

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

**For The Fiscal Year Ended
June 30, 2016**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
BATH COUNTY FISCAL COURT

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Bath County Fiscal Court for the fiscal year ended June 30, 2016.

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

Financial Condition:

The Bath County Fiscal Court had total receipts of \$4,569,215 and disbursements of \$4,489,044 in fiscal year 2016. This resulted in a total ending fund balance of \$589,227, which is an increase of \$80,171 from the prior year.

Findings:

- 2016-001 The Treasurer Did Not Prepare An Annual Settlement
- 2016-002 The County Did Not Prepare A Schedule Of Expenditures Of Federal Awards
- 2016-003 The Fiscal Court Did Not Annually Review The Administrative Code
- 2016-004 The Payroll Revolving Account Was Not Reconciled To Zero Monthly
- 2016-005 The Fourth Quarter Liabilities Journal Was Misstated
- 2016-006 The Fiscal Court Lacks Controls Over Disbursements
- 2016-007 The County Did Not Report Encumbrances On The Fourth Quarter Report And Did Not Have A Complete Purchase Order System
- 2016-008 The Fiscal Court Did Not Bid The Cost Associated With Hauling Gravel, Stone, And Concrete
- 2016-009 Timesheets Were Not Always Signed And Approved Prior To Payment
- 2016-010 The County Did Not Maintain Complete And Accurate Capital Asset Schedules To Comply With Regulatory Requirements And Did Not Inventory Capital Assets Periodically
- 2016-011 Disbursements Exceeded Approved Budget Appropriations For The General, Road, Jail, Local Government Economic Assistance, Occupational Tax, 911, And Building Commission Funds

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Bobby C. Rogers, Bath County Judge/Executive
Members of the Bath 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 Bath County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Bath 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 in Note 1 of the financial statement, the financial statement is prepared by the Bath 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 Bath County Fiscal Court as of June 30, 2016, 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 Bath County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Bath 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2017, on our consideration of the Bath 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 Bath County Fiscal Court's internal control over financial reporting and compliance.

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

- 2016-001 The Treasurer Did Not Prepare An Annual Settlement
- 2016-002 The County Did Not Prepare A Schedule Of Expenditures Of Federal Awards
- 2016-003 The Fiscal Court Did Not Annually Review The Administrative Code
- 2016-004 The Payroll Revolving Account Was Not Reconciled To Zero Monthly
- 2016-005 The Fourth Quarter Liabilities Journal Was Misstated
- 2016-006 The Fiscal Court Lacks Controls Over Disbursements
- 2016-007 The County Did Not Report Encumbrances On The Fourth Quarter Report And Did Not Have A Complete Purchase Order System
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- 2016-009 Timesheets Were Not Always Signed And Approved Prior To Payment
- 2016-010 The County Did Not Maintain Complete And Accurate Capital Asset Schedules To Comply With Regulatory Requirements And Did Not Inventory Capital Assets Periodically
- 2016-011 Disbursements Exceeded Approved Budget Appropriations For The General, Road, Jail, Local Government Economic Assistance, Occupational Tax, 911, And Building Commission Funds

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

November 16, 2017

BATH COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Bobby C. Rogers	County Judge/Executive
Millard Pettitt III	Commissioner
Jimmy Craig	Commissioner
Jamie Cline	Commissioner

Other Elected Officials:

Kim Hunt Price	County Attorney
Earl Willis	Jailer
Roger Coyle	County Clerk
Claudette Faudere	Circuit Court Clerk
John "Tuffy" Snedegar	Sheriff
Jacqueline Watson	Property Valuation Administrator
Robert Powell	Coroner

Appointed Personnel:

Jeremy Bailey (through April 29, 2016)	County Treasurer
Dina Becraft (April 29, 2016 - January 31, 2017)	County Treasurer
Julie Cline (beginning January 31, 2017)	County Treasurer

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

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 473,440	\$	\$
In Lieu Tax Payments	36,680	37,649	
Excess Fees	31,284		
Licenses and Permits	100,000		
Intergovernmental	81,790	2,398,627	105,561
Charges for Services			7,983
Miscellaneous	52,743	46,955	9,953
Interest	160	999	29
Total Receipts	<u>776,097</u>	<u>2,484,230</u>	<u>123,526</u>
DISBURSEMENTS			
General Government	482,015	464	
Protection to Persons and Property	123,834		479,298
General Health and Sanitation	58,207		
Social Services	300		
Recreation and Culture	5,994		
Roads		2,003,135	
Bus Services			
Debt Service	32,009	33,646	
Capital Projects			
Administration	421,913	228,031	17,294
Total Disbursements	<u>1,124,272</u>	<u>2,265,276</u>	<u>496,592</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(348,175)</u>	<u>218,954</u>	<u>(373,066)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	251,000		373,335
Transfers To Other Funds	(7,335)	(76,000)	
Total Other Adjustments to Cash (Uses)	<u>243,665</u>	<u>(76,000)</u>	<u>373,335</u>
Net Change in Fund Balance	(104,510)	142,954	269
Fund Balance - Beginning (Restated)	150,147	258,117	4,175
Fund Balance - Ending	<u>\$ 45,637</u>	<u>\$ 401,071</u>	<u>\$ 4,444</u>
Composition of Fund Balance			
Bank Balance	\$ 93,649	\$ 401,417	\$ 4,444
Less: Outstanding Checks	(48,012)	(346)	
Fund Balance - Ending	<u>\$ 45,637</u>	<u>\$ 401,071</u>	<u>\$ 4,444</u>

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

BATH COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

Budgeted Funds					
Local Government Economic Assistance Fund	Waste Management Fund	Occupational Tax Fund	911 Fund	Building Commission Fund	Total Funds
	\$ 65,555	\$ 742,746	\$ 111,620	\$	\$ 1,393,361
					74,329
	23,353				31,284
14,781			114,271	112,547	2,827,577
					7,983
					109,651
59	27	343	17	43	1,677
<u>14,840</u>	<u>88,935</u>	<u>743,089</u>	<u>225,908</u>	<u>112,590</u>	<u>4,569,215</u>
			437	45	482,961
			210,798		813,930
	84,607				142,814
					300
					5,994
18,886					2,003,135
					18,886
					65,655
				81,712	81,712
1,203		147,961	37,862	19,393	873,657
<u>20,089</u>	<u>84,607</u>	<u>147,961</u>	<u>249,097</u>	<u>101,150</u>	<u>4,489,044</u>
<u>(5,249)</u>	<u>4,328</u>	<u>595,128</u>	<u>(23,189)</u>	<u>11,440</u>	<u>80,171</u>
			25,500		649,835
		(566,500)			(649,835)
		(566,500)	25,500		
(5,249)	4,328	28,628	2,311	11,440	80,171
36,164	14,670		22,100	23,683	509,056
<u>\$ 30,915</u>	<u>\$ 18,998</u>	<u>\$ 28,628</u>	<u>\$ 24,411</u>	<u>\$ 35,123</u>	<u>\$ 589,227</u>
\$ 30,915	\$ 18,998	\$ 28,628	\$ 25,158	\$ 35,123	\$ 638,332
			(747)		(49,105)
<u>\$ 30,915</u>	<u>\$ 18,998</u>	<u>\$ 28,628</u>	<u>\$ 24,411</u>	<u>\$ 35,123</u>	<u>\$ 589,227</u>

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

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BATH COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Bath County includes all budgeted and unbudgeted funds under the control of the Bath County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

BATH COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

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

Waste Management Fund - The primary purpose of this fund is to account for waste management activities.

Occupational Tax Fund - The primary purpose of this fund is to account for occupational and net profit taxes collected and disbursed.

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

Building Commission Fund - The primary purpose of this fund is to account for receipts and disbursements associated with the operation and rental income of the courthouse.

D. Budgetary Information

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

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

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

E. Bath County Elected Officials

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

BATH COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Bath County Elected Officials (Continued)

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BATH COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

	General Fund	Road Fund	Occupational Tax Fund	Total Transfers In
General Fund	\$	\$ 76,000	\$ 175,000	\$ 251,000
Jail Fund	7,335		366,000	373,335
911 Fund			25,500	25,500
Total Transfers Out	<u>\$ 7,335</u>	<u>\$ 76,000</u>	<u>\$ 566,500</u>	<u>\$ 649,835</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. Long-term Debt

A. Financing Obligation - Backhoe

On October 6, 2008, the Bath County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to purchase a backhoe in the amount of \$51,291. The agreement requires 99 monthly payments at a variable interest rate to be paid in full on January 21, 2017. Principal outstanding as of June 30, 2016, was \$7,291. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 7,291	\$ 287
Totals	<u>\$ 7,291</u>	<u>\$ 287</u>

B. Financing Obligation - Ballpark Project

On February 20, 2009, the Bath County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to pay for improvements to the ballpark in the amount of \$444,000. The agreement requires 300 monthly payments at a variable interest rate to be paid in full on February 20, 2034. Principal outstanding as of June 30, 2016, was \$359,989. Future principal and interest requirements are as follows:

BATH COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-term Debt (Continued)

B. Financing Obligation – Ballpark Project (Continued)

Fiscal Year Ending June 30	Principal	Interest
2017	\$ 13,164	\$ 15,253
2018	13,822	14,687
2019	14,513	14,087
2020	15,238	13,476
2021	15,999	12,816
2022 - 2026	92,813	53,056
2027 - 2031	118,432	31,026
2032 - 2034	76,008	5,506
Totals	<u>\$ 359,989</u>	<u>\$ 159,907</u>

C. Financing Obligation - Dump Truck

On November 9, 2011, the Bath County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase a dump truck in the amount of \$104,464. The agreement requires 84 monthly payments at a variable interest rate to be paid in full on November 20, 2018. Principal outstanding as of June 30, 2016, was \$38,143. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 15,513	\$ 1,415
2018	15,894	701
2019	6,736	78
Totals	<u>\$ 38,143</u>	<u>\$ 2,194</u>

D. Financing Obligation - Compact Track Loader

On May 21, 2015, the Bath County Fiscal Court entered into a lease agreement with the CNH Industrial Capital America LLC for the purchase of a compact track loader in the amount of \$45,268. The agreement requires monthly principal and interest payments for a period of 60 months. Principal outstanding as of June 30, 2016, was \$34,445. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 8,779	\$ 989
2018	9,069	700
2019	9,368	401
2020	7,229	98
Totals	<u>\$ 34,445</u>	<u>\$ 2,188</u>

BATH COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-term Debt (Continued)

E. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 482,044	\$	\$ 42,176	\$ 439,868	\$ 44,747
Total Long-term Debt	<u>\$ 482,044</u>	<u>\$ 0</u>	<u>\$ 42,176</u>	<u>\$ 439,868</u>	<u>\$ 44,747</u>

Note 5. Employee Retirement System

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 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 17.06 percent.

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

The county's contribution for FY 2014 was \$212,480, FY 2015 was \$203,416, and FY 2016 was \$162,261.

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.

BATH COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Employee Retirement System (Continued)

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

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

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

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

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 6. Deferred Compensation

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

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

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

BATH COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2016, the Bath County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Prior Period Adjustments

The beginning balance of the general fund was decreased by \$4,525 to account for a prior year deposit error correction. The beginning balance of the building commission fund was increased by \$94 to account for a prior year voided check.

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

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BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 441,500	\$ 465,323	\$ 473,440	\$ 8,117
In Lieu Tax Payments	21,000	21,000	36,680	15,680
Excess Fees	45,979	56,700	31,284	(25,416)
Licenses and Permits	84,000	97,319	100,000	2,681
Intergovernmental	105,280	106,875	81,790	(25,085)
Miscellaneous	39,100	56,154	52,743	(3,411)
Interest	500	500	160	(340)
Total Receipts	<u>737,359</u>	<u>803,871</u>	<u>776,097</u>	<u>(27,774)</u>
DISBURSEMENTS				
General Government	490,567	528,754	482,015	46,739
Protection to Persons and Property	64,500	64,500	123,834	(59,334)
General Health and Sanitation	63,524	67,621	58,207	9,414
Social Services	3,000	3,000	300	2,700
Recreation and Culture	12,000	12,000	5,994	6,006
Debt Service	30,991	30,991	32,009	(1,018)
Administration	548,945	623,320	421,913	201,407
Total Disbursements	<u>1,213,527</u>	<u>1,330,186</u>	<u>1,124,272</u>	<u>205,914</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(476,168)</u>	<u>(526,315)</u>	<u>(348,175)</u>	<u>178,140</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	376,168	376,168	251,000	(125,168)
Transfers To Other Funds			(7,335)	(7,335)
Total Other Adjustments to Cash (Uses)	<u>376,168</u>	<u>376,168</u>	<u>243,665</u>	<u>(132,503)</u>
Net Change in Fund Balance	(100,000)	(150,147)	(104,510)	45,637
Fund Balance - Beginning (Restated)	<u>100,000</u>	<u>150,147</u>	<u>150,147</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45,637</u>	<u>\$ 45,637</u>

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 5,000	\$ 5,000	\$ 37,649	\$ 32,649
Intergovernmental	1,272,287	2,410,645	2,398,627	(12,018)
Miscellaneous	21,000	29,550	46,955	17,405
Interest	500	500	999	499
Total Receipts	<u>1,298,787</u>	<u>2,445,695</u>	<u>2,484,230</u>	<u>38,535</u>
DISBURSEMENTS				
General Government			464	(464)
Roads	926,449	985,713	2,003,135	(1,017,422)
Debt Service	25,500	25,500	33,646	(8,146)
Administration	370,401	1,516,162	228,031	1,288,131
Total Disbursements	<u>1,322,350</u>	<u>2,527,375</u>	<u>2,265,276</u>	<u>262,099</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(23,563)</u>	<u>(81,680)</u>	<u>218,954</u>	<u>300,634</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(176,437)</u>	<u>(176,437)</u>	<u>(76,000)</u>	<u>100,437</u>
Total Other Adjustments to Cash (Uses)	<u>(176,437)</u>	<u>(176,437)</u>	<u>(76,000)</u>	<u>100,437</u>
Net Change in Fund Balance	(200,000)	(258,117)	142,954	401,071
Fund Balance - Beginning	<u>200,000</u>	<u>258,117</u>	<u>258,117</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 401,071</u>	<u>\$ 401,071</u>

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 97,100	\$ 103,729	\$ 105,561	\$ 1,832
Charges for Services	8,500	13,935	7,983	(5,952)
Miscellaneous		9,809	9,953	144
Interest	100	100	29	(71)
Total Receipts	<u>105,700</u>	<u>127,573</u>	<u>123,526</u>	<u>(4,047)</u>
DISBURSEMENTS				
Protection to Persons and Property	409,500	409,500	479,298	(69,798)
Administration	15,169	40,217	17,294	22,923
Total Disbursements	<u>424,669</u>	<u>449,717</u>	<u>496,592</u>	<u>(46,875)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(318,969)</u>	<u>(322,144)</u>	<u>(373,066)</u>	<u>(50,922)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	317,969	317,969	373,335	55,366
Total Other Adjustments to Cash (Uses)	<u>317,969</u>	<u>317,969</u>	<u>373,335</u>	<u>55,366</u>
Net Change in Fund Balance	(1,000)	(4,175)	269	4,444
Fund Balance - Beginning	<u>1,000</u>	<u>4,175</u>	<u>4,175</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,444</u>	<u>\$ 4,444</u>

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 64,000	\$ 64,000	\$ 14,781	\$ (49,219)
Interest	100	100	59	(41)
Total Receipts	64,100	64,100	14,840	(49,260)
DISBURSEMENTS				
Roads	57,768	57,768		57,768
Bus Services	17,000	17,000	18,886	(1,886)
Administration	2,000	25,496	1,203	24,293
Total Disbursements	76,768	100,264	20,089	80,175
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(12,668)	(36,164)	(5,249)	30,915
Net Change in Fund Balance	(12,668)	(36,164)	(5,249)	30,915
Fund Balance - Beginning	12,668	36,164	36,164	
Fund Balance - Ending	\$ 0	\$ 0	\$ 30,915	\$ 30,915

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

WASTE MANAGEMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 60,000	\$ 60,000	\$ 65,555	\$ 5,555
Licenses and Permits	24,000	24,000	23,353	(647)
Interest			27	27
Total Receipts	<u>84,000</u>	<u>84,000</u>	<u>88,935</u>	<u>4,935</u>
DISBURSEMENTS				
General Health and Sanitation	<u>85,000</u>	<u>98,670</u>	<u>84,607</u>	<u>14,063</u>
Total Disbursements	<u>85,000</u>	<u>98,670</u>	<u>84,607</u>	<u>14,063</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,000)</u>	<u>(14,670)</u>	<u>4,328</u>	<u>18,998</u>
Net Change in Fund Balance	(1,000)	(14,670)	4,328	18,998
Fund Balance - Beginning	<u>1,000</u>	<u>14,670</u>	<u>14,670</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,998</u>	<u>\$ 18,998</u>

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 650,000	\$ 650,000	\$ 742,746	\$ 92,746
Interest	200	200	343	143
Total Receipts	<u>650,200</u>	<u>650,200</u>	<u>743,089</u>	<u>92,889</u>
DISBURSEMENTS				
Administration	130,000	130,000	147,961	(17,961)
Total Disbursements	<u>130,000</u>	<u>130,000</u>	<u>147,961</u>	<u>(17,961)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>520,200</u>	<u>520,200</u>	<u>595,128</u>	<u>74,928</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds				
Transfers To Other Funds	(520,200)	(520,200)	(566,500)	(46,300)
Total Other Adjustments to Cash (Uses)	<u>(520,200)</u>	<u>(520,200)</u>	<u>(566,500)</u>	<u>(46,300)</u>
Net Change in Fund Balance			28,628	28,628
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 28,628</u>	<u>\$ 28,628</u>

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 116,700	\$ 116,700	\$ 111,620	\$ (5,080)
Intergovernmental	115,000	115,000	114,271	(729)
Miscellaneous	1,000	1,000		(1,000)
Interest	100	100	17	(83)
Total Receipts	<u>232,800</u>	<u>232,800</u>	<u>225,908</u>	<u>(6,892)</u>
DISBURSEMENTS				
General Government			437	(437)
Protection to Persons and Property	202,000	202,000	210,798	(8,798)
Administration	37,300	55,400	37,862	17,538
Total Disbursements	<u>239,300</u>	<u>257,400</u>	<u>249,097</u>	<u>8,303</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(6,500)</u>	<u>(24,600)</u>	<u>(23,189)</u>	<u>1,411</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>2,500</u>	<u>2,500</u>	<u>25,500</u>	<u>23,000</u>
Total Other Adjustments to Cash (Uses)	<u>2,500</u>	<u>2,500</u>	<u>25,500</u>	<u>23,000</u>
Net Change in Fund Balance	(4,000)	(22,100)	2,311	24,411
Fund Balance - Beginning	<u>4,000</u>	<u>22,100</u>	<u>22,100</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,411</u>	<u>\$ 24,411</u>

BATH COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

BUILDING COMMISSION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 122,272	\$ 122,272	\$ 112,547	\$ (9,725)
Interest	200	200	43	(157)
Total Receipts	<u>122,472</u>	<u>122,472</u>	<u>112,590</u>	<u>(9,882)</u>
DISBURSEMENTS				
General Government			45	(45)
Capital Projects	93,330	93,330	81,712	11,618
Administration	39,142	52,731	19,393	33,338
Total Disbursements	<u>132,472</u>	<u>146,061</u>	<u>101,150</u>	<u>44,911</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(10,000)</u>	<u>(23,589)</u>	<u>11,440</u>	<u>35,029</u>
Net Change in Fund Balance	(10,000)	(23,589)	11,440	35,029
Fund Balance - Beginning (Restated)	<u>10,000</u>	<u>23,589</u>	<u>23,683</u>	<u>94</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 35,123</u>	<u>\$ 35,123</u>

BATH COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

The following funds and line items had disbursements or transfers in excess of budgeted amounts:

General Fund - protection to persons and property (\$59,334); debt service (\$1,018)

Road Fund - general government (\$464); roads (\$1,017,422); debt service (\$8,146)

Jail Fund - protection to persons and property (\$69,798)

Local Government Economic Assistance Fund - bus services (\$1,886)

Occupational Tax Fund - administration (\$17,961)

911 Fund - general government (\$437); protection to persons and property (\$8,798)

Building Commission Fund - general government (\$45)

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BATH COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

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BATH COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 8,493	\$	\$	\$ 8,493
Land Improvements	488,200			488,200
Buildings	1,851,755	14,785		1,866,540
Vehicles	365,128	54,723	18,000	401,851
Other Equipment	667,279	90,550	18,500	739,329
Infrastructure	4,613,755	1,219,968		5,833,723
Total Capital Assets	<u>\$ 7,994,610</u>	<u>\$ 1,380,026</u>	<u>\$ 36,500</u>	<u>\$ 9,338,136</u>

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

June 30, 2016

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10 - 60
Buildings and Building Improvements	\$ 25,000	10 - 75
Vehicles	\$ 2,500	5 - 10
Other Equipment	\$ 2,500	3 - 25
Infrastructure	\$ 20,000	5 - 10

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bobby C. Rogers, Bath County Judge/Executive
Members of the Bath 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 Bath County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Bath County Fiscal Court's financial statement and have issued our report thereon dated November 16, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies as items 2016-004, 2016-005, 2016-006, and 2016-010.



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 Bath County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-003, 2016-006, 2016-007, 2016-008, 2016-009, 2016-010, and 2016-011.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

November 16, 2017

**BATH COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2016

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BATH COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Treasurer Did Not Prepare An Annual Settlement

This is a repeat finding and was included in the prior year audit report as finding 2015-004. The county treasurer did not prepare an annual statement in accordance with KRS 424.220 nor was a settlement presented to the fiscal court for approval as required by KRS 68.020(5). The county did not have policies and procedures in place to ensure the required financial report was completed.

By not preparing an annual settlement, the fiscal court and the general public may not be aware of the county's financial condition.

KRS 424.220(1) requires the county treasurer to "prepare an itemized, sworn statement of the funds collected received, held, or disbursed by him during the fiscal year[.]" According to KRS 424.220(2), the financial statement is required to show "[t]he total amount of funds collected and received during the fiscal year from each individual source" and "[t]he total amount of funds disbursed during the fiscal year to each individual payee." KRS 424.220(3) states "[t]he amount of salaries paid to all nonelected county employees shall be shown as lump-sum expenditures by category, including but not limited to road department, jails, solid waste, public safety, and administrative personnel."

Further, KRS 68.020(5) requires the county treasurer to make a full and complete settlement with the fiscal court within 30 days of the close of the preceding year.

We recommend the county treasurer fully comply with KRS 424.220 and KRS 68.020(5) by properly preparing an annual statement and presenting a settlement to the fiscal court for approval.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: I was not the Treasurer during the timeframe audited. A timely annual statement was prepared FYE June 30, 2017 and presented to the Fiscal Court in accordance with KRS 424.220 and KRS 68.020(5).

2016-002 The Fiscal Court Did Not Prepare A Schedule Of Expenditures Of Federal Awards

This is a repeat finding and was included in the prior year audit report as finding 2015-012. The county did not prepare a Schedule of Expenditures of Federal Awards (SEFA). The county did not have policies and procedures in place to ensure compliance with federal requirements.

Without an accurate, complete SEFA, the county may not be aware when a single audit is required. Failure to prepare a SEFA could also adversely affect any federal grants received by the county.

Management is responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the SEFA in accordance with the requirements of *Title 2 U.S. Code of Federal Regulation (CFR), Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). During fiscal year ended June 30, 2016, a single audit was required if federal expenditures exceeded \$750,000. Uniform Guidance requires the auditee to prepare a SEFA covered by the auditee's financial statements. At a minimum, the SEFA should include the following, if applicable:

**BATH COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Fiscal Court Did Not Prepare A Schedule Of Expenditures Of Federal Awards (Continued)

- List individual federal programs by federal agency. For federal programs included in a cluster of programs, list individual federal programs within a cluster of programs. For R&D, total federal awards expended shall be shown either by individual award or by federal agency and major subdivision within the federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- For federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- Provide total federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available.
- Include notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each federal program.
- Include, in either the schedule or a note to the schedule, the value of the federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

In addition, the Kentucky Department for Local Government (DLG) requires the SEFA to be submitted at the end of the fiscal year when submitting the fourth quarter financial report.

We recommend the county prepare a SEFA to be in compliance with this requirement. The SEFA should also be submitted to DLG with the fourth quarter financial report as required.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: I was not the Treasurer during the timeframe audited. A SEFA was prepared FYE June 30, 2017.

2016-003 The Fiscal Court Did Not Annually Review The Administrative Code

This is a repeat finding and was included in the prior year audit report as finding 2015-010. During our audit, we found no indication in the official minutes that the fiscal court reviewed the administrative code. The county did not have procedures in place to ensure the administrative code was updated as necessary. Without reviewing and then making necessary changes to the administrative code, policies and procedures that are currently being followed may not be included in the administrative code. Without these updated changes the county may be at risk of litigation or other matters that may not have arisen otherwise. According to KRS 68.005(2), "[t]he fiscal court shall review the county administrative code annually during the month of June[.]" We recommend the fiscal court review the administrative code and make changes deemed necessary. The review of the administrative code should be reflected in the minutes of the fiscal court.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court reviewed and discussed the administrative code on occasion, but did not document the review in the minutes of the meeting. The Fiscal Court was not aware of the documentation requirement. The Fiscal Court is currently reviewing the administrative code and making revisions. The Fiscal Court plans to have the first reading of the revised code in December 2017.

BATH COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-004 The Payroll Revolving Account Was Not Reconciled To Zero Monthly

The payroll revolving account was not reconciled monthly. Due to inadequate controls over the payroll revolving account and inadequate oversight by management, we could not find any evidence that monthly reconciliations were completed during the fiscal year ended June 30, 2016. By not reconciling the payroll account, there is no way for the county to know if there is an adequate balance to cover all payroll expenditures.

The payroll revolving account is a clearing account and should be reconciled to a zero balance at the end of each pay period. Therefore, only the exact amount needed to cover payroll expenditures should be transferred to the payroll account. In addition, good internal controls dictate the book balance and the bank balance on the monthly bank reconciliations should agree in order to ensure proper accounting.

We recommend the county reconcile the payroll revolving account monthly to ensure adequate deposits are made to cover payroll expenditures.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: I was not the Treasurer during the timeframe audited. Effective June 30, 2017, the Fiscal Court approved opening a new payroll revolving account. Beginning July 31, 2017, the new payroll revolving account is being reconciled to zero on a monthly basis.

2016-005 The Fourth Quarter Liabilities Journal Was Misstated

This is a repeat finding and was included in the prior year audit report as finding 2015-008. The Fourth Quarter Report Liabilities Journal contained misstatements for each outstanding debt issue. The county did not have adequate controls in place to ensure the Fourth Quarter Report Liabilities Journal was being reconciled to the debt amortization schedules. As a result, debt payment activity was not always posted to the liabilities journal; the total principal outstanding balance was overstated by \$11,838 and the total interest outstanding balance was overstated \$4,576; liabilities information was not accurately presented to the fiscal court, Department for Local Government, and any other individuals interested in the county's financial condition. Auditors compared debt payments and ending balances confirmed by debt holders to the County's Liabilities Journal and noted the variances listed above. Good internal controls require that liabilities be reported accurately. We recommend that the county treasurer prepare and maintain an accurate liabilities journal.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: I was not the Treasurer during the timeframe audited. The prior Treasurer did not update the liabilities journal each quarter. The liabilities journal is being updated every quarter, beginning June 30, 2017, to ensure it accurately reflects the liabilities of the Bath County Fiscal Court.

**BATH COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 The Fiscal Court Lacks Controls Over Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2015-002. Proper procedures over disbursements dictate adequate supporting documentation and original invoices. Auditors tested a randomly selected sample of disbursements and found the following:

- Two disbursements totaling \$20,501 did not include the original invoice or sufficient documentation.
- Thirteen credit card purchases totaling \$2,160 did not have receipts or support.
- One monthly credit card statement was missing.
- Late fees of \$29 were incurred and paid.

Insufficient records and lack of management oversight resulted in noncompliance with state regulations over disbursements. Weak controls over disbursements increase the risk of misstatements of financial activity. Payments could be paid to vendors that may not be a true liability to the fiscal court. Funds could be misused as intended or invoices could go unaccounted for, resulting in late fees being incurred.

KRS 65.140(2) states, “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.” KRS 65.140(3) states, “[a]n interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor’s invoice by the purchaser.” In addition, good internal controls require that supporting documentation such as original invoices be maintained for all purchases.

We recommend the fiscal court implement controls over disbursements that would prevent the county from purchasing items not needed for a public purpose and pay invoices within 30 days.

Views of Responsible Official and Planned Corrective Action:

County Treasurer’s Response: I was not the Treasurer during the timeframe audited. A complete bill/invoice must be timely submitted and approved by the Fiscal Court prior to any disbursement.

The Finance Officer receives and documents all bills/invoices. As Treasurer, I then review all bills/invoices for accuracy. This documentation is then presented to the Fiscal Court for approval.

All credit card purchases require submission of a receipt prior to approval and payment.

A request to change the due date on the credit cards was made after it came to our attention that the prior due date did not allow enough time for processing and mailing of the payment following approval by the Fiscal Court.

Every effort is being made to ensure invoices are paid within 30 days.

**BATH COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-007 The County Did Not Report Encumbrances On The Fourth Quarter Report And Did Not Have A Complete Purchase Order System

This is a repeat finding and was included in the prior year audit report as finding 2015-009. The county is not reporting encumbrances on the Fourth Quarter Report and does not have a complete purchase order (PO) system. This is due to a lack of management oversight. By not reporting encumbrances and having a complete PO system, the county is not in compliance with reporting requirements per the Department for Local Government (DLG) manual. In addition, failure to report encumbrances will not accurately reflect cash balances and alert management to any possible cash flow issues.

KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county to disclose encumbrances on the face of the Fourth Quarter Financial Report. The manual states, “[e]nter the total dollar amount of unpaid purchase orders from the purchase order journal.” Furthermore, KRS 68.360(2) states, “[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance for the fund, and any transfers made to or from the fund.” In addition, the DLG manual requires certain purchasing procedures as required by the State Local Finance Officer.

We recommend the county follow the prescribed guidelines for purchasing procedures as described on page 57 of the *County Budget Preparation and State Local Finance Officer Policy Manual*. We also recommend that the county report outstanding purchase orders as encumbrances on the Fourth Quarter Report and that the list should be maintained by fund.

Views of Responsible Official and Planned Corrective Action:

County Treasurer’s Response: I was not the Treasurer during the timeframe audited. The prior Treasurer was not aware of the requirement to report encumbrances on the fourth quarter report. The Treasurer’s office is now utilizing accounting software to generate purchase orders.

2016-008 The Fiscal Court Did Not Bid The Cost Associated With Hauling Gravel, Stone, And Concrete

The fiscal court contracted with a vendor to provide services related to hauling gravel, stone, and concrete which in the aggregate exceeded \$20,000, without first advertising for bids. The fiscal court believed that the bids met the requirements of KRS 424.260(1) because they bid for the cost per ton of gravel, stone and concrete. As a result, by not advertising for bids the fiscal court may not be getting the lowest price for hauling gravel, stone, and concrete.

Pursuant to KRS 424.260(1), “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board, or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

We recommend that the fiscal court bid the cost related to the hauling of concrete, stone, and gravel when they estimate that in any given fiscal year the cost of such service will exceed \$20,000 in aggregate.

**BATH COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-008 The Fiscal Court Did Not Bid The Cost Associated With Hauling Gravel, Stone, And Concrete
(Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: When this issue came to the attention of the Fiscal Court, the Fiscal Court immediately notified all current and potential (via bid advertisement) vendors and is now requiring all vendors to include delivery cost in the initial bids.

2016-009 Timesheets Were Not Always Signed And Approved Prior To Payment

During our test of payroll, we noted that eight timesheets during the test period did not have supervisory signatures. This was due to the lack of management oversight. Improper maintenance and approval of timesheets could lead to inappropriate payment to employees for work provided. Actual hours worked cannot be verified without timesheets and employees may not be compensated for overtime hours worked. If timesheets are maintained and not signed by the employee and supervisor, the validity of the time could also be in question should an issue arise.

KRS 337.320 requires, “[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.” All county employees, with the exception of elected officials, should submit timesheets to document their time worked and leave time used.

We 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.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive and Treasurer's Response: I was not the Treasurer during the timeframe audited. Timesheets are required to be signed and approved by a supervisor prior to payment. Any timesheet submitted that is not signed is addressed immediately, and the issue resolved prior to payment.

2016-010 The County Did Not Maintain Complete And Accurate Capital Asset Schedules To Comply With
Regulatory Requirements And Did Not Inventory Capital Assets Periodically

This is a repeat finding and was included in the prior year audit report as finding 2015-006. The county did not maintain an accurate and complete capital asset schedule for the fiscal year ended June 30, 2016. The county did not have adequate controls in place to track, monitor, and compile capital asset information. When capital asset records are not maintained adequately and consistently, including being inventoried regularly, this increases the risk that the county's assets could be reported incorrectly due to errors or theft and that assets may be improperly insured. Failure to maintain a complete and accurate listing of capital assets could lead to capital assets being over or understated. Also, by not performing period inventories for capital assets, there is an increased risk that capital assets may not be insured or that the county could be paying insurance for assets they no longer own.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property placement.

BATH COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-010 The County Did Not Maintain Complete And Accurate Capital Asset Schedules To Comply With
 Regulatory Requirements And Did Not Inventory Capital Assets Periodically (Continued)

We recommend the county implement procedures to identify and track capital asset additions, retirements, and disposals in order for capital asset schedules to be complete and accurate.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive and Treasurer's Response: County officials were not aware of the requirement to inventory capital assets and maintain separate schedules. The county maintains accurate and complete asset listings for insurance purposes, and was under the impression this was sufficient to meet this requirement. The County is now reviewing records to update capital asset schedules. The County will review these schedules at the end of each quarter, prospectively.

2016-011 Disbursements Exceeded Approved Budget Appropriations For The General, Road, Jail, Local
 Government Economic Assistance, Occupational Tax, 911, And Building Commission Funds

Disbursements exceeded approved budget appropriations for the general, road, jail, local government economic assistance (LGEA), occupational tax, 911, and building commission funds. Budget amendments or appropriation transfers were not made to ensure the budget was not overspent. The Bath 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 quarter financial report as shown below:

	<u>Disbursements Exceeded Budget</u>
<u>General Fund</u>	
Protection to Persons and Property	\$ 59,334
Debt Service	1,018
<u>Road Fund</u>	
General Government	464
Roads	1,017,422
Debt Service	8,146
<u>Jail Fund</u>	
Protection to Persons and Property	69,798
<u>LGEA Fund</u>	
Bus Services	1,886
<u>Occupational Tax Fund</u>	
Administration	17,961
<u>911 Fund</u>	
General Government	437
Protection to Persons and Property	8,798
<u>Building Commission Fund</u>	
General Government	45

BATH COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-011 Disbursements Exceeded Approved Budget Appropriations For The General, Road, Jail, Local Government Economic Assistance, Occupational Tax, 911, And Building Commission Funds
(Continued)

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. No 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.

Views of Responsible Official and Planned Corrective Action:

County Treasurer’s Response: I was not the Treasurer during the timeframe audited. The prior Treasurer(s) did not perform the proper transfers in the accounting software. The disbursements are now being monitored regularly to prevent disbursements from exceeding approved budget appropriations.

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

BATH COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2016**


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

For The Fiscal Year Ended June 30, 2016

The Bath 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.



Bobby C. Rogers
County Judge/Executive



Julie Cline
County Treasurer