

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

**For The Year Ended
June 30, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable John Lester Smith, Breathitt County Judge/Executive
Members of the Breathitt 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 Breathitt County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Breathitt County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable John Lester Smith, Breathitt County Judge/Executive

Members of the Breathitt County Fiscal Court

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 Breathitt 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 Breathitt County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Breathitt County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable John Lester Smith, Breathitt County Judge/Executive

Members of the Breathitt County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2018, on our consideration of the Breathitt 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 Breathitt 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:

- 2017-001 The Fiscal Court Did Not Follow Proper Procedures For Year End Budget Amendments
- 2017-002 The Fiscal Court Lacks Adequate Segregation Of Duties For Occupational Tax Collections
- 2017-003 State Payments Were Not Deposited Timely
- 2017-004 The Fiscal Court Did Not Establish Adequate Controls Over The General Obligation Bond Fund And The Justice Center Corporation Fund
- 2017-005 The Breathitt County Fiscal Court Did Not Maintain An Adequate List For Purchase Orders
- 2017-006 Occupational Tax Receipts Were Not Deposited Timely
- 2017-007 The Fiscal Court Lacks Internal Controls Over Capital Asset Inventory Items

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 6, 2018

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

John Lester Smith	County Judge/Executive
Ellis Tincher	Magistrate
Roy Darrell Herald	Magistrate
Ray Moore	Magistrate
Donnie Bush	Magistrate

Other Elected Officials:

Gary Salyers	County Attorney
James E. Turner	Jailer
Mary R. Curtis	County Clerk
James E. Turner II	Circuit Court Clerk
Ray Clemons	Sheriff
Ervine Allen	Property Valuation Administrator
George Griffith	Coroner

Appointed Personnel:

Charlotte Bailey	County Treasurer
Mitch Smith	Former Financial Officer
Crystal Deaton	Financial Officer
Wanda K. Barnett	Occupational Tax Collector

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 1,602,987	\$	\$	\$
Licenses and Permits	20,001			
Intergovernmental	551,831	2,111,003	116,941	177,390
Charges for Services				
Miscellaneous	300,731	282,793	74	7,052
Interest	529	996	66	73
Total Receipts	<u>2,476,079</u>	<u>2,394,792</u>	<u>117,081</u>	<u>184,515</u>
DISBURSEMENTS				
General Government	1,488,321			92,925
Protection to Persons and Property	83,396		540,098	
General Health and Sanitation				80,980
Social Services	33,151			1,000
Recreation and Culture				15,697
Transportation Facility and Services		3,678		
Roads		1,754,690		2,510
Airports				13,309
Debt Service		470,810		60,904
Capital Projects				
Administration	540,548	218,549	41,463	57,148
Total Disbursements	<u>2,145,416</u>	<u>2,447,727</u>	<u>581,561</u>	<u>324,473</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>330,663</u>	<u>(52,935)</u>	<u>(464,480)</u>	<u>(139,958)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		275,808		
Borrowed Money		175,500		
Transfers From Other Funds	187,197	60,025	458,900	141,421
Transfers To Other Funds	(600,863)	(189,572)		(47,876)
Total Other Adjustments to Cash (Uses)	<u>(413,666)</u>	<u>321,761</u>	<u>458,900</u>	<u>93,545</u>
Net Change in Fund Balance	(83,003)	268,826	(5,580)	(46,413)
Fund Balance - Beginning (Restated)	<u>189,683</u>	<u>34,389</u>	<u>9,999</u>	<u>53,066</u>
Fund Balance - Ending	<u>\$ 106,680</u>	<u>\$ 303,215</u>	<u>\$ 4,419</u>	<u>\$ 6,653</u>
Composition of Fund Balance				
Bank Balance	\$ 124,647	\$ 321,256	\$ 38,344	\$ 11,337
Plus: Deposits In Transit				
Less: Outstanding Checks	<u>(17,967)</u>	<u>(18,041)</u>	<u>(33,925)</u>	<u>(4,684)</u>
Fund Balance - Ending	<u>\$ 106,680</u>	<u>\$ 303,215</u>	<u>\$ 4,419</u>	<u>\$ 6,653</u>

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

BREATHITT COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017
(Continued)

Budgeted Funds					
Federal Grants Fund	Solid Waste Fund	E-911 Fund	Economic Assistance Fund	Local Government Economic Development Fund	Alcoholic Beverage Control Fund
\$	\$	\$ 72,903	\$	\$	\$
550,942	252,837			93,379	2,159
	101,225				
	7,901				
	330	108			
<u>550,942</u>	<u>362,293</u>	<u>73,011</u>		<u>93,379</u>	<u>2,159</u>
				4,008	114
		77,182			
	217,867			4,119	
20,000					
				84,848	
274,202	26,532	17,002			
<u>294,202</u>	<u>244,399</u>	<u>94,184</u>		<u>92,975</u>	<u>114</u>
				404	2,045
256,740	117,894	(21,173)			
2,460	507	1,915			2,963
(12,149)			(2,851)		
<u>(9,689)</u>	<u>507</u>	<u>1,915</u>	<u>(2,851)</u>		<u>2,963</u>
247,051	118,401	(19,258)	(2,851)	404	5,008
362,813	99,221	57,721	2,851	24,730	
<u>\$ 609,864</u>	<u>\$ 217,622</u>	<u>\$ 38,463</u>	<u>\$ 0</u>	<u>\$ 25,134</u>	<u>\$ 5,008</u>
\$ 609,864	\$ 218,013	\$ 45,197	\$	\$ 58,447	\$ 5,007
					1
	(391)	(6,734)		(33,313)	
<u>\$ 609,864</u>	<u>\$ 217,622</u>	<u>\$ 38,463</u>	<u>\$ 0</u>	<u>\$ 25,134</u>	<u>\$ 5,008</u>

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

BREATHITT COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017
(Continued)

	<u>Unbudgeted Funds</u>		
	<u>General Obligation Bond Fund</u>	<u>Justice Center Corporation Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 1,675,890
Licenses and Permits			22,160
Intergovernmental		571,619	4,425,942
Charges for Services			101,225
Miscellaneous			598,551
Interest	4		2,106
Total Receipts	<u>4</u>	<u>571,619</u>	<u>6,825,874</u>
DISBURSEMENTS			
General Government			1,585,368
Protection to Persons and Property			700,676
General Health and Sanitation			298,847
Social Services			38,270
Recreation and Culture			15,697
Transportation Facility and Services			3,678
Roads			1,777,200
Airports			13,309
Debt Service		571,619	1,188,181
Capital Projects			274,202
Administration			901,242
Total Disbursements		<u>571,619</u>	<u>6,796,670</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>4</u>		<u>29,204</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			275,808
Borrowed Money			175,500
Transfers From Other Funds			855,388
Transfers To Other Funds	(2,077)		(855,388)
Total Other Adjustments to Cash (Uses)	<u>(2,077)</u>		<u>451,308</u>
Net Change in Fund Balance	(2,073)		480,512
Fund Balance - Beginning (Restated)	<u>2,073</u>	<u>6,288</u>	<u>842,834</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 6,288</u>	<u>\$ 1,323,346</u>
Composition of Fund Balance			
Bank Balance	\$	\$ 6,288	\$ 1,438,400
Plus: Deposits In Transit			1
Less: Outstanding Checks			(115,055)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 6,288</u>	<u>\$ 1,323,346</u>

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

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TO THE FINANCIAL STATEMENT**

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BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary source of receipts for this fund is state grants.

Federal Grants Fund - The primary purpose of this fund is to account for federal grant disbursements. The primary source of receipts for this fund is federal grants.

Solid Waste Fund - The primary purpose of this fund is to account for garbage collection related activities. The primary source of receipts for this fund is tipping fees for garbage collection remitted to the county by solid waste contractors.

E-911 Fund - The primary purpose of this fund is to account for activity related to emergency 911 operations. The primary source of receipts for this fund is telephone surcharges.

Economic Assistance Fund - The primary purpose of this fund is to account for various state grant disbursements. The primary source of receipts for this fund is state grants.

Local Government Economic Development (LGED) Fund - The primary purpose of this fund is to account for line item coal and mineral severance grants for various county projects. The primary source of receipts for this fund is state grants.

Alcoholic Beverage Control (ABC) Fund - The primary purpose of this fund is to collect a regulatory license fee on the gross receipts of sales of alcoholic beverages of each licensee who has a local license.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

General Obligation Bond Fund - The purpose of this fund is to account for debt service requirements of the General Obligation Refunding Bonds, Series 2003.

Justice Center Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds, and subsequent refunding bonds, that were issued to fund construction of the judicial center.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

The state local finance officer does not require the general obligation bond fund or the justice center corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Breathitt County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	Road Fund	LGEA Fund	Federal Grants Fund	Economic Assistance Fund	General Obligation Bond Fund	Total Transfers In
General Fund	\$	\$ 182,269	\$	\$	\$ 2,851	\$ 2,077	\$ 187,197
Road Fund			47,876	12,149			60,025
Jail Fund	458,900						458,900
LGEA Fund	139,000	2,421					141,421
Federal Grants Fund		2,460					2,460
Solid Waste Fund		507					507
E-911 Fund		1,915					1,915
ABC Fund	2,963						2,963
Total Transfers Out	<u>\$ 600,863</u>	<u>\$ 189,572</u>	<u>\$ 47,876</u>	<u>\$ 12,149</u>	<u>\$ 2,851</u>	<u>\$ 2,077</u>	<u>\$ 855,388</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. Short-term Debt

A. FEMA Project

On July 18, 2016 and August 8, 2016, the Breathitt County Fiscal Court borrowed \$50,500 and \$125,000, respectively, from a local bank to expend on a project in anticipation of the reimbursement of funds by the Federal Emergency Management Agency (FEMA). The \$50,500 short-term loan was repaid on September 8, 2016, and the \$125,000 short-term loan was repaid on April 26, 2017.

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

Note 4. Short-term Debt (Continued)

B. Changes In Short-term Debt

Short-term debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Borrowed Money	\$	\$ 175,500	\$ 175,500	\$	\$
Total Short-term Debt	\$ 0	\$ 175,500	\$ 175,500	\$ 0	\$ 0

Note 5. Long-term Debt

A. First Mortgage Refunding Revenue Bonds (Justice Center Project), Series 2012

On August 7, 2012, the Breathitt County Kentucky Justice Center Corporation issued \$4,975,000 in First Mortgage Refunding Revenue Bonds to refund First Mortgage Revenue Bonds, Series 2003, which were originally issued in the amount of \$8,030,000 for the construction of the Justice Center. Semiannual interest payments are required in April and October of each year, with principal payments beginning in fiscal year 2015. The refunding bonds have a final maturity date of October 2023.

The Breathitt County Kentucky Justice Center Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Breathitt County Justice Center. The Breathitt County Kentucky Justice Center Corporation expects rentals for use of the Breathitt County Justice Center to be in the full amount of the principal and interest requirements of the bonds. Under the terms of a lease, AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Breathitt County Kentucky Justice Center Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds. AOC, with the execution of the lease, expressed its intention to continue to pay the full allowance payment. However, the lease does not obligate AOC to do so.

As of June 30, 2017, the principal balance on these bonds was \$3,680,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest & Other Fees
2018	\$ 495,000	\$ 76,819
2019	505,000	66,819
2020	510,000	56,669
2021	525,000	45,991
2022	535,000	34,394
2023-2024	1,110,000	31,187
Totals	\$ 3,680,000	\$ 311,879

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

Note 5. Long-term Debt (Continued)

B. KACo Waterlines - Financing Obligation

On October 1, 2009, the Breathitt County Fiscal Court entered into a \$986,000 lease agreement with Kentucky Association of Counties Leasing Trust for the construction of waterlines. Terms of the lease agreement stipulate annual principal payments and monthly interest payments with a maturity date of January 20, 2029. The fiscal court made a scheduled \$30,000 principal payment and an unscheduled lump sum principal payment of \$250,000 in fiscal year 2011. A revised amortization schedule has a final maturity date of January 20, 2026. As of June 30, 2017, the principal balance outstanding was \$451,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 45,000	\$ 17,143
2019	45,000	16,899
2020	50,000	14,934
2021	50,000	12,830
2022	55,000	10,643
2023-2026	206,000	18,813
Totals	<u>\$ 451,000</u>	<u>\$ 91,262</u>

C. Excavator and Hydraulic Breaker - Financing Obligation

On November 14, 2012, the Breathitt County Fiscal Court entered into a leasing agreement for the purchase of an excavator and a hydraulic breaker attachment. The principal amount of the lease was \$153,226 and required 46 monthly payments of \$3,681 and one final payment of \$3,682 scheduled for October 1, 2016. As of June 30, 2017, the lease was paid in full.

D. Backhoe Loader - Financing Obligation

On June 4, 2015, the Breathitt County Fiscal Court entered into a leasing agreement for the purchase of a backhoe loader. The principal amount of the lease was \$120,112 and requires 47 monthly payments of \$2,669 and one final payment of \$2,670 scheduled for June 2019 to pay the lease in full. As of June 30, 2017, the principal balance outstanding was \$44,307. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 12,824	\$ 523
2019	31,483	548
Totals	<u>\$ 44,307</u>	<u>\$ 1,071</u>

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

Note 5. Long-term Debt (Continued)

E. Tractor - Financing Obligation

On July 29, 2015, the Breathitt County Fiscal Court entered into a leasing agreement for the purchase of a tractor and mower. The principal amount of the lease was \$88,257 and requires 60 monthly payments of \$1,625 ending July 2020. As of June 30, 2017, the principal balance outstanding was \$41,902. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 2,976	\$ 274
2019	18,280	1,224
2020	19,025	480
2021	1,621	5
Totals	<u>\$ 41,902</u>	<u>\$ 1,983</u>

F. Trucks - Financing Obligation

On May 19, 2016, the Breathitt County Fiscal Court entered into a lease agreement in the amount of \$270,000 with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of two trucks. The fiscal court purchased the trucks with the intent to use them for a year or longer, depending on economic conditions, and then to sell the trucks at auction to generate funds sufficient to pay off most, if not the entire outstanding principal amount. The agreement requires monthly interest payments of \$692 and one lump sum principal payment of \$270,000 due on November 20, 2017. These trucks were sold at auction for \$269,180 and the principal balance was paid off early. As of June 30, 2017, the agreement was paid in full.

G. Trucks - Financing Obligation

On May 4, 2017, the Breathitt County Fiscal Court entered into a lease agreement in the amount of \$275,808 with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of two trucks. The fiscal court purchased the trucks with the intent to use them for a year or longer, depending on economic conditions, and then to sell the trucks at auction to generate funds sufficient to pay off most, if not the entire outstanding principal amount. The agreement requires monthly interest payments of \$862 and one lump sum principal payment of \$275,808 due on November 20, 2018. As of June 30, 2017, the principal balance outstanding was \$275,808. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$	\$ 9,481
2019	<u>275,808</u>	<u>4,309</u>
Totals	<u>\$ 275,808</u>	<u>\$ 13,790</u>

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

Note 5. Long-term Debt (Continued)

H. Changes In Long-term Debt

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

	Beginning Balance (*Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 4,165,000	\$	\$ 485,000	\$ 3,680,000	\$ 495,000
Financing Obligations*	934,275	275,808	397,066	813,017	60,800
Total Long-term Debt	<u>\$ 5,099,275</u>	<u>\$ 275,808</u>	<u>\$ 882,066</u>	<u>\$ 4,493,017</u>	<u>\$ 555,800</u>

Note 6. Employee Retirement System

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

The county's contribution was \$284,363 for fiscal year 2015, \$287,264 for fiscal year 2016, and \$278,766 for fiscal year 2017.

Nonhazardous

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

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

Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

Note 6. Employee Retirement System (Continued)

Nonhazardous (Continued)

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

The county's contribution rate for nonhazardous employees was 18.68 percent.

Health Insurance Coverage

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

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

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>. 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.

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

Note 7. Deferred Compensation

The Breathitt 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.

Note 8. Health Reimbursement Account/Flexible Spending Account

The Breathitt County Fiscal Court contributes \$500 per month to a health reimbursement account for employees who waive coverage under the county's health insurance plan. In addition, the county allows employees to contribute additional pre-tax funds through payroll deduction to a flexible spending account to help offset out of pocket medical and child care costs. The county has contracted with a third-party administrator to administer these plans. Any unused funds at year end are forfeited by the employees and belong to the county. This account had a balance of \$15,543 as of June 30, 2017. These funds are not reported on the county's financial statement.

Note 9. Insurance

For the fiscal year ended June 30, 2017, the Breathitt County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Conduit Debt

From time to time the fiscal court has issued bonds to provide financial assistance to industries and other governmental entities in Breathitt County for the acquisition and construction of industrial, commercial, or governmental facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Breathitt County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial information. As of June 30, 2017, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

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

Note 11. Prior Period Restatements

A. Cash Balances

The beginning balances for the general fund, road fund, and E-911 fund were increased by \$16,410, \$9,289, and \$60, respectively, due to prior year outstanding checks that were subsequently voided. The beginning balance of the federal grants fund was decreased \$2 due to rounding errors.

B. Financing Obligation

The beginning balance of the excavator lease was decreased \$3,260 for a payment made in the prior year that was not accurately reflected.

BREATHITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

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BREATHITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,529,000	\$ 1,652,214	\$ 1,602,987	\$ (49,227)
Licenses and Permits	17,000	20,001	20,001	
Intergovernmental	559,100	613,980	551,831	(62,149)
Miscellaneous	251,000	362,437	300,731	(61,706)
Interest	1,500	1,500	529	(971)
Total Receipts	<u>2,357,600</u>	<u>2,650,132</u>	<u>2,476,079</u>	<u>(174,053)</u>
DISBURSEMENTS				
General Government	1,475,250	1,699,022	1,488,321	210,701
Protection to Persons and Property	92,150	93,259	83,396	9,863
Social Services	56,500	56,500	33,151	23,349
Administration	844,400	716,642	540,548	176,094
Total Disbursements	<u>2,468,300</u>	<u>2,565,423</u>	<u>2,145,416</u>	<u>420,007</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(110,700)</u>	<u>84,709</u>	<u>330,663</u>	<u>245,954</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	180,100	180,100	187,197	7,097
Transfers To Other Funds	(400,350)	(400,350)	(600,863)	(200,513)
Total Other Adjustments to Cash (Uses)	<u>(220,250)</u>	<u>(220,250)</u>	<u>(413,666)</u>	<u>(193,416)</u>
Net Change in Fund Balance	(330,950)	(135,541)	(83,003)	52,538
Fund Balance - Beginning	<u>330,950</u>	<u>189,683</u>	<u>189,683</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 54,142</u>	<u>\$ 106,680</u>	<u>\$ 52,538</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,454,070	\$ 2,112,477	\$ 2,111,003	\$ (1,474)
Miscellaneous	271,000	283,613	282,793	(820)
Interest	1,500	1,500	996	(504)
Total Receipts	<u>1,726,570</u>	<u>2,397,590</u>	<u>2,394,792</u>	<u>(2,798)</u>
DISBURSEMENTS				
Transportation Facilities and Services	6,000	6,000	3,678	2,322
Roads	1,084,000	2,032,863	1,754,690	278,173
Debt Service	280,000	471,538	470,810	728
Administration	476,970	463,606	218,549	245,057
Total Disbursements	<u>1,846,970</u>	<u>2,974,007</u>	<u>2,447,727</u>	<u>526,280</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(120,400)</u>	<u>(576,417)</u>	<u>(52,935)</u>	<u>523,482</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		275,808	275,808	
Borrowed Money		170,820	175,500	4,680
Transfers From Other Funds	100,500	100,500	60,025	(40,475)
Transfers To Other Funds	(180,100)	(180,100)	(189,572)	(9,472)
Total Other Adjustments to Cash (Uses)	<u>(79,600)</u>	<u>367,028</u>	<u>321,761</u>	<u>(45,267)</u>
Net Change in Fund Balance	(200,000)	(209,389)	268,826	478,215
Fund Balance - Beginning	<u>200,000</u>	<u>209,389</u>	<u>34,389</u>	<u>(175,000)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 303,215</u>	<u>\$ 303,215</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 109,500	\$ 123,045	\$ 116,941	\$ (6,104)
Interest	150	150	66	(84)
Miscellaneous	500	500	74	(426)
Total Receipts	<u>110,150</u>	<u>123,695</u>	<u>117,081</u>	<u>(6,614)</u>
DISBURSEMENTS				
Protection to Persons and Property	467,600	540,442	540,098	344
Administration	52,900	44,889	41,463	3,426
Total Disbursements	<u>520,500</u>	<u>585,331</u>	<u>581,561</u>	<u>3,770</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(410,350)</u>	<u>(461,636)</u>	<u>(464,480)</u>	<u>(2,844)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	400,350	400,350	458,900	58,550
Total Other Adjustments to Cash (Uses)	<u>400,350</u>	<u>400,350</u>	<u>458,900</u>	<u>58,550</u>
Net Change in Fund Balance	(10,000)	(61,286)	(5,580)	55,706
Fund Balance - Beginning	<u>10,000</u>	<u>9,999</u>	<u>9,999</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (51,287)</u>	<u>\$ 4,419</u>	<u>\$ 55,706</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 370,000	\$ 371,000	\$ 177,390	(193,610)
Miscellaneous Revenue	500	7,052	7,052	
Interest	600	600	73	(527)
Total Receipts	<u>371,100</u>	<u>378,652</u>	<u>184,515</u>	<u>(194,137)</u>
DISBURSEMENTS				
General Government	82,000	93,372	92,925	447
General Health and Sanitation	73,250	84,755	80,980	3,775
Social Services		1,000	1,000	
Recreation and Culture	12,500	16,187	15,697	490
Roads	500	2,510	2,510	
Airports	11,500	14,322	13,309	1,013
Debt Service	60,500	60,904	60,904	
Administration	95,500	58,172	57,148	1,024
Total Disbursements	<u>335,750</u>	<u>331,222</u>	<u>324,473</u>	<u>6,749</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>35,350</u>	<u>47,430</u>	<u>(139,958)</u>	<u>(187,388)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			141,421	141,421
Transfers To Other Funds	(100,500)	(100,500)	(47,876)	52,624
Total Other Adjustments to Cash (Uses)	<u>(100,500)</u>	<u>(100,500)</u>	<u>93,545</u>	<u>194,045</u>
Net Change in Fund Balance	(65,150)	(53,070)	(46,413)	6,657
Fund Balance - Beginning	<u>65,150</u>	<u>53,066</u>	<u>53,066</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (4)</u>	<u>\$ 6,653</u>	<u>\$ 6,657</u>

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

	FEDERAL GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$		\$ 550,942	\$
Total Receipts			550,942	
DISBURSEMENTS				
General Health and Sanitation			75,000	75,000
Roads	252,353		149,233	129,233
Capital Projects			689,522	415,320
Total Disbursements	252,353	913,755	294,202	619,553
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(252,353)	(362,813)	256,740	619,553
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			2,460	2,460
Transfers To Other Funds			(12,149)	(12,149)
Total Other Adjustments to Cash (Uses)			(9,689)	(9,689)
Net Change in Fund Balance	(252,353)	(362,813)	247,051	609,864
Fund Balance - Beginning	252,353	362,813	362,813	
Fund Balance - Ending	\$ 0	\$ 0	\$ 609,864	\$ 609,864

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

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$ 252,837	\$ 252,837	\$
Charges for Services	85,000	101,225	101,225	
Miscellaneous	8,500	8,500	7,901	(599)
Interest	325	330	330	
Total Receipts	<u>93,825</u>	<u>362,892</u>	<u>362,293</u>	<u>(599)</u>
DISBURSEMENTS				
General Health and Sanitation	79,000	351,091	217,867	133,224
Administration	114,825	111,022	26,532	84,490
Total Disbursements	<u>193,825</u>	<u>462,113</u>	<u>244,399</u>	<u>217,714</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(100,000)</u>	<u>(99,221)</u>	<u>117,894</u>	<u>217,115</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			507	507
Total Other Adjustments to Cash (Uses)			<u>507</u>	<u>507</u>
Net Change in Fund Balance	(100,000)	(99,221)	118,401	217,622
Fund Balance - Beginning	<u>100,000</u>	<u>99,221</u>	<u>99,221</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 217,622</u>	<u>\$ 217,622</u>

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

	E-911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 70,000	\$ 72,903	\$ 72,903	\$
Interest	250	250	108	(142)
Total Receipts	<u>70,250</u>	<u>73,153</u>	<u>73,011</u>	<u>(142)</u>
DISBURSEMENTS				
Protection to Persons and Property	68,600	85,906	77,182	8,724
Administration	61,650	44,968	17,002	27,966
Total Disbursements	<u>130,250</u>	<u>130,874</u>	<u>94,184</u>	<u>36,690</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(60,000)</u>	<u>(57,721)</u>	<u>(21,173)</u>	<u>36,548</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			1,915	1,915
Total Other Adjustments to Cash (Uses)			<u>1,915</u>	<u>1,915</u>
Net Change in Fund Balance	(60,000)	(57,721)	(19,258)	38,463
Fund Balance - Beginning	<u>60,000</u>	<u>57,721</u>	<u>57,721</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 38,463</u>	<u>\$ 38,463</u>

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

ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
General Government	\$ 2,851	\$ 5,702	\$	\$ 5,702
Total Disbursements	2,851	5,702		5,702
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,851)	(5,702)		5,702
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(2,851)	(2,851)
Total Other Adjustments to Cash (Uses)			(2,851)	(2,851)
Net Change in Fund Balance	(2,851)	(5,702)	(2,851)	2,851
Fund Balance - Beginning	2,851	2,851	2,851	
Fund Balance - Ending	\$ 0	\$ (2,851)	\$ 0	\$ 2,851

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

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$ 93,379	\$ 93,379	\$
Total Receipts		93,379	93,379	
DISBURSEMENTS				
General Government		4,008	4,008	
Social Services		4,119	4,119	
Debt Service		85,275	84,848	427
Administration		24,707		24,707
Total Disbursements		118,109	92,975	25,134
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(24,730)	404	25,134
Net Change in Fund Balance		(24,730)	404	25,134
Fund Balance - Beginning		24,730	24,730	
Fund Balance - Ending	\$	\$ 0	\$ 25,134	\$ 25,134

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

ALCOHOLIC BEVERAGE CONTROL FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$	\$ 2,159	\$ 2,159	\$
Total Receipts		2,159	2,159	
DISBURSEMENTS				
General Government		2,159	114	2,045
Total Disbursements		2,159	114	2,045
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			2,045	2,045
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			2,963	2,963
Total Other Adjustments to Cash (Uses)			2,963	2,963
Net Change in Fund Balance			5,008	5,008
Fund Balance - Ending	\$ 0	\$ 0	\$ 5,008	\$ 5,008

BREATHITT COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2017

Note 1. Budgetary Information

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

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

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

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BREATHITT COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

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BREATHITT COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

	Balance (*Restated)	Additions	Deletions	Ending Balance
Land	\$ 1,402,786	\$	\$	\$ 1,402,786
Construction In Progress	248,863			248,863
Buildings	15,364,101			15,364,101
Vehicles and Equipment	3,049,637	127,598		3,177,235
Infrastructure *	3,627,976	183,822		3,811,798
Total Capital Assets	<u>\$ 23,693,363</u>	<u>\$ 311,420</u>	<u>\$ 0</u>	<u>\$ 24,004,783</u>

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

June 30, 2017

Note 1. Capital Assets

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

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

Note 2. Restatement of Capital Assets Beginning Balance

The beginning balance for infrastructure was reduced by \$45,920 for assets included in the prior year that were below the capitalization threshold.

**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 John Lester Smith, Breathitt County Judge/Executive
Members of the Breathitt 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 Breathitt County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Breathitt County Fiscal Court's financial statement and have issued our report thereon dated September 6, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-002, 2017-003, and 2017-004 to be material weaknesses.



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

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-005, 2017-006, and 2017-007 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Breathitt 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.

Views of Responsible Official and Planned Corrective Action

Breathitt 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

September 6, 2018

**BREATHITT COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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**BREATHITT COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

STATE LAWS AND REGULATIONS:

2017-001 The Fiscal Court Did Not Follow Proper Procedures for Year End Budget Amendments

The fiscal court used an emergency budget amendment in June 2017 to amend the budget for unanticipated revenues and expenditures at year end to ensure the budget was not overspent. In order to approve an emergency amendment, an order must be in place naming and describing the emergency. We could not find documentation of this action.

The fiscal court was aware that emergency budget amendments must follow the guidelines set forth in KRS 67.078, but failed to follow and document the proper procedures. The county's budget was not amended properly and the county is in violation of KRS 67.078 and KRS 68.280.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the *County Budget and State Local Finance Officer Policy Manual* and requires any amendments to a county budget submitted to the state local finance officer on an emergency basis must strictly adhere to the provision of KRS 67.078 and a photocopy of the fiscal court order naming and describing the emergency must accompany the budget amendment submitted for approval pursuant to KRS 68.280.

KRS 67.078(2) states, “[a] majority of the fiscal court may declare an emergency to exist by naming and describing the emergency, and thereafter may adopt a county ordinance to address that emergency[.]” KRS 68.280 states, “[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 the unanticipated receipts and specifying the budget funds that are to be increased thereby. The amendment shall be submitted to the state local finance officer subject to the same provisions as the original budget.”

We recommend the fiscal court adhere to the provisions of KRS 67.078 and KRS 68.280 and use emergency budget amendments only in the appropriate circumstances and maintain proper supporting documentation of this action.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Effective 9-6-18 any emergency amendment there will be a detailed summary in the court minutes why it is an emergency.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2017-002 The Fiscal Court Lacks Adequate Segregation Of Duties For Occupational Tax Collections

During our review of internal control procedures, we noted the fiscal court lacks adequate segregation of duties for occupational tax collections. Occupational tax receipts account for 39.5 percent of general fund receipts (the single biggest source of revenues for the general fund).

The fiscal court has failed to adequately assess risk associated with occupational tax collections and has not adequately segregated the duties of occupational tax collections. One individual is responsible for receiving, depositing, and recording all occupational tax receipts, net profits tax receipts, and license fee receipts. The occupational tax administrator has a separate post office box to which all occupational taxes are mailed. This individual processes and records all transactions in the occupational tax ledger, prepares all deposit tickets, and makes the deposit at the bank. The treasurer is given a copy of the deposit ticket to post to the general ledger.

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

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2017-002 The Fiscal Court Lacks Adequate Segregation Of Duties For Occupational Tax Collections
 (Continued)

By delegating all of these functions to one individual, there is an increased risk that undetected material misstatements and fraud will occur, especially considering occupational taxes comprise such a large portion of general fund revenues.

In order for internal controls to be effective in preventing and detecting errors, misstatements, and fraud, the functions of any significant area should be separated. If segregation is not possible or practical, the fiscal court could implement and document compensating controls to reduce the risk associated with inadequate segregation of duties. Strong compensating control could include review of deposit tickets, tax returns, and occupational tax ledger by someone independent of occupational tax collections. This could be documented by initialing all supporting documentation after the review is complete.

We recommend the fiscal court separate the functions of receiving, depositing, and recording occupational tax revenues or implement and document compensating controls to offset the risk noted.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Judge's Secretary will start getting checks out of mailbox and she will receipt all checks then occupational tax admin. will record checks for deposit and then county treasurer will take deposit to the bank. Effective today this procedure will begin.

2017-003 State Payments Were Not Deposited Timely

The fiscal court did not deposit four state payments totaling \$196,470 timely. These checks were dated mid to late June 2016 but were not recorded and deposited until July 13 and 14, which resulted in a delay of three to four weeks. Due to an oversight, these payments were not deposited timely. The fiscal court has not established adequate internal control procedures over timely deposits of state payments. Inadequate controls over deposits increase the risk that undetected fraud, errors, and misstatements will occur. A delay in deposits also increases the risk that the funds will be lost, stolen, or otherwise misappropriated. Good internal controls require all payments be deposited timely. We recommend the treasurer ensure all payments are deposited timely. The fiscal court and county judge/executive should strengthen internal controls to ensure deposits are made timely and sufficient oversight and effective supervisory review should be implemented.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All checks are received in front office by Secretary and recorded when mail is received. At the exit conference I was told about this. I am not sure which checks totaled this amount. I will try to get all checks deposited in as soon as they get to me.

2017-004 The Fiscal Court Did Not Establish Adequate Controls Over The General Obligation Bond Fund
 And The Justice Center Corporation Fund

The fiscal court did not maintain adequate controls over the general obligation bond fund or the justice center corporation fund. No financial statements were prepared for these funds and no information regarding the activity in these funds was submitted to the fiscal court for review. The treasurer was unaware she had to prepare a financial statement for the general obligation bond fund and the justice center corporation fund. These funds

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

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2017-004 The Fiscal Court Did Not Establish Adequate Controls Over The General Obligation Bond Fund And The Justice Center Corporation Fund (Continued)

are for reporting of debt financing for the fiscal court and are not included on the quarterly report, per Department for Local Government guidelines. By not preparing an annual financial statement, the fiscal court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted funds. This could result in undetected fraud, errors, or misstatements. The fiscal court is financially accountable and legally obligated for the debt of the general obligation bond fund and the justice center corporation fund. The fiscal court should establish adequate controls over these funds so that proper records are maintained and complete and accurate information is available for review. We recommend the county treasurer reconcile these accounts and prepare a financial statement for the general obligation bond fund and the justice center corporation fund.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: I will call the Administrator of AOC to verify the balance on the funds.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2017-005 The Breathitt County Fiscal Court Did Not Maintain An Adequate List For Purchase Orders

The fiscal court's listing of purchase orders does not include the amount (or estimated amount) of each purchase. The date, vendor, and fund are listed. The finance officer was not aware that the amounts should be listed. Also, management oversight failed to indicate this to be a problem. The purpose of a purchase order system is to ensure the county is aware of cash balances and budget capacity at any given time. Without amounts or estimated amounts for purchase orders, it is impossible for the county to determine if there are adequate cash balances and adequate budget capacity to cover the purchases, which could lead to overspending. The amount (or estimated amount) is the single most important piece of information to include on the purchase order listing. This also prevents the county from disclosing complete and accurate encumbrance information, which impacts their ability to report complete and accurate financial information at year end. The Department for Local Government outlines the necessary requirements of a purchase order system in the *County Budget Preparation and State Local Finance Officer Policy Manual*. These requirements include listing the amount of the claim and the appropriation code to which the claim will be posted. We recommend the county add the amounts of the purchases to the purchase order list to reduce the risk of encumbering more than the available cash balance in each fund. In addition, the account code to which the claim will be posted should be listed.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Purchase Orders will now have an approx amount once assigned to the vendor.

2017-006 Occupational Tax Receipts Were Not Deposited Timely

The occupational tax administrator did not deposit occupational taxes timely. There were 17 instances in which the check date was more than 10 days before the deposit date, suggesting these checks had been held for a week or so before they were processed and deposited. The fiscal court has failed to establish adequate internal control procedures over timely deposits of occupational taxes. This is related to the inadequate segregation of duties issue discussed in finding 2017-002.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2017-006 Occupational Tax Receipts Were Not Deposited Timely (Continued)

Inadequate controls over deposits increase the risk that fraud, errors, and misstatements will occur and go undetected. A delay in deposits also increases the risk that the funds will be lost, stolen, or otherwise misappropriated.

Good internal controls require all payments be processed, recorded, and deposited timely, preferable the date received.

We recommend the occupational tax administrator ensure all payments are deposited timely. The fiscal court and County Judge/Executive should strengthen internal controls to ensure deposits are made timely and an effective supervisory review/oversight process needs to be implemented.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Due to segregation of duties these are now being deposited in a timely manner.

2017-007 The Fiscal Court Lacks Internal Controls Over Capital Asset Inventory Items

The Fiscal Court purchased two professional grade computer tablets (iPads) totaling \$1,523 for the former clerk to use in her office. These items cannot be located.

The fiscal court has not placed sufficient emphasis on the importance of conducting regular physical inventory counts on all assets purchased, tagging inventory items as "Property of Breathitt County Fiscal Court," and stressing the importance that county owned property should not be used for personal use and should not be removed from the premises unless expressly permitted by management.

Not performing periodic physical inventory counts leaves inventory susceptible to loss and misappropriation. Without regular physical inventory accounts, the county's inventory may contain undetected errors. In addition, the removal of county property from county premises increases the risk of personal use and that the item will not be properly returned.

Inventory should be documented by each department supervisor and reviewed by the county judge/executive or other senior management and clearly document each item for all assets even those under the capitalization threshold.

We recommend the county judge/executive consult with the county attorney on what actions to take in collecting the amount paid for the tablets or locating them. The county should implement an inventory list for all assets, even those under the capitalization threshold and ensure a complete inventory count is conducted for all outgoing officials.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The 2 iPads were bought with Coal Severance funds approved for the clerk's office. When the previous clerk left the office and an inventory of the office was done, the 2 iPads were not to be found. I reported these to the judge and I asked the current clerk to please check the clerk's office for these two missing items.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

BREATHITT COUNTY FISCAL COURT

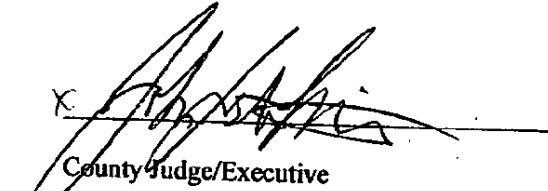
For The Year Ended June 30, 2017

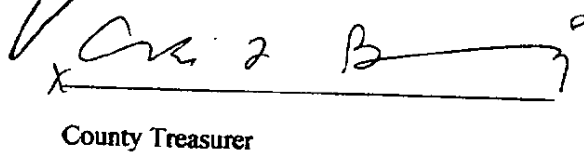
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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
BREATHITT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

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

X 
County Judge/Executive

X 
County Treasurer