceeded budgeted appropriations:

General Government by \$83.
Protection to Persons and Property by \$9,985.
Recreation and Culture by \$2,000.
Roads by \$25,240.

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ELLIOTT COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

ELLIOTT COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 233,000	\$	\$	\$ 233,000
Buildings	4,795,529			4,795,529
Vehicles and Equipment	289,301	15,500		304,801
Other Equipment	1,979,620			1,979,620
Infrastructure (Restated)	2,612,588	232,849		2,845,437
Total Capital Assets	<u>\$ 9,910,038</u>	<u>\$ 248,349</u>	<u>\$ 0</u>	<u>\$ 10,158,387</u>

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

June 30, 2015

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	0-50

Note 2. Beginning Balance

The beginning balance of infrastructure was increased by \$1,968,740 due to items that were omitted in the prior year.

**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***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Fannin, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Elliott County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Elliott County Fiscal Court's financial statement and have issued our report thereon dated December 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Elliott County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Elliott County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Elliott County Fiscal Court's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-019 and 2015-020 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Elliott County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-001 through 2015-018.

County Judge/Executive's Responses to Findings

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

December 2, 2016

**ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

STATE LAWS AND REGULATIONS:

2015-001 The Fiscal Court Minutes Were Not Recorded Timely By The Fiscal Court Clerk

Fiscal court meeting minutes were not recorded timely. As of May 2016, minutes had not been recorded in the county clerk's office for over two years. The county clerk has chosen not to serve as clerk of the fiscal court. The former county treasurers each served in that capacity during their periods of employment; the current county treasurer also serves as fiscal court clerk. The county treasurer's office is not in the courthouse where the county clerk's office is located, and where minutes are to be recorded. Without the minutes being recorded in the county clerk's office, there is no permanent record of the actions taken by the fiscal court. The minutes are also not available in the proper location for the public's use, which creates an inconvenience to the public. KRS 67.100 addresses records of the fiscal court. Section (1) states, in part, "[t]he fiscal court is a court of record." Section (2) states "[e]very official action of the fiscal court shall be made a part of the permanent records of the county." Section (5) states "[a] copy of all records required by this section shall be kept in the office of the county clerk." We recommend the fiscal court ensure the meeting minutes and county ordinances be recorded and filed as permanent records of the county clerk's office as required by KRS 67.100. We note that, after bring this issue to the attention of the county, all minutes were recorded in the county clerk's office as of July 2016.

County Judge/Executive's response: The prior fiscal court clerk resigned and the current fiscal court clerk records minutes timely.

2015-002 The Fourth Quarterly Financial Report Was Not Submitted Timely

The fourth quarterly financial report was not submitted timely. The county treasurer for the fiscal year ending June 30, 2015 resigned in August 2015 and a new county treasurer was appointed. The new county treasurer appointed did not follow up on an error in the submission process. The Department for Local Government (DLG) continued to send delinquent notices to the Elliott County Judge/Executive's office during FY 2015-2016. All four quarterly reports for FY 2015-2016 were delinquent also. The county's financial condition is not known to DLG, the regulatory agency for fiscal court reporting. DLG requires quarterly reports to be submitted by the 20th day following the close of the quarter in order to satisfy several requirements by federal and state government agencies. We recommend quarterly financial reports be submitted by the 20th day following the close of the quarter and that delinquent notices received from DLG not be ignored.

County Judge/Executive's response: There was a change in administration and we believe it was an oversight between the two previous treasurers. Fourth Quarter Reports will be submitted timely in the future.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2015-003 Budget Amounts Were Not Properly Reported On The Quarterly Financial Reports

Budget amounts were not properly reported on the quarterly financial reports. County administrative personnel neglected to use approved budget amounts on the quarterly reports. Original budget amounts reported on the June 30, 2015 quarterly financial report were overstated from the original budget approved by the Elliott County Fiscal Court and the Kentucky State Local Finance Officer as follows:

	Original Approved Budget	Fourth Quarterly Report Budget	Amount Budget Overstated On Fourth Quarterly Report
Receipts	\$ 2,991,092	\$ 3,085,597	\$ 94,505
Disbursements	5,807,184	5,996,193	189,009

Overstating budgeted disbursements resulted in disbursements being approved and disbursed from line items which have a negative balance. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, the original budget reported on the quarterly reports should agree to the approved original budget. We recommend the approved original budget amounts be included on the quarterly reports so that the fiscal court and regulatory agencies can accurately monitor spending.

County Judge/Executive's response: The current treasurer will ensure the approved budget amounts are reflected on the quarterly reports.

2015-004 The Forest Fire Fund Was Not Amended Into The Fiscal Court's Operating Budget And Included On The Quarterly Reports

The forest fire fund was not amended into the fiscal court's operating budget and included on the third and fourth quarterly financial reports. The forest fire fund bank account was opened in February 2015, but was not amended as a fund into the fiscal court's operating budget, and it was not included on the third and fourth quarterly financial reports. It was maintained only as a bank account. The county judge/executive, former county treasurer, and fiscal court did not realize the fund should have been budgeted and amended into the quarterly report at the time the bank account was opened. The fourth quarterly financial report is understated by receipts of \$1,844, disbursements of \$60, and an ending cash balance of \$1,784. Also, transfers of \$1,599 from the general fund to the forest fire fund to open the account were not shown. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Policy Manual* requires a separate fund known as the forest fire protection fund be maintained pursuant to KRS 149.590 for counties that participate in this program. Although there were no disbursements from the forest fire fund during FY 2014-2015, DLG still requires the fund to be budgeted so that when a disbursement does occur, it is allowable. We recommend the forest fire fund be included in the quarterly reports. The county has included the forest fire fund as a budgeted fund for FY 2015-2016, so this non-compliance has been corrected. For FY 2014-2015, the forest fire fund has been adjusted onto the financial statement as an unbudgeted fund.

County Judge/Executive's response: The Forest Fire Fund is now included in the quarterly reports.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2015-005 Disbursements Exceeded Approved Budget Appropriations For The General, Road, And Local Government Economic Assistance Funds

Disbursements exceeded approved budget appropriations for the general, road, and local government economic assistance (LGEA) funds. Budget amendments or appropriation transfers were not made to ensure the budget was not overspent. The Elliott County Fiscal Court did not monitor the budget or quarterly reports to prevent disbursements from exceeding the approved budget appropriations. Disbursements exceeded budget appropriations on the fourth quarterly financial report. However, as discussed in Finding 2015-003, the budgeted amounts on the fourth quarterly financial report were not accurate. When the budget amounts on the fourth quarterly financial report were corrected to reflect the approved budget appropriations, disbursements still exceeded budget appropriations on the fourth quarter financial report as shown below:

	Disbursements Exceeded Budget
<u>General Fund</u>	
General Government	\$ 39,792
Protection to Persons and Property	289,378
General Health and Sanitation	343
Debt Service	69,662
Administration	102,100
<u>Road Fund</u>	
Protection to Persons and Property	3,053
Roads	405,028
<u>LGEA Fund</u>	
General Government	83
Protection to Persons and Property	9,985
Recreation and Culture	2,000
Roads	25,240

KRS 68.300 states that “[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.” KRS 68.300 further states that “[n]o member of the fiscal court shall vote for any such illegal appropriation or claim.” We recommend the fiscal court and the county treasurer monitor the budget more closely and amend the county’s budget or transfer necessary appropriations in order to prevent the county from exceeding the budget. We also recommend the county treasurer and the county judge/executive not approve purchase orders for claims that exceed the budget appropriations. We further recommend the fiscal court not vote to approve payment of claims that would cause a line item to exceed the budget.

County Judge/Executive’s response: The current treasurer will monitor, amend, and/or transfer funds as deemed necessary by the fiscal court in the future to prevent the county from exceeding the budgeted line item expenditures.

**ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)**

STATE LAWS AND REGULATIONS: (CONTINUED)

2015-006 Proper Records Were Not Maintained For Elliott County Properties, Incorporated

The county treasurer during the fiscal year ending June 30, 2015 did not maintain proper records for Elliott County Properties, Incorporated, a component unit of the Elliott County Fiscal Court. There were no ledgers for receipts and disbursements, no bank reconciliations, and no financial statement for the fiscal year ending June 30, 2015. This appears to be caused by an oversight during the transition from the FY 2014-2015 county treasurer to the FY 2015-2016 treasurer. Information regarding the financial activities of Elliott County Properties, Incorporated was not compiled and reviewed for accuracy. Information is also not readily available for inclusion in the county's financial statements and audit. KRS 68.210 gives the State Local Finance Officer the authority to require certain accounting records to be maintained by local governments. These include receipts and disbursements ledgers and a financial statement. We recommend the treasurer prepare and maintain ledgers for receipts and disbursements of Elliott County Properties, Incorporated. We further recommend the treasurer prepare monthly bank reconciliations and a year-end financial statement.

County Judge/Executive's response: The current treasurer will prepare and maintain appropriate ledgers for [Elliott County Properties, Incorporated].

2015-007 Fund Transfers Were Made In Excess Of Amounts Approved By The Fiscal Court

The county treasurer during the fiscal year ending June 30, 2015 did not obtain prior approval from the fiscal court for all fund transfers made. There were unapproved transfers of \$15,000, \$15,000, and \$10,000 from the general fund to the jail fund, and an unapproved transfer of \$3,000 from the general fund to the 911 fund. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* states that "[a]ll transfers require a court order." This is to ensure the fiscal court is aware of all financial activity that occurs. We recommend all fund transfers be approved by the fiscal court.

County Judge/Executive's response: The current treasurer will ensure all transfers are approved by the fiscal court.

2015-008 The Fiscal Court Failed To Make The June 2015 Library Lease Interest Payment Of \$13,368

The Elliott County Fiscal Court financed construction of a library in 2010 through a lease with the Kentucky Public Agency Development Lease Program. The library lease interest payments are due on June 1 and December 1 of each year. Principal payments are due on December 1 of each year. The December 1, 2014 lease interest and principal payments were made, but the June 1, 2015 lease interest payment of \$13,368 has not been made and is now past due. Auditors were not given a reason as to why the payment was not made. The fiscal court is now delinquent on the lease payment, which could affect the fiscal court's ability to borrow funds in the future. Per the lease agreement, Elliott County Fiscal Court is required to make timely lease interest and principal payments as listed on the lease amortization schedule. A past due notice dated May 10, 2016 requesting the June 1, 2015 interest payment of \$13,368 was found by auditors during fieldwork. We recommend the fiscal court make the June 1, 2015 lease interest payment as soon as possible. We further recommend the fiscal court review all debt agreement and amortization schedules to become familiar with due dates and ensure payments are made timely.

County Judge/Executive's response: The current treasurer has paid the library lease and interest payments and they are currently up to date.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2015-009 The Fiscal Court Did Not Properly Budget For And Record All Debt Transactions

The Elliott County Fiscal Court entered into the following debt agreements during the fiscal year ending June 30, 2015: The Kentucky Association of Counties (KACo) lease for the ambulance service workers compensation claim in the amount of \$74,368; the Kentucky Bank promissory note for the purchase of a dump truck and bridge repair parts in the amount of \$27,250; and the Kentucky Bank lease for the ambulance service payment of outstanding bills in the amount of \$200,000. These debt transactions were not processed through the fiscal court's bank accounts, were not posted as receipts or disbursements on the quarterly report, and were not reflected on the fiscal court's fourth quarterly financial statement liabilities section. The fiscal court does not appear to be aware of the reporting requirements regarding debt transactions. The fiscal court failed to properly budget and record \$301,618 in debt receipts and disbursements for the fiscal year. The quarterly financial statement is misstated due to these omissions and errors, which provides a misleading financial position to taxpayers and users of the county's financial information. KRS 68.280 states, in part, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of unanticipated receipts and specifying the budget funds that are to be increased thereby." KRS 68.300 states, in part, "[a]ny appropriation 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." All debt transactions, whether processed through the fiscal court's bank accounts or not, should be included in the fiscal court's budget process and, if still outstanding at year end, reflected on the fiscal court's fourth quarterly financial report. We recommend the fiscal court comply with KRS 68.280 and KRS 68.300 by budgeting all debt transactions, and amending the budget as necessary to reflect unanticipated receipts and disbursements, including those handled by third-party lenders.

County Judge/Executive's response: The current treasurer will ensure all debt transactions are recorded properly in the financial statements.

2015-010 The Fiscal Court Paid Credit Card Statements Without Proper Supporting Documentation

Credit card statements without proper supporting documentation are being submitted to the fiscal court for payment without including the original invoices that support each transaction. The fiscal court is approving payment of the credit card bills without proper supporting documentation. Without the original invoices, there is no way for the fiscal court to know for certain what was charged on the county's credit card. There was not sufficient oversight by those involved in preparing and approving the claims. Credit card statement claims tested for the months of October 2014, November 2014, and April 2015 lacked the original invoices, but were still approved for payment by the fiscal court. The October 2014 charges appear to have been for postal/shipping services (\$2,024), a hotel stay (\$359), restaurants (\$31), and a gas station transaction (\$66); November 2014 charges appear to have been to mailing/shipping services (\$44) and a home improvement store transaction (\$181); and March 2015 charges appear to be for a hotel stay (\$287). Without original invoices detailing the transactions and who incurred the charges, there is not sufficient documentation to determine if the charges were valid and in compliance with the county's administrative code. In addition, without proper documentation, fraudulent charges could occur and not be detected. Good internal controls dictate that adequate supporting documentation be maintained for all credit card transactions. Adequate supporting documentation for credit card transactions is the original invoice, and not the credit card statement. We recommend credit card statements presented for payment include the original invoices that support each transaction shown on the credit card statement. We further recommend the fiscal court not approve payment of any claims that lack sufficient supporting documentation, including original invoices. We remind the fiscal court that use of credit cards is a convenience only, and without adequate oversight, creates greater opportunity for fraud to occur.

County Judge/Executive's response: Proper documentation is now being kept on credit card expenditures.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2015-011 The Fiscal Court Expended More Than 65 percent Of The Budget In Both The Road Fund And Local Government Economic Assistance Fund During The First Half Of The Fourth Fiscal Year

The fiscal court expended more than 65 percent of both the road fund budget and local government economic assistance (LGEA) fund budget during the first half of the fourth fiscal year, which is an election year. The fiscal court and other county administrative personnel, including the FY 2014-2015 treasurer and county judge/executive, did not monitor the budget and spending to ensure compliance. Auditors compared the approved budget, less budgeted debt service, to the disbursements, less any debt service payments or grant disbursements. The road fund expended 85 percent of the approved budget prior to December 31, 2014. The county expended 71 percent of the approved budget of the LGEA fund prior to December 31, 2014. The road fund overspending was not offset with a sufficient general fund balance. Since the fourth fiscal year is an election year, exceeding the 65% limit could impact the incoming officials' ability to operate county government, due to limited resources, for the remainder of the fiscal year. KRS 68.310 limits expenditures of funds other than the road fund for the first half of any fourth year, except in the case of an emergency approved in writing by the Department for Local Government. If road fund disbursements exceed 65 percent of the amount budgeted, "the fiscal court shall assure that there are sufficient funds remaining in the general fund to provide for the excess encumbrance or expenditure from the road fund on a dollar for dollar basis." We recommend the fiscal court ensure that disbursements remain under 65 percent of the budget during any fourth year to remain in compliance with KRS 68.310.

County Judge/Executive's response: No response.

2015-012 The General Fund Owes The Road Fund \$146,905 From Prior Years' Misuse Of Restricted Funds

The general fund owes the road fund \$146,905 from prior years' misuse of restricted funds. From fiscal years 2011 through 2014, restricted road funds were used for purposes other than permitted by law. The county judge/executive, former treasurer, and fiscal court did not monitor road fund spending for permitted disbursements. The general fund has a cumulative liability to the road fund of \$146,905. The road fund, in turn, has a receivable from the general fund. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement, but the liability is still owed. Road funds can only be spent on roads, except for the amount approved by Department for Local Government (DLG) on the Road Cost Allocation Worksheet. Each year from fiscal year 2011 through fiscal year 2014, restricted road funds were spent on items in excess of the amount approved by DLG. We recommend the general fund liability be repaid to the road fund as soon as money becomes available in order to ensure restricted road funds continue to be made available to the county.

County Judge/Executive's response: The fiscal court will repay the Road Fund liability as soon as possible.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2015-013 The Jail Fund Owes The Local Government Economic Assistance Fund \$21,795 From Prior Years' Misuse Of Restricted Funds

The jail fund owes the local government economic assistance (LGEA) fund \$21,795 from prior years' misuse of restricted funds. In Fiscal Year 2010, restricted LGEA funds were transferred to the jail fund in excess of the approved amount. The jail fund has a cumulative liability to the LGEA fund of \$21,795. The LGEA fund, in turn, has a receivable from the jail fund. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement, but the liability is still owed. KRS 42.455(2) specifically prohibits the expenditure of LGEA funds for the administration of county government. LGEA funds can only be spent on specific categories listed in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. Some LGEA funds can be used for categories in the jail fund, however in this case LGEA funds that were restricted to roads were transferred to the jail fund and spent. We recommend the jail fund liability be repaid to the LGEA fund as soon as money becomes available in order to ensure restricted LGEA funds continue to be made available to the county.

County Judge/Executive's response: The fiscal court will repay the LGEA Fund liability as soon as possible.

2015-014 The Fiscal Court Did Not Follow The Procurement Policy For Bid Purchases As Written In The County's Administrative Code

The fiscal court accepted multiple bids for fuel, pipe, gravel, and asphalt, rather than accepting only one bid for each type of material as required by the county's administrative code. It is not clear why the fiscal court did not follow the procurement policy as written in the county's administrative code. Accepting multiple bids is a way to circumvent the bid process and usually results in greater monetary costs to the county, because the lowest or best bid accepted is not always being used. When vendors do not have to compete for business, there is little or no incentive to provide the best price to customers. The county's administrative code procurement policy states "...the County Judge shall open all bids publicly at the time and place stated in the advertisements and shall select the lowest and or best bid by qualified bidder. If the lowest bid is not selected the reasons for the selection shall be stated in writing. The County Judge shall submit the bid selected to fiscal court for the approval." We recommend fiscal court members familiarize themselves with the procurement policy as written in the county's administrative code and follow the requirements of the policy when bidding for purchases.

County Judge/Executive's response: The Fiscal Court will only accept one bid in the future as required by the County Administrative Code.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2015-015 Timesheets Were Not Always Prepared, Signed, And Approved Prior To Payment

During our test of payroll, we noted the road supervisor is not regularly submitting a timesheet. When a timesheet was submitted, it was unsigned. Occasionally timesheets for other employees were not signed by the employee or by an approving authority. The road supervisor has stated he is not required to maintain a timesheet. County administrative personnel who process payroll are not requiring timesheets from the road supervisor, and also are not requiring timesheets to be signed by the employee and reviewed by a supervisor. Improper maintenance and approval of timesheets could lead to inappropriate payment to employees for work provided. Actual hours worked cannot be verified without timesheets. If timesheets are maintained and not signed by the employee and a supervisor, the validity of the time could also be in question should an issue arise. KRS 337.320 requires every employer to maintain a record of: “(a) [t]he amount paid each pay period to each employee [and] (b) [t]he hours worked each day and each week by each employee[.]” All county employees, with the exception of elected officials, should submit timesheets to document their time worked and leave time used. To ensure compliance with KRS 337.320, we recommend all employees, other than elected officials, complete a timesheet. We further recommend the fiscal court designate an employee or employees to review timesheets prior to payment for hours worked, accuracy of calculations, and approval by authorized personnel in order to ensure all employees are paid the appropriate amounts.

County Judge/Executive’s response: No response.

2015-016 An Employee Was Not Paid The Salary Approved By The Fiscal Court

On May 21, 2015, the Elliott County Fiscal Court approved hiring a temporary clerical worker at a pay rate of \$9 per hour to complete the necessary FEMA paperwork. However, this employee was paid \$10 per hour. The employee stated she was told the rate of pay would be \$10 per hour when she was offered and accepted the job. The county judge/executive’s office also stated the employee was promised \$10 per hour, even though that was not the approved rate of pay. The fiscal court incurred costs that exceeded the approved amount. Doing so created the opportunity to overspend the budget and was also a violation of the fiscal court’s authority per KRS 64.530 to set employees’ salaries. KRS 64.530(1) and KRS 64.535 give the fiscal court the authority to fix the reasonable compensation of every county employee, with some exceptions. Those exceptions are the county judge/executive, county clerk, jailer who operates a full service jail, sheriff and the employees of county clerk’s and sheriff’s offices. We recommend all employees hired be paid in accordance with the salary set by the fiscal court. Normally, salaries are set at the beginning of a fiscal year. When employees are hired during a fiscal year, the salary is normally set by the fiscal court at the time of hire. We recommend the fiscal court and county administrative personnel establish procedures to ensure salaries being paid to employees are in accordance with the salaries set by the court.

County Judge/Executive’s response: Employees hired in the future will be paid in the amount approved by the fiscal court.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2015-017 The Road Supervisor's Employer-Provided Vehicle Was Not Included As A Taxable Fringe Benefit

The road supervisor drives an employer-provided vehicle for personal purposes that has not been included as a taxable fringe benefit on his W-2 form. The fiscal court and those preparing the W-2 forms were not aware of the Internal Revenue Service (IRS) requirement to report the road supervisor's employer-provided vehicle use as a taxable fringe benefit. The road supervisor has been receiving an employer-provided taxable benefit without paying the required taxes on the benefit. According to IRS Publication 15-B, an employer-provided vehicle should be included as a taxable fringe benefit for most employees. The exception would be any vehicle the employee isn't likely to use more than minimally for personal purposes because of its design. The county's unmarked pickup truck used by the road supervisor does not meet the IRS criteria for exception because it has not been specifically modified in a way that would restrict personal use. We recommend the fiscal court review the IRS regulations and take appropriate action to ensure the taxable fringe benefit is included on the road supervisor's W-2 form, as long as he is provided a county vehicle to use for personal purposes.

County Judge/Executive's response: The current treasurer will include a taxable fringe benefit on the Road Supervisor's W2.

2015-018 Employer's Quarterly Federal Tax Return 941 Forms Were Not Filed With The Internal Revenue Service

Employer's Quarterly Federal Tax Return (941 forms) are required to be filed with the Internal Revenue Service (IRS) quarterly. The 941 forms report the federal income tax withheld from employees, the social security and Medicare taxes withheld from employees, and the social security and Medicare employer matching taxes due to the IRS. The forms also recalculate the withholdings and matching to determine the correct amount that should have been submitted by the employer. That total is compared to the payments received by the IRS after each pay period during that same quarter. Only the September 30, 2014 quarterly 941 form was filed. December 31, 2014; March 31, 2015; and June 30, 2015 quarterly 941 forms were not filed with the IRS. We have been unable to determine a cause as to why the 941 forms were not filed. Payments were made to the IRS after each payroll, as required. However, without the 941 forms being filed, the IRS cannot determine if the payments received during the quarter were the correct amount of taxes owed for that quarter. On June 8, 2016, the IRS sent a letter to the county requesting filing of the three quarterly reports from FY 2014-2015, along with the December 31, 2013; June 30, 2014; September 30, 2015; and March 31, 2016 quarterly 941 forms. The IRS also included 941 forms they had prepared; all of these indicated balances due from the fiscal court. Whether or not the fiscal court actually owes additional funds to the IRS is undetermined at this time, as no action has been taken on this issue. Employer's Quarterly Federal Tax Return filings are required by the IRS to ensure accountability for all federal taxes. As of October 20, 2016, this issue has not been corrected with the IRS. We recommend the fiscal court take necessary steps to correct the ongoing problem of 941 forms not being filed with the IRS. The fiscal court should also ensure 941 forms are correct when they are filed. Failure to file correct and timely 941 Forms will likely result in significant penalties being charged to the fiscal court by the IRS.

County Judge/Executive's response: The current treasurer is working on getting previous 941's filed and they will be filed timely in the future.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES

2015-019 The Fiscal Court Lacks Adequate Segregation Of Duties And Internal Controls Over Receipts, Disbursements, Payroll, And Record-Keeping Functions And Lacks A Designated Finance Officer

The fiscal court lacks adequate segregation of duties and internal controls over receipts, disbursements, payroll, and record-keeping functions. In addition, the fiscal court does not have a designated finance officer. The treasurer posts receipts and disbursements, issues purchase orders, processes payroll, prepares bank reconciliations, and prepares monthly reports for the fiscal court and for the Department for Local Government (DLG). In the absence of a designated finance officer, the county judge/executive could perform the finance officer's duties. The county judge/executive and the fiscal court are not providing compensating controls by documenting their review of the county treasurer's work. A lack of adequate segregation of duties and internal controls can result in undetected misstatement and inaccurate financial reporting. To adequately protect assets, effective internal controls require segregation of duties involving deposit preparation, recording of receipts, reconciling the bank account, and preparation of payroll. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Good internal controls dictate that duties should be adequately segregated or compensating controls implemented to ensure accurate financial reporting. We recommend the county segregate incompatible duties or implement strong compensating controls to mitigate risks. If duties cannot be adequately segregated due to a limited number of staff, compensating controls are necessary. The fiscal court could implement the following compensating controls:

- An independent employee could prepare a list of daily receipts and compare to the treasurer's deposits and receipts ledgers. The comparison should be documented.
- An independent employee could review the treasurer's bank reconciliations for accuracy and compare to the ending fund balances. The review should be documented on the bank reconciliation.
- An independent employee could review payroll reports prior to distribution of payroll checks. The comparison should verify amounts such as gross wages, withholding amounts, amounts transferred to the payroll revolving accounts and should be documented on the applicable payroll reports.
- The county judge/executive or a designated employee could match purchase orders to checks and invoices before presenting to fiscal court for payment. This should be documented by canceling purchase orders and invoices so that they are not paid twice. Also, check numbers should be compared to the check register to verify they are posted to the correct account code.

County Judge/Executive's response: The fiscal court will segregate duties or implement compensating controls over receipts, disbursements, payroll, and record keeping functions in the future.

ELLIOTT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED)

2015-020 The Fiscal Court Lacks Internal Controls Over The Payroll Revolving Accounts

Testing of the payroll revolving account and tax deposit account indicated the following:

- Monthly bank reconciliations are not prepared for either account.
- June 30, 2015 payroll checks began clearing the bank on June 30, 2015, however, the deposit to cover this payroll was not made until July 10, 2015.
- An employer's quarterly federal tax deposit for a February 2015 pay period was not made until August 25, 2015.

Procedures are not in place to ensure that monthly payroll bank reconciliations are prepared. There are also no procedures to ensure payroll is not distributed prior to deposit of funds and that tax deposits are made timely. The lack of internal controls increases the risks of undetected errors, such as those already described. There is an unexplained balance in the payroll revolving account of \$2,451. The county needs to determine if these funds are owed to any obligation, or if they should be returned to the county, and if so, to which fund or funds. Without internal controls in place over the payroll revolving accounts, the county runs the risk of overdrawing the account and potentially causing employees to not be paid timely. When late payments occur, such as to the IRS, the county runs the risk of incurring penalties, which is an additional cost to the county. Also, the county risks employees having benefits cancelled due to late payment. Revolving accounts should reconcile to zero each month, since the deposits to the account are all for payroll obligations; e.g. salaries/wages, withholdings, or other benefits. Ledgers are not usually maintained for revolving accounts, therefore the monthly bank reconciliation is vital to determining if any errors have occurred. We recommend county administrative personnel improve internal controls over the payroll revolving accounts by implementing the following procedures:

- Monthly reconciliations of the payroll revolving account and the tax deposit account and resolution of any unexplained balances in the accounts.
- Monthly bank reconciliations should be reviewed by someone other than the preparer.
- Payroll checks should not be released before the payroll deposit has been made.
- Payments for all obligations of the payroll revolving account and tax deposit account should be made timely.

County Judge/Executive's response: The current treasurer is reconciling the payroll revolving account and the tax deposit account and ensuring the payroll checks are not being released prior to the deposit being made into the payroll account.

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

ELLIOTT COUNTY FISCAL COURT

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

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

For The Fiscal Year Ended June 30, 2015

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



County Judge/Executive



County Treasurer

