

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

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



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

June 30, 2015

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

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

Financial Condition:

The Gallatin County Fiscal Court had total receipts of \$5,420,076 and disbursements of \$5,656,882 in fiscal year 2015. This resulted in a total ending fund balance of \$1,734,904 which is a decrease of \$236,806 from the prior year.

Report Comments:

- 2015-001 The County Understated The Schedule Of Expenditures Of Federal Awards Causing It To Be Materially Misstated
- 2015-002 The County Did Not Maintain An Accurate Capital Assets Listing

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Ken McFarland, Gallatin County Judge/Executive
Members of the Gallatin 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 Gallatin County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Gallatin County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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



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Auditor's Responsibility (Continued)

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

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

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

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Gallatin County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

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 Gallatin 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.

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Other Matters (Continued)

Supplementary Information (Continued)

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2016 on our consideration of the Gallatin 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 Gallatin County Fiscal Court's internal control over financial reporting and compliance.

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

- 2015-001 The County Understated The Schedule Of Expenditures Of Federal Awards Causing It To Be Materially Misstated
- 2015-002 The County Did Not Maintain An Accurate Capital Assets Listing

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 7, 2016

GALLATIN COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Ken McFarland	County Judge/Executive
Sally Davis	Magistrate
Joe Shinkle	Magistrate
Eric Moore	Magistrate
Jeff Wallace	Magistrate

Other Elected Officials:

John Wright	County Attorney
Jerry Webb	Jailer
Tracy Miles	County Clerk
Pam McIntyre	Circuit Court Clerk
Josh Neale	Sheriff
Ruth Middleton	Property Valuation Administrator
Sue Legrand	Coroner

Appointed Personnel:

Lesa Bullard	County Treasurer
Malinda Weldon	Finance Officer

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,818,648	\$	\$
In Lieu Tax Payments	510,383		
Excess Fees	71,022		
Licenses and Permits	66,504		
Intergovernmental	618,669	763,882	98,633
Charges for Services	119,614		
Miscellaneous	61,937	90,603	230
Interest	563	692	7
Total Receipts	<u>3,267,340</u>	<u>855,177</u>	<u>98,870</u>
DISBURSEMENTS			
General Government	1,217,146		
Protection to Persons and Property	85,554		363,888
General Health and Sanitation	67,100		
Social Services	60,665		
Recreation and Culture	1,500		
Roads		710,212	
Debt Service	274,456	60,475	
Capital Projects		269,520	
Administration	857,963	68,687	22,162
Total Disbursements	<u>2,564,384</u>	<u>1,108,894</u>	<u>386,050</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>702,956</u>	<u>(253,717)</u>	<u>(287,180)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	85,240	251,887	283,000
Transfers To Other Funds	<u>(682,832)</u>	<u>(85,000)</u>	
Total Other Adjustments to Cash (Uses)	<u>(597,592)</u>	<u>166,887</u>	<u>283,000</u>
Net Change in Fund Balance	105,364	(86,830)	(4,180)
Fund Balance - Beginning	346,759	598,547	13,847
Fund Balance - Ending	<u>\$ 452,123</u>	<u>\$ 511,717</u>	<u>\$ 9,667</u>
Composition of Fund Balance			
Bank Balance	\$ 295,400	\$ 329,163	\$ 25,769
Less: Outstanding Checks	(2,614)	(1,196)	(16,102)
Investments	<u>159,337</u>	<u>183,750</u>	
Fund Balance - Ending	<u>\$ 452,123</u>	<u>\$ 511,717</u>	<u>\$ 9,667</u>

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

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

Budgeted Funds				
Local Government Economic Assistance Fund	State Grants Fund	Ambulance Fund	Economic Assistance Fund	911 Fund
\$	\$	\$	\$	\$ 44,692
226,605	1,800	752,563		
11,756		221		1,177
40		228	816	2
<u>238,401</u>	<u>1,800</u>	<u>753,012</u>	<u>816</u>	<u>45,871</u>
18,456			26,000	
		893,612		212,332
2,415				
11,619				
123,153				
88,326				
<u>2,762</u>		<u>107,586</u>		<u>38,747</u>
<u>246,731</u>		<u>1,001,198</u>	<u>26,000</u>	<u>251,079</u>
<u>(8,330)</u>	<u>1,800</u>	<u>(248,186)</u>	<u>(25,184)</u>	<u>(205,208)</u>
		42,000		209,445
		(240)		
		<u>41,760</u>		<u>209,445</u>
(8,330)	1,800	(206,426)	(25,184)	4,237
161,202	23	290,382	226,621	6,867
<u>\$ 152,872</u>	<u>\$ 1,823</u>	<u>\$ 83,956</u>	<u>\$ 201,437</u>	<u>\$ 11,104</u>
\$ 153,722	\$ 1,823	\$ 18,495	\$ 201,437	\$ 11,466
(850)		(187)		(362)
		65,648		
<u>\$ 152,872</u>	<u>\$ 1,823</u>	<u>\$ 83,956</u>	<u>\$ 201,437</u>	<u>\$ 11,104</u>

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

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

	<u>Budgeted Funds</u>			<u>Unbudgeted Fund</u>	<u>Total Funds</u>
	<u>911 Wireless Fund</u>	<u>Tourism Fund</u>	<u>AOC Fund</u>	<u>Courthouse Renovation Fund</u>	
RECEIPTS					
Taxes	\$	\$ 34,034	\$	\$	\$ 1,897,374
In Lieu Tax Payments					510,383
Excess Fees					71,022
Licenses and Permits					66,504
Intergovernmental	91,732		28,905		1,830,226
Charges for Services					872,177
Miscellaneous		3,225	5		169,154
Interest	2	17	868	1	3,236
Total Receipts	<u>91,734</u>	<u>37,276</u>	<u>29,778</u>	<u>1</u>	<u>5,420,076</u>
DISBURSEMENTS					
General Government			10,147		1,271,749
Protection to Persons and Property	8,621				1,564,007
General Health and Sanitation					69,515
Social Services					72,284
Recreation and Culture		27,697			152,350
Roads					710,212
Debt Service				26,081	449,338
Capital Projects					269,520
Administration					1,097,907
Total Disbursements	<u>8,621</u>	<u>27,697</u>	<u>10,147</u>	<u>26,081</u>	<u>5,656,882</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>83,113</u>	<u>9,579</u>	<u>19,631</u>	<u>(26,080)</u>	<u>(236,806)</u>
Other Adjustments to Cash (Uses)					
Transfers From Other Funds					871,572
Transfers To Other Funds	(103,500)				(871,572)
Total Other Adjustments to Cash (Uses)	<u>(103,500)</u>				<u>0</u>
Net Change in Fund Balance	(20,387)	9,579	19,631	(26,080)	(236,806)
Fund Balance - Beginning	23,746	68,725	208,911	26,080	1,971,710
Fund Balance - Ending	<u>\$ 3,359</u>	<u>\$ 78,304</u>	<u>\$ 228,542</u>	<u>\$ 0</u>	<u>\$ 1,734,904</u>
Composition of Fund Balance					
Bank Balance	\$ 3,359	\$ 78,304	\$ 228,542		\$ 1,347,480
Less: Outstanding Checks					(21,311)
Investments					408,735
Fund Balance - Ending	<u>\$ 3,359</u>	<u>\$ 78,304</u>	<u>\$ 228,542</u>	<u>\$ 0</u>	<u>\$ 1,734,904</u>

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

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TO THE FINANCIAL STATEMENT**

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GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

Generally and 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

State Grants Fund - The primary purpose of this fund is to account for grant monies received from both state and federal agencies. The funds may be used for completing major projects or specific operating expenses.

Ambulance Fund - The primary purpose of this fund is to account for ambulance services provided to the residents of Gallatin County. The primary source of receipts comes from ambulance services.

Economic Assistance Fund - The primary purpose of this fund is a result of repayment of grant proceeds due to a company not meeting grant requirements. The Cabinet for Economic Development requires these funds to be used for economic development purposes that have prior approval of the Cabinet.

911 Fund - The purpose of this fund is to account for Emergency 911 receipts and disbursements. The sole source of receipts for this fund is a telephone tax.

911 Wireless Fund - The purpose of this fund is to account for wireless 911 cellular receipts and disbursements. The sole source of receipts for this fund is 911 wireless receipts.

Tourism Fund - The purpose of this fund is to account for tourism related expenses. The main source of receipts is a transient room tax.

AOC Fund - The purpose of this fund is to account for courthouse related expenses. The sole source of receipts is the Administrative Office of the Courts.

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

The Courthouse Renovation Fund - The primary purpose of this fund is to account for the financial resources to be used for the acquisition or construction of major capital facilities.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

The State Local Finance Officer does not require the Courthouse Renovation Fund to be budgeted. The Courthouse Renovation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

E. Gallatin County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Gallatin 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 Gallatin 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 the following, including but not limited to, 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).

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

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

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

Note 3. Transfers

The table below shows the inter-fund operating transfers for fiscal year 2015.

	General Fund	Road Fund	Ambulance Fund	911 Wireless Fund	Total Transfers In
General Fund	\$	\$ 85,000	\$ 240	\$	\$ 85,240
Road Fund	251,887				251,887
Jail Fund	283,000				283,000
911 Fund	105,945			103,500	209,445
Ambulance Fund	42,000				42,000
Total Transfers Out	\$ 682,832	\$ 85,000	\$ 240	\$ 103,500	\$ 871,572

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.

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

Note 4. Long-term Debt

A. Mars Road

On May 27, 2004, the Gallatin County Fiscal Court entered into a 25 year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$370,000 at a variable interest rate in order to finance the improvements of Mars Road so that it may be a part of the county road system. Payments of this debt are to be made by the property owners located on Mars Road. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Interest is paid on a monthly basis and a principal payment is made annually until termination of the lease on July 20, 2029.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended				
June 30	Principal	Interest	Total	
2016	\$ 15,000	\$ 9,441	\$ 24,441	
2017	15,000	8,795	23,795	
2018	15,000	8,162	23,162	
2019	15,000	7,520	22,520	
2020	15,000	6,906	21,906	
2021-2025	80,000	29,640	109,640	
2026-2029	85,911	11,185	97,096	
Totals	<u>\$ 240,911</u>	<u>\$ 81,649</u>	<u>\$ 322,560</u>	

B. Sugar Bay Road

On May 27, 2004, the Gallatin County Fiscal Court entered into a 25 year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$160,000 at a variable interest rate in order to finance the improvements of Sugar Bay Road so that it may be a part of the county road system. Payments of this debt are to be made by the property owners located on Sugar Bay Road. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Interest is paid on a monthly basis and a principal payment is made annually until termination of the lease on July 20, 2029.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

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

Note 4. Long-term Debt (Continued)

B. Sugar Bay Road (Continued)

Fiscal Year Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 5,000	\$ 3,022	\$ 8,022
2017	5,000	2,807	7,807
2018	5,000	2,596	7,596
2019	5,000	2,382	7,382
2020	5,000	2,177	7,177
2021-2025	25,000	12,638	37,638
2026-2028	27,098	1,038	28,136
Totals	<u>\$ 77,098</u>	<u>\$ 26,660</u>	<u>\$ 103,758</u>

C. Land-County Park and Fairgrounds

On September 15, 2005, the Gallatin County Fiscal Court entered into a 20 year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$820,000 at a variable interest rate in order to finance the acquisition of 155 acres of land for a county park and fairgrounds. Interest is paid on a monthly basis and a principal payment is made annually until termination of the lease on January 20, 2026.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 35,000	\$ 21,870	\$ 56,870
2017	40,000	20,289	60,289
2018	40,000	18,613	58,613
2019	45,000	16,832	61,832
2020	45,000	14,947	59,947
2021-2025	280,000	42,348	322,348
2026	38,213	171	38,384
Totals	<u>\$ 523,213</u>	<u>\$ 135,070</u>	<u>\$ 658,283</u>

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

Note 4. Long-term Debt (Continued)

D. Courthouse Renovations

On June 30, 2006, the Gallatin County Fiscal Court entered into a 21 year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$2,498,784 in order to finance the renovations of the Gallatin County Courthouse. The Courthouse will be subleased to the Administrative Office of the Courts (AOC) of the Commonwealth of Kentucky for use as court facilities. Under the sublease agreement, the financing obligation payments of the county are to be paid directly to the Trustee by AOC, and the fiscal court is obligated to provide operation, maintenance, insurance and repair of the project. Interest is paid on a monthly basis and principal payments are paid on a semi-annual basis until termination of the lease on November 20, 2026.

The rate in the lease was fixed at 4.49% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to the fiscal court through additional future rentals.

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended			
June 30	Principal	Interest	Total
2016	\$ 110,460	\$ 88,540	\$ 199,000
2017	116,427	82,573	199,000
2018	122,568	76,432	199,000
2019	129,140	69,860	199,000
2020	135,744	63,256	199,000
2021-2025	794,548	200,452	995,000
2026-2027	383,011	14,989	398,000
Totals	<u>\$ 1,791,898</u>	<u>\$ 596,102</u>	<u>\$ 2,388,000</u>

On June 28, 2007, the Gallatin County Fiscal Court entered into a 20 year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$375,808 in order to further finance the renovations of the Gallatin County Courthouse. As above, the courthouse will be subleased to the Administrative Office of the Courts (AOC) of the Commonwealth of Kentucky for use as court facilities. Under the sublease agreement, the financing obligation payments of the county are to be paid directly to the Trustee by AOC and the fiscal court is obligated to provide operation, maintenance, insurance and repair of the project. Interest is paid on a monthly basis and principal payments are paid on a semi-annual basis until termination of the lease on May 20, 2027. The rate in the lease was fixed at 5.157% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to the fiscal court through additional future rentals.

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

Note 4. Long-term Debt (Continued)

D. Courthouse Renovations (Continued)

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 16,697	\$ 13,153	\$ 29,850
2017	17,564	12,286	29,850
2018	18,472	11,378	29,850
2019	19,430	10,420	29,850
2020	20,434	9,416	29,850
2021-2025	119,182	30,068	149,250
2026-2027	56,875	2,825	59,700
Totals	<u>\$ 268,654</u>	<u>89,546</u>	<u>\$ 358,200</u>

On July 10, 2001, the fiscal court entered into a lease agreement with AOC, which states that AOC agrees to pay 100% of the debt service requirements. The lease does not require the fiscal court to make any rental payments toward the project; however, the fiscal court is obligated to provide operation, maintenance, insurance and repair of the project.

The lease is secured by a security interest in any and all right, title and interest of the county in the courthouse that constitute personal property and in all additions, attachments, accessions, and substitutions thereto, and any proceeds there from.

E. Carver Farms Subdivision Roads

On December 22, 2005, the Gallatin County Fiscal Court entered into a 25 year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$79,000 at a variable interest rate in order to finance the construction of roads in the Carver Farms Subdivision so that they may be a part of the county road system. Payments of this debt are to be made by the property owners located in the Carver Farms Subdivision. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Principal and interest are paid on a monthly basis until termination of the lease on December 20, 2030.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

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

Note 4. Long-term Debt (Continued)

E. Carver Farms Subdivision Roads (Continued)

Fiscal Year Ended			
June 30	Principal	Interest	Total
2016	\$ 2,408	\$ 2,658	\$ 5,066
2017	2,560	2,552	5,112
2018	2,722	2,441	5,163
2019	2,894	2,322	5,216
2020	3,075	2,199	5,274
2021-2025	18,548	8,808	27,356
2026-2030	25,189	4,249	29,438
2031	1,475	66	1,541
Totals	<u>\$ 58,871</u>	<u>\$ 25,295</u>	<u>\$ 84,166</u>

F. Creekside Subdivision Roads

On December 22, 2005, the Gallatin County Fiscal Court entered into a 25 year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$157,000 at a variable interest rate in order to finance the construction of roads in the Creekside Subdivision so that they may be a part of the county road system. Payments of this debt are to be made by the property owners located in the Creekside Subdivision. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Principal and interest are paid on a monthly basis until termination of the lease on December 20, 2030.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended			
June 30	Principal	Interest	Total
2016	\$ 4,093	\$ 3,772	\$ 7,865
2017	4,351	3,593	7,944
2018	4,624	3,406	8,030
2019	4,917	3,203	8,120
2020	5,228	2,992	8,220
2021-2025	31,524	11,255	42,779
2026-2029	30,851	3,489	34,340
Totals	<u>\$ 85,588</u>	<u>\$ 31,710</u>	<u>\$ 117,298</u>

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

Note 4. Long-term Debt (Continued)

G. Fire Truck

On May 2, 2007, the Gallatin County Fiscal Court entered into an agreement with the United States Department of Agriculture for the purpose of assuming a loan acquired by the Gallatin County Fire Department in March 21, 2001 for a fire truck. The original principal amount was for \$239,263. The termination date of the agreement is March 21, 2021. The interest rate for the loan is fixed at 4.75%.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2016	\$ 17,948	\$ 5,620	\$ 23,568
2017	18,781	4,787	23,568
2018	19,654	3,914	23,568
2019	6,363	3,001	9,364
Totals	<u>\$ 62,746</u>	<u>\$ 17,322</u>	<u>\$ 80,068</u>

H. Scenic View Road

On September 4, 2007, the Gallatin County Fiscal Court entered into a 25 year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$138,283 at a variable rate of interest in order to finance the construction of roads in Scenic View Subdivision so that they may be part of the county road system. Payments of this debt are to be made by the property owners located in the Scenic View Subdivision. Payments are collected by Gallatin County and distributed to the Kentucky Association of Leasing Trust (KACoLT) in order to meet the debt requirements. Principal and interest are paid on a monthly basis until termination of the lease on September 20, 2032.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

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

Note 4. Long-term Debt (Continued)

H. Scenic View Road (Continued)

Fiscal Year Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 3,852	\$ 4,991	\$ 8,843
2017	4,095	4,822	8,917
2018	4,354	4,643	8,997
2019	4,632	4,449	9,081
2020	4,921	4,256	9,177
2021-2025	29,671	17,789	47,460
2026-2030	40,290	10,494	50,784
2031-2033	<u>22,562</u>	<u>1,677</u>	<u>24,239</u>
Totals	<u>\$ 114,377</u>	<u>\$ 53,121</u>	<u>\$ 167,498</u>

I. Hillendale Road

On November 30, 2012, the Gallatin County Fiscal Court entered into a 25 year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$85,000 at a variable rate of interest in order to finance the construction of roads in Hillendale subdivision so that they may be part of the county road system. Payments of this debt are to be made by the property owners located in the Hillendale Subdivision. Payments are collected by Gallatin County and distributed to the Kentucky Association of Leasing Trust (KACoLT) in order to meet the debt requirements. Principal and interest are paid on a monthly basis until termination of the lease on December 20, 2032.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,500	\$ 2,818	\$ 5,318
2017	5,000	2,761	7,761
2018	5,000	2,649	7,649
2019	5,000	2,536	7,536
2020	5,000	2,424	7,424
2021-2025	25,000	10,326	35,326
2026-2030	25,000	6,744	31,744
2031-2033	<u>12,500</u>	<u>1,876</u>	<u>14,376</u>
Totals	<u>\$ 85,000</u>	<u>\$ 32,134</u>	<u>\$ 117,134</u>

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

Note 4. Long-term Debt (Continued)

J. Sheriff's Vehicles

On May 20, 2013, the Gallatin County Fiscal Court entered into an agreement with Magnolia Bank for the purpose of securing a loan to purchase a vehicle for the sheriff's office. The original principal amount was \$24,150. The agreement requires four annual interest and principal payments, and the agreement is to be paid in full by June 1, 2016.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,170	\$ 224	\$ 6,394
Totals	<u>\$ 6,170</u>	<u>\$ 224</u>	<u>\$ 6,394</u>

On May 8, 2014, the Gallatin County Fiscal Court entered into an agreement with Magnolia Bank for the purpose of securing a loan to purchase a vehicle for the sheriff's office. The original principal amount was \$30,208. The agreement requires four annual interest and principal payments, and the agreement is to be paid in full by June 1, 2017.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 7,435	\$ 526	\$ 7,961
2017	7,703	258	7,961
Totals	<u>\$ 15,138</u>	<u>\$ 784</u>	<u>\$ 15,922</u>

K. Road Equipment

On May 16, 2014, the Gallatin County Fiscal Court entered into an agreement with Magnolia Bank for the purpose of securing a loan to purchase a backhoe and roller for the road department. The original principal amount was \$98,200. The agreement requires five annual interest and principal payments of \$21,287, and the agreement is to be paid in full by September 1, 2019.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

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

Note 4. Long-term Debt (Continued)

K. Road Equipment (Continued)

Fiscal Year Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 18,460	\$ 2,827	\$ 21,287
2017	19,144	2,143	21,287
2018	19,853	1,434	21,287
2019	<u>8,687</u>	<u>698</u>	<u>9,385</u>
Totals	<u>\$ 66,144</u>	<u>\$ 7,102</u>	<u>\$ 73,246</u>

L. 911 Recording Equipment

On July 15, 2013, the Gallatin County Fiscal Court entered into an agreement with Fleetwood Leasing Equipment for the purpose of securing a loan to purchase 911 recording equipment for the dispatch. The original principal amount was \$15,191. The agreement requires five annual interest and principal payments, and the agreement is to be paid in full by July 15, 2018.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 3,020	\$ 503	\$ 3,523
2017	<u>3,262</u>	<u>261</u>	<u>3,523</u>
Totals	<u>\$ 6,282</u>	<u>\$ 764</u>	<u>\$ 7,046</u>

M. EMS Vehicle

On December 12, 2014, the Gallatin County Fiscal Court entered into an agreement with Magnolia Bank for the purpose of securing a loan to purchase a vehicle for the ambulance service. The original principal amount was \$124,829. The agreement requires five annual interest and principal payments, and the agreement is to be paid in full by June 1, 2019.

Principal payment requirements and scheduled interest for the term of the agreement are as follows:

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

Note 4. Long-term Debt (Continued)

M. EMS Vehicle (Continued)

Fiscal Year Ended				
June 30	Principal	Interest	Total	
2016	\$ 24,966	\$ 3,064	\$ 28,030	
2017	24,966	2,120	27,086	
2018	24,966	1,549	26,515	
2019	24,966	753	25,719	
Totals	<u>\$ 99,864</u>	<u>\$ 7,486</u>	<u>\$ 107,350</u>	

N. Interest Rate Swaps

Some of the fiscal court's leases have been fixed through the use of interest rate swaps. The interest rate swaps are exchange agreements between the trustee and a third party financial institution, whereby the third party financial institution pays the trustee the variable rate interest within the swap (which is equivalent to the variable rate within the lease) and the fiscal court pays the fixed rate stated by the swap. Under the terms of lease agreements the trustee has the right to charge costs associated with the interest rate swap to the fiscal court through additional future rentals.

The swap becomes effective on the date that the county exercises its option to convert the variable interest rate in the lease to a fixed rate. The notional amount of the swap at that exercise date is equivalent to the then outstanding principal balance. The notional amount reduces over the term of the lease by the same amount as the principal payments on the lease, as they fall due. The swap terminates on the same date as the final principal payment is due on the respective lease.

The interest rate swaps in effect as of June 30, 2015 are as follows:

The settlement values below are calculated using the zero-coupon rate and are considered by the fiscal court to represent the fair value of the interest rate swaps at June 30, 2015. The variable rate on all of the swaps is the USD-BMA Municipal Swap Index.

	Date Effective	Termination Date	Notional Amount at June 30, 2015
Courthouse Renovations A	June 30, 2006	December 1, 2026	\$ 1,791,898
Courthouse Renovations B	June 28, 2007	June 1, 2027	\$ 268,654

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

Note 4. Long-term Debt (Continued)

N. Interest Rate Swaps (Continued)

The swaps expose the fiscal court to the following risks that could give rise to additional rentals:

Credit risk: Credit risk is the risk that the third party financial institution will not fulfill its obligations to pay the variable rate interest. All third party financial institutions party to the interest rate swaps have S&P credit quality ratings of AA-. The value of the transaction to the fiscal court depends upon the third party financial institutions maintaining their perceived creditworthiness in the municipal marketplace and fulfilling their obligations under the interest rate swap agreements. Should the third party financial institutions fail to fulfill their obligations the fiscal court will be required to pay additional rentals for any costs associated with terminating the swap agreement, plus the costs of entering into an interest rate swap agreement with an alternative financial institution. Should an alternative agreement not be available, the fiscal court would be required to make payments at the variable interest rate contained within the lease.

Basis risk: Basis risk is a term used to refer to a mismatch in the source of the variable interest rates in the lease agreement and the swap agreement. When an agency uses an interest rate swap agreement in conjunction with a variable rate debt instrument, the variable rate index used to calculate the payments due under the swap agreement (in this case, the USD-BMA Municipal Swap Index) may not match the rate at which the variable rate debt is remarketed (the interest rate on KACoLT's variable rate bonds, which is reset on a daily basis). This mismatch could potentially be magnified if KACoLT were to administer the program in such a way that the underlying bonds were determined to be taxable obligations, which would be considered an event of default according to the terms of the letter of credit agreement.

Termination risk: Termination risk is the risk that a derivative's unscheduled end will affect the fiscal court's asset/liability strategy or will present the fiscal court with potentially significant unscheduled termination payments to the trustee. For example, the fiscal court relies on the interest rate swaps to insulate it from the possibility of increasing interest rate payments. If the swap has an unscheduled termination, that benefit would not be available. The fiscal court would also be required to pay any costs associated with terminating the swap agreement.

Market access risk: Market-access risk is the risk that the fiscal court will not be able to enter credit markets or that credit will become more costly. If the fiscal court is required to pay additional rentals or required to pay higher variable rates, the fiscal court's credit rating could suffer and additional debt could become more expensive and more difficult to sell. The fiscal court may also be required to pay additional rentals for fees relating to any letters of credit being used to collateralize the interest rate swaps. Furthermore, if interest rates in the municipal bond market were to decrease and the fiscal court wanted to refinance the debt at a lower interest rate, the fiscal court would first have to terminate the swap agreement. When interest rate swap agreements are terminated prior to the contract's maturity, one party to the agreement will owe the other party a termination payment that reflects the value of the swap under current market conditions. It is likely that if rates have decreased to the extent that the fiscal court would want to refinance the debt, the fiscal court would be the party that would have to make a termination payment. The use of the interest rate swap agreement may limit the fiscal court's flexibility in managing the lease obligations going forward.

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

Note 4. Long-term Debt (Continued)

O. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 3,708,799	\$ 156,029	\$ 362,874	\$ 3,501,954	\$ 273,009
Total Long-term Debt	<u>\$ 3,708,799</u>	<u>\$ 156,029</u>	<u>\$ 362,874</u>	<u>\$ 3,501,954</u>	<u>\$ 273,009</u>

Note 5. Employee Retirement System

A. Plan Description

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

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

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

The county's contribution for FY 2013 was \$304,654, FY 2014 was \$312,166, and FY 2015 was \$335,606.

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

Note 5. Employee Retirement System (Continued)

A. Plan Description (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.

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

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

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

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

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

B. Net Pension Liability

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

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

Note 5. Employee Retirement System (Continued)

B. Net Pension Liability (Continued)

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	\$ 2,688,000	\$ 2,376,000
Totals	<u>\$ 2,688,000</u>	<u>\$ 2,376,000</u>

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

Note 6. Deferred Compensation

On July 15, 1999, the Gallatin 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 permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

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

Note 7. Insurance

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

From time to time the county has issued bonds and leases to provide financial assistance for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Gallatin County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. The amount outstanding as of June 30, 2015 is not reasonably determinable.

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

Note 9. Related Party Transactions

The county hired a child of the county treasurer and a child of a magistrate to mow abandoned properties owned by the county. Both received a 1099 for their work and were paid a reasonable amount.

GALLATIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

GALLATIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,594,400	\$ 1,594,400	\$ 1,818,648	\$ 224,248
In Lieu Tax Payments	495,000	495,000	510,383	15,383
Excess Fees	3,000	68,021	71,022	3,001
Licenses and Permits	69,000	69,000	66,504	(2,496)
Intergovernmental	135,350	135,350	618,669	483,319
Charges for Services	13,000	24,563	119,614	95,051
Miscellaneous	27,600	77,117	61,937	(15,180)
Interest	300	300	563	263
Total Receipts	<u>2,337,650</u>	<u>2,463,751</u>	<u>3,267,340</u>	<u>803,589</u>
DISBURSEMENTS				
General Government	1,038,486	1,271,209	1,217,146	54,063
Protection to Persons and Property	96,300	102,034	85,554	16,480
General Health and Sanitation	67,100	69,911	67,100	2,811
Social Services	65,360	74,014	60,665	13,349
Recreation and Culture	7,000	7,000	1,500	5,500
Debt Service	200,000	147,528	274,456	(126,928)
Capital Projects	20,000			
Administration	988,210	921,492	857,963	63,529
Total Disbursements	<u>2,482,456</u>	<u>2,593,188</u>	<u>2,564,384</u>	<u>28,804</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(144,806)</u>	<u>(129,437)</u>	<u>702,956</u>	<u>832,393</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	85,000	85,000	85,240	240
Transfers To Other Funds	(419,350)	(419,350)	(682,832)	(263,482)
Total Other Adjustments to Cash (Uses)	<u>(334,350)</u>	<u>(334,350)</u>	<u>(597,592)</u>	<u>(263,242)</u>
Net Change in Fund Balance	(479,156)	(463,787)	105,364	569,151
Fund Balance Beginning	479,156	479,156	346,759	(132,397)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 15,369</u>	<u>\$ 452,123</u>	<u>\$ 436,754</u>

*

* Includes budget transfer from the 911 Fund.

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 300,000	\$ 300,000	\$	\$ (300,000)
Intergovernmental	800,800	800,800	763,882	(36,918)
Miscellaneous	58,100	73,309	90,603	17,294
Interest	1,300	1,300	692	(608)
Total Receipts	<u>1,160,200</u>	<u>1,175,409</u>	<u>855,177</u>	<u>(320,232)</u>
DISBURSEMENTS				
Roads	891,877	950,468	710,212	240,256
Debt Service	55,000	69,392	60,475	8,917
Capital Projects	500,000	444,226	269,520	174,706
Administration	76,550	74,549	68,687	5,862
Total Disbursements	<u>1,523,427</u>	<u>1,538,635</u>	<u>1,108,894</u>	<u>429,741</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(363,227)</u>	<u>(363,226)</u>	<u>(253,717)</u>	<u>109,509</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			251,887	251,887
Transfers To Other Funds	<u>(85,000)</u>	<u>(85,000)</u>	<u>(85,000)</u>	
Total Other Adjustments to Cash (Uses)	<u>(85,000)</u>	<u>(85,000)</u>	<u>166,887</u>	<u>251,887</u>
Net Change in Fund Balance	(448,227)	(448,226)	(86,830)	361,396
Fund Balance Beginning	<u>448,227</u>	<u>448,226</u>	<u>598,547</u>	<u>150,321</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 511,717</u>	<u>\$ 511,717</u>

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

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 108,000	\$ 108,000	\$ 98,633	\$ (9,367)
Miscellaneous	600	600	230	(370)
Interest	20	20	7	(13)
Total Receipts	<u>108,620</u>	<u>108,620</u>	<u>98,870</u>	<u>(9,750)</u>
DISBURSEMENTS				
Protection to Persons and Property	440,480	440,480	363,888	76,592
Administration	30,668	30,668	22,162	8,506
Total Disbursements	<u>471,148</u>	<u>471,148</u>	<u>386,050</u>	<u>85,098</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(362,528)</u>	<u>(362,528)</u>	<u>(287,180)</u>	<u>75,348</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	343,405	343,405	283,000	(60,405)
Total Other Adjustments to Cash (Uses)	<u>343,405</u>	<u>343,405</u>	<u>283,000</u>	<u>(60,405)</u>
Net Change in Fund Balance	(19,123)	(19,123)	(4,180)	14,943
Fund Balance Beginning	<u>19,123</u>	<u>19,123</u>	<u>13,847</u>	<u>(5,276)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,667</u>	<u>\$ 9,667</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 152,000	\$ 152,000	\$ 226,605	\$ 74,605
Interest	50	50	40	(10)
Miscellaneous	100	442	11,756	11,314
Total Receipts	<u>152,150</u>	<u>152,492</u>	<u>238,401</u>	<u>85,909</u>
DISBURSEMENTS				
General Government	2,500	19,149	18,456	693
Social Services	13,000	13,342	11,619	1,723
General Health and Sanitation	2,500	2,500	2,415	85
Recreation and Culture	131,000	138,000	123,153	14,847
Debt Service	111,000	94,351	88,326	6,025
Administration	16,000	9,000	2,762	6,238
Total Disbursements	<u>276,000</u>	<u>276,342</u>	<u>246,731</u>	<u>29,611</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(123,850)</u>	<u>(123,850)</u>	<u>(8,330)</u>	<u>115,520</u>
Net Change in Fund Balance	(123,850)	(123,850)	(8,330)	115,520
Fund Balance Beginning	<u>123,850</u>	<u>123,850</u>	<u>161,202</u>	<u>37,352</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 152,872</u>	<u>\$ 152,872</u>

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

STATE GRANTS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 44,650	\$ 44,650	\$ 1,800	\$ (42,850)
Total Receipts	44,650	44,650	1,800	(42,850)
DISBURSEMENTS				
General Health and Sanitation	1,650	1,650		1,650
Capital Projects	43,000	43,000		43,000
Total Disbursements	44,650	44,650		44,650
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			1,800	1,800
Net Change in Fund Balance			1,800	1,800
Fund Balance Beginning			23	23
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,823	\$ 1,823

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

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 20,000	\$ 20,000	\$	\$ (20,000)
Charges for Services	995,000	995,000	752,563	(242,437)
Miscellaneous	100	1,300	221	(1,079)
Interest	100	100	228	128
Total Receipts	<u>1,015,200</u>	<u>1,016,400</u>	<u>753,012</u>	<u>(263,388)</u>
DISBURSEMENTS				
Protection to Persons and Property	990,000	988,631	893,612	95,019
Administration	115,200	117,769	107,586	10,183
Total Disbursements	<u>1,105,200</u>	<u>1,106,400</u>	<u>1,001,198</u>	<u>105,202</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(90,000)</u>	<u>(90,000)</u>	<u>(248,186)</u>	<u>(158,186)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			42,000	42,000
Transfers To Other Funds			(240)	(240)
Total Other Adjustments to Cash (Uses)			<u>41,760</u>	<u>41,760</u>
Net Change in Fund Balance	(90,000)	(90,000)	(206,426)	(116,426)
Fund Balance Beginning	90,000	90,000	290,382	200,382
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 83,956</u>	<u>\$ 83,956</u>

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

ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 1,500	\$ 1,500	\$ 816	\$ (684)
Total Receipts	<u>1,500</u>	<u>1,500</u>	<u>816</u>	<u>(684)</u>
DISBURSEMENTS				
General Government	43,000	43,000	26,000	17,000
Administration	183,500	183,500		183,500
Total Disbursements	<u>226,500</u>	<u>226,500</u>	<u>26,000</u>	<u>200,500</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(225,000)</u>	<u>(225,000)</u>	<u>(25,184)</u>	<u>199,816</u>
Net Change in Fund Balance	<u>(225,000)</u>	<u>(225,000)</u>	<u>(25,184)</u>	<u>199,816</u>
Fund Balance Beginning	<u>225,000</u>	<u>225,000</u>	<u>226,621</u>	<u>1,621</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 201,437</u>	<u>\$ 201,437</u>

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

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 47,000	\$ 47,000	\$ 44,692	\$ (2,308)
Miscellaneous	100	895	1,177	282
Interest	5	5	2	(3)
Total Receipts	<u>47,105</u>	<u>47,900</u>	<u>45,871</u>	<u>(2,029)</u>
DISBURSEMENTS				
Protection to Persons and Property	201,550	213,264	212,332	932
Administration	34,500	38,950	38,747	203
Total Disbursements	<u>236,050</u>	<u>252,214</u>	<u>251,079</u>	<u>1,135</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(188,945)</u>	<u>(204,314)</u>	<u>(205,208)</u>	<u>(894)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	185,945	185,945	209,445	23,500
Total Other Adjustments to Cash (Uses)	<u>185,945</u>	<u>185,945</u>	<u>209,445</u>	<u>23,500</u>
Net Change in Fund Balance	(3,000)	(18,369)	4,237	22,606
Fund Balance Beginning	<u>3,000</u>	<u>3,000</u>	<u>6,867</u>	<u>3,867</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (15,369)</u>	<u>\$ 11,104</u>	<u>\$ 26,473</u>

*

* Includes a budget transfer to the general fund.

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

	911 WIRELESS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 95,000	\$ 95,000	\$ 91,732	\$ (3,268)
Interest	10	10	2	(8)
Total Receipts	<u>95,010</u>	<u>95,010</u>	<u>91,734</u>	<u>(3,276)</u>
DISBURSEMENTS				
Protection to Persons and Property	11,000	11,000	8,621	2,379
Total Disbursements	<u>11,000</u>	<u>11,000</u>	<u>8,621</u>	<u>2,379</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>84,010</u>	<u>84,010</u>	<u>83,113</u>	<u>(897)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds				
Transfers To Other Funds	(110,000)	(110,000)	(103,500)	6,500
Total Other Adjustments to Cash (Uses)	<u>(110,000)</u>	<u>(110,000)</u>	<u>(103,500)</u>	<u>6,500</u>
Net Change in Fund Balance	(25,990)	(25,990)	(20,387)	5,603
Fund Balance Beginning	<u>25,990</u>	<u>25,990</u>	<u>23,746</u>	<u>(2,244)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,359</u>	<u>\$ 3,359</u>

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

TOURISM FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 26,000	\$ 26,000	\$ 34,034	\$ 8,034
Miscellaneous	100	100	3,225	3,125
Interest	15	15	17	2
Total Receipts	<u>26,115</u>	<u>26,115</u>	<u>37,276</u>	<u>11,161</u>
DISBURSEMENTS				
Recreation and Culture	57,580	57,580	27,697	29,883
Administration	50	50		50
Total Disbursements	<u>57,630</u>	<u>57,630</u>	<u>27,697</u>	<u>29,933</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(31,515)</u>	<u>(31,515)</u>	<u>9,579</u>	<u>41,094</u>
Net Change in Fund Balance	(31,515)	(31,515)	9,579	41,094
Fund Balance Beginning	<u>31,515</u>	<u>31,515</u>	<u>68,725</u>	<u>37,210</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 78,304</u>	<u>\$ 78,304</u>

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

	AOC FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 25,000	\$ 25,000	\$ 28,905	\$ 3,905
Interest	600	600	868	268
Total Receipts	<u>25,600</u>	<u>25,600</u>	<u>29,778</u>	<u>4,178</u>
DISBURSEMENTS				
General Government	<u>125,600</u>	<u>125,600</u>	<u>10,147</u>	<u>115,453</u>
Total Disbursements	<u>125,600</u>	<u>125,600</u>	<u>10,147</u>	<u>115,453</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>19,631</u>	<u>119,631</u>
Net Change in Fund Balance	(100,000)	(100,000)	19,631	119,631
Fund Balance Beginning	<u>100,000</u>	<u>100,000</u>	<u>208,911</u>	<u>108,911</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 228,542</u>	<u>\$ 228,542</u>

GALLATIN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

Debt service disbursements in the General Fund exceeded appropriations by \$126,928 due to the Administrative Office of the Courts (AOC) lease payments.

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

GALLATIN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and Land Improvements	\$ 1,315,000	\$	\$	\$ 1,315,000
Buildings	4,442,688			4,442,688
Vehicles	1,748,047	236,555	392,646	1,591,956
Equipment	906,930	15,553	48,000	874,483
Infrastructure	4,070,997	267,520		4,338,517
 Total Capital Assets	 <u>\$ 12,483,662</u>	 <u>\$ 519,628</u>	 <u>\$ 440,646</u>	 <u>\$12,562,644</u>

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

June 30, 2015

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5-15
Infrastructure	\$ 20,000	2-40

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ken McFarland, Gallatin County Judge/Executive
Members of the Gallatin 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 Gallatin County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Gallatin County Fiscal Court's financial statement and have issued our report thereon dated July 7, 2016.

Internal Control Over Financial Reporting

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

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

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



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Gallatin County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations 2015-001 and 2015-002.

County Judge/Executive's Responses to Findings

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 7, 2016

**GALLATIN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

GALLATIN COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The County Understated The Schedule Of Expenditures Of Federal Awards Causing It To Be Materially Misstated

Controls were not in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The county did not report spending any federal money on their SEFA, however, they expended \$251,887 during fiscal year 2015, resulting in a materially understated Schedule of Expenditure of Federal Awards.

OMB Circular A-133, Subpart C, section .300 states in part: “The auditee shall:... (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310.” OMB Circular A-133, Subpart C, section.310(b) states: Schedule of expenditures of federal awards. The auditee shall also prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee’s financial statement.

At a minimum, the schedule should include the following, if applicable:

- A listing of individual federal programs by federal agency.
- 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 Catalogue of Federal Domestic Assistance (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.

Controls over receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making.

We recommended that the fiscal court improve controls over financial statement reporting to ensure that the Schedule of Expenditures of Federal Awards is reported accurately.

County Judge/Executive’s Response: We will note in the future any FEMA reimbursements expected.

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

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2015-002 The County Did Not Maintain An Accurate Capital Assets Listing

Controls were not in place to prevent or detect errors on the county's capital assets listing. The county's capital asset listing was materially understated by \$1,034,890. The county's capital asset listing did not provide amounts for infrastructure, other equipment, and vehicles. There was also an item on the capital asset listing that was below the capitalization threshold, and two items that were omitted from the county's insurance policy.

Per the Department for Local Government, each county office should maintain a current capital assets listing summarizing the following:

- Description of asset (include quantity where applicable).
- Historical cost of the asset (use FMV at date of donation for assets acquired via donation).
- Date of acquisition.
- Date of capital improvement (capitalize costs which significantly improve the asset by extending life or greatly improving performance).
- Date of disposal.
- Useful life of asset.
- Salvage value, if any (or guaranteed residual value if applicable per lease agreement).
- Copies of all lease agreements (note: lease agreements must include terms in writing and signed by all responsible parties).
- Proceeds from sale or disposal of assets (maintain documentation for trade-in allowances, or assets deemed obsolete).

Capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. Strong controls reduce the risk of asset misappropriation. A lack of controls over capital asset reporting led to assets being understated, assets being omitted from insurance policies, and assets that should not have been capitalized being on the capital asset listing.

We recommend the county prepare and maintain a complete and accurate master capital assets listing with all required information in order to ensure that assets are valued accurately and that gains and/or losses are calculated correctly. We further recommend they annually review asset addition and disposal records reconciling them to the master capital asset listing to verify accuracy. Further, we recommend that the county reviews the asset listing periodically and add any newly acquired assets to the county's insurance policy.

County Judge/Executive's Response: We have added a new feature in our software that allows for pictures of our assets. We also have all office personnel checking asset listing and updating as needed.

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

GALLATIN COUNTY FISCAL COURT

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

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

GALLATIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

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



County Judge/Executive



County Treasurer

