

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

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



**MIKE HARMON
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EXECUTIVE SUMMARY

AUDIT OF THE
GRANT COUNTY FISCAL COURT

June 30, 2016

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

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

Financial Condition:

The Grant County Fiscal Court had total receipts of \$10,214,931 and disbursements of \$12,589,494 in fiscal year 2016. This resulted in a total ending fund balance of \$2,317,355, which is a decrease of \$424,739 from the prior year.

Findings:

- 2016-001 The Grant County Fiscal Court Materially Misstated The Public Properties Corporation (PPC) Debt On The Liabilities Section Of The Quarterly Report
- 2016-002 The Grant County Fiscal Court's Master Capital Assets Listing Was Materially Misstated
- 2016-003 The Grant County Fiscal Court Did Not Prepare A Balanced Budget
- 2016-004 The Grant County Fiscal Court Had Inadequate Internal Controls Over Disbursements And Was Not Compliant With Various Statutes
- 2016-005 The Grant County Detention Center Does Not Have Adequate Controls Over Disbursements For The Jail Commissary And Inmate Trust Funds
- 2016-006 The Grant County Detention Center Lacks Oversight And Evidence Of Supervisory Reviews
- 2016-007 The Grant County Fiscal Court Lacked Adequate Internal Controls And Oversight Over Processing Of Payroll

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Stephen Wood, Grant County Judge/Executive
Members of the Grant 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 Grant County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Grant County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

As described in Note 1 of the financial statement, the financial statement is prepared by the Grant 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 Grant County Fiscal Court as of June 30, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Grant County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Grant 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 Stephen Wood, Grant County Judge/Executive
Members of the Grant County Fiscal Court

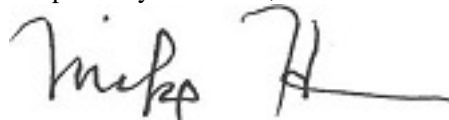
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2018, on our consideration of the Grant 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 Grant County Fiscal Court's internal control over financial reporting and compliance.

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

- 2016-001 The Grant County Fiscal Court Materially Misstated The Public Properties Corporation (PPC) Debt On The Liabilities Section Of The Quarterly Report
- 2016-002 The Grant County Fiscal Court's Master Capital Assets Listing Was Materially Misstated
- 2016-003 The Grant County Fiscal Court Did Not Prepare A Balanced Budget
- 2016-004 The Grant County Fiscal Court Had Inadequate Internal Controls Over Disbursements And Was Not Compliant With Various Statutes
- 2016-005 The Grant County Detention Center Does Not Have Adequate Controls Over Disbursements For The Jail Commissary And Inmate Trust Funds
- 2016-006 The Grant County Detention Center Lacks Oversight And Evidence Of Supervisory Reviews
- 2016-007 The Grant County Fiscal Court Lacked Adequate Internal Controls And Oversight Over Processing Of Payroll

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 14, 2018

GRANT COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Stephen Wood	County Judge/Executive
Jacqalynn Riley	Magistrate
Shawna Coldiron	Magistrate
Bobby Newman	Magistrate

Other Elected Officials:

Joe Taylor	County Attorney
Chris Hankins	Jailer
Tabatha Clemons	County Clerk
Tina Melton	Circuit Court Clerk
Charles Dills	Sheriff
Angela McLafferty	Property Valuation Administrator
Robert McDaniel	Coroner

Appointed Personnel:

Peggy Updike	County Treasurer
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**GRANT COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 2,254,262	\$	\$
Excess Fees	106,628		
Licenses and Permits	89,526		
Intergovernmental	1,507,783	1,313,176	2,721,027
Charges for Services	70,600		155,463
Miscellaneous	582,252	7,162	137,458
Interest	7,681	965	648
Total Receipts	<u>4,618,732</u>	<u>1,321,303</u>	<u>3,014,596</u>
DISBURSEMENTS			
General Government	3,334,580		
Protection to Persons and Property	245,894		2,874,928
General Health and Sanitation	359,012		
Social Services	4,600		
Recreation and Culture	288,468		
Roads		1,491,691	
Debt Service	655,000		
Administration	1,149,529	160,262	733,076
Total Disbursements	<u>6,037,083</u>	<u>1,651,953</u>	<u>3,608,004</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,418,351)</u>	<u>(330,650)</u>	<u>(593,408)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds	5,290,000		
Bond Reoffering Premium	48,479		
Bond Underwriters Discount	(55,892)		
Bond Proceeds To Escrow Agent	(3,641,713)		
Bond Cost of issuance	(67,860)		
Loan Proceeds		376,810	
Transfers From Other Funds	15,000	15,000	448,500
Transfers To Other Funds	(463,500)	(15,000)	
Total Other Adjustments to Cash (Uses)	<u>1,124,514</u>	<u>376,810</u>	<u>448,500</u>
Net Change in Fund Balance	(293,837)	46,160	(144,908)
Fund Balance - Beginning (restated)	1,999,345	158,019	411,175
Fund Balance - Ending	<u>\$ 1,705,508</u>	<u>\$ 204,179</u>	<u>\$ 266,267</u>
Composition of Fund Balance			
Bank Balance	\$ 1,344,992	\$ 204,372	\$ 266,338
Less: Outstanding Checks	(49,484)	(193)	(71)
Certificates of Deposit	410,000		
Fund Balance - Ending	<u>\$ 1,705,508</u>	<u>\$ 204,179</u>	<u>\$ 266,267</u>

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

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

<u>Budgeted Funds</u>		<u>Unbudgeted Funds</u>		
<u>Local Government Economic Assistance Fund</u>	<u>Forest Fund</u>	<u>Public Properties Corporation Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
\$	\$ 1,926	\$	\$	\$ 2,256,188
				106,628
				89,526
				5,541,986
				226,063
		1,051,438	206,595	1,984,905
335	6			9,635
<u>335</u>	<u>1,932</u>	<u>1,051,438</u>	<u>206,595</u>	<u>10,214,931</u>
				3,334,580
	1,721			3,122,543
				359,012
				4,600
			192,661	481,129
46,634				1,538,325
		1,051,438		1,706,438
				2,042,867
<u>46,634</u>	<u>1,721</u>	<u>1,051,438</u>	<u>192,661</u>	<u>12,589,494</u>
(46,299)	211		13,934	(2,374,563)
		8,885,000		14,175,000
		268,127		316,606
		(119,947)		(175,839)
		(8,905,290)		(12,547,003)
		(127,890)		(195,750)
				376,810
				478,500
				(478,500)
				1,949,824
(46,299)	211		13,934	(424,739)
120,422	1,108		52,025	2,742,094
<u>\$ 74,123</u>	<u>\$ 1,319</u>	<u>\$ 0</u>	<u>\$ 65,959</u>	<u>\$ 2,317,355</u>
\$ 74,123	\$ 1,319	\$	\$ 67,513	\$ 1,958,657
			(1,554)	(51,302)
				410,000
<u>\$ 74,123</u>	<u>\$ 1,319</u>	<u>\$ 0</u>	<u>\$ 65,959</u>	<u>\$ 2,317,355</u>

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

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GRANT COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

Forest Fund - The primary purpose of this fund is to account for the fire acre taxes collected in case of a major forest fire disaster. The primary source of receipts for this fund is taxes collected by the sheriff's office.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

D. Budgetary Information

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

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

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

The State Local Finance Officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The State Local Finance Officer does not require the public properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Grant County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Grant 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 Grant 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.

Note 2. Deposits and Investments

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.

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

Note 2. Deposits and Investments (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2016, 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 2016.

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 15,000	\$ 15,000
Road Fund	15,000		15,000
Jail Fund	448,500		448,500
Total Transfers Out	<u>\$ 463,500</u>	<u>\$ 15,000</u>	<u>\$ 478,500</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. Agency Trust Funds

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2016, was \$44,944.

Note 5. Long-term Debt

A. General Obligation Refunding Bonds, Series 2010

Grant county issued \$1,020,000 in General Obligation Refunding Bonds, Series 2010, dated May 2010 for the purpose of refunding and retiring the county's lease agreements with the Kentucky Association of Counties Leasing Trust (KACoLT). Principal payments are due each year on February 1, in amounts indicated below starting February 1, 2011. Interest at rates ranging from one percent to 3.3 percent on the bonds is payable each February 1 and August 1, beginning August 1, 2010. The principal balance outstanding as of June 30, 2016, was \$290,000. Future debt service requirements are:

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

Note 5. Long-term Debt (Continued)

A. General Obligation Refunding Bonds, Series 2010 (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 95,000	\$ 9,238
2018	95,000	6,387
2019	100,000	3,300
Totals	<u>\$ 290,000</u>	<u>\$ 18,925</u>

The retired lease agreements discussed above were subsequently sub-leased to the applicable water districts (see below, section E). The districts make monthly payments to the county for the debt service requirements in accordance with the sub-lease agreements. The bonds are general obligations of the county and the full faith, credit, and taxing power of the county is irrevocably pledged to the payment of principal and interest on the bonds when due.

B. General Obligation Refunding Bonds, Series 2010B

In July 2015, the Grant County Fiscal Court issued \$5,290,000 General Obligation Refunding and Improvement Bonds, Series 2015 for the purpose of refinancing the Series 2010B bonds and obtaining financing for improvements to the detention center. As of July 1, 2015, this debt was paid in full.

C. General Obligation Refunding And Improvement Bonds, Series 2015

On July 1, 2015, the Grant County Fiscal Court issued \$5,290,000 General Obligation Refunding and Improvement Bonds for the purposes of refinancing previously issued bonds (Series 2010B Refunding Bonds) and improvements for the Detention Center Facilities Project. Principal payments are due each year on July 1, in amounts indicated below, starting January 1, 2016. Interest rates ranging from two percent to 3.125 percent on the bonds is payable each January 1 and July 1, beginning January 1, 2016. The principal balance outstanding as of June 30, 2016, was \$5,290,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 355,000	\$ 129,694
2018	365,000	122,494
2019	370,000	115,144
2020	380,000	107,644
2021	385,000	99,993
2022-2026	2,075,000	358,144
2027-2029	1,360,000	63,940
Totals	<u>\$ 5,290,000</u>	<u>\$ 997,053</u>

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

Note 5. Long-term Debt (Continued)

D. First Mortgage Revenue Bonds, Series 2007

On December 1, 2007, the Grant County Public Properties Corporation issued \$16,615,000 First Mortgage Revenue Bonds. The proceeds from this issuances were used to (a) provide financing for the acquisition, development, and construction of a new courthouse facility, located within the city, to be used and leased by the Administrative Office of the Courts (AOC); (b) pay the principal and interest of the First Mortgage Revenue Bond Anticipation Note; (c) pay capitalization and/or accrued interest, if any; and (d) pay the cost of interest, which varies at a rate of four percent to four and one-half percent, is payable semi-annually on June 1 and December 1. In January 2016, these bonds were partially defeased with First Mortgage Revenue Refunding Bonds, Series 2016. The outstanding principal balance as of June 30, 2016, is \$3,220,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 755,000	\$ 113,700
2018	790,000	82,800
2019	820,000	50,600
2020	855,000	17,100
Totals	<u>\$ 3,220,000</u>	<u>\$ 264,200</u>

E. First Mortgage Revenue Refunding Bonds, Series 2016

On January 1, 2016, the Grant County Public Properties Corporation issued \$8,885,000 of First Mortgage Revenue Refunding Bonds. Proceeds from the bonds will be used for the purpose of (i) the advance refunding of all or certain maturities of the \$16,615,000 Grant County, Kentucky Public Properties Corporation First Mortgage Revenue Bonds (Judicial Center Project), Series 2007, dated December 1, 2007; (ii) the payment of the accrued interest, if any; and (iii) the payment of the cost of issuance incurred with respect to the issuance of the bonds. Principal payments are due annually on December 1 beginning December 1, 2020. Interest payments, which varies from two percent to three percent, is payable semi-annually on June 1 and December 1. The outstanding principal balance as of June 30, 2016 is \$8,885,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$	\$ 218,200
2018		218,200
2019		218,200
2020		218,200
2021	1,010,000	208,100
2022-2026	5,480,000	686,875
2027-2028	2,395,000	70,900
Totals	<u>\$ 8,885,000</u>	<u>\$ 1,838,675</u>

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

Note 5. Long-term Debt (Continued)

F. Financing Obligation - Dump Truck Lease

In October 2015, the Grant County Fiscal Court entered into a five year lease agreement with PNC Equipment Finance, LLC to purchase three dump trucks for the road department. The lease was for \$376,810 at an interest rate of 3.49 percent. The outstanding principal balance as of June 30, 2016, is \$329,776. Future principal and interest payments are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 72,495	\$ 10,356
2018	74,611	7,792
2019	76,788	5,153
2020	79,029	2,438
2021	26,853	195
Totals	<u>\$ 329,776</u>	<u>\$ 25,934</u>

G. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 4,340,000	\$ 5,290,000	\$ 4,050,000	\$ 5,580,000	\$ 450,000
Revenue Bonds	12,265,000	8,885,000	9,045,000	12,105,000	755,000
Financing Obligations		376,810	47,034	329,776	72,495
Total Long-term Debt	<u>\$ 16,605,000</u>	<u>\$ 14,551,810</u>	<u>\$ 13,142,034</u>	<u>\$ 18,014,776</u>	<u>\$ 1,277,495</u>

H. Changes In Notes Receivable (Waterlines)

Notes receivable activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water Districts	\$ 425,000	\$ 0	\$ 135,000	\$ 290,000
Total	<u>\$ 425,000</u>	<u>\$ 0</u>	<u>\$ 135,000</u>	<u>\$ 290,000</u>

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

Note 6. Commitments and Contingencies

The county is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 7. Employee Retirement System

Plan Description

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.95 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) and eight percent (hazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$639,492, FY 2015 was \$633,633, and FY 2016 was \$635,887.

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

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

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

Note 7. Employee Retirement System (Continued)

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

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

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

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

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

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

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

Note 8. Deferred Compensation

On February 4, 2000, the Grant 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.

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

Note 8. Deferred Compensation (Continued)

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 9. Flexible Spending Account

The Grant Fiscal Court established a flexible spending account to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing various amounts based on how much the employee contributes into the account at the beginning of each fiscal year to pay for qualified medical expenses.

Note 10. Health Reimbursement Benefit

The Grant Fiscal Court established a health reimbursement benefit account to provide employees that opt out of the county's paid health insurance plan with \$250 a month benefit. This benefit can be used to purchase additional insurance options that are available to the employee; however, any funds not spent on additional insurance is deposited into an account. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee at the account at the beginning of each fiscal year to pay for qualified medical expenses.

Note 11. Insurance

For the fiscal year ended June 30, 2016, the Grant 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 12. Self-Insurance Fund

The Grant County Fiscal Court elected to participate in a partially self-funded health care plan to cover all employees. The county signed an interlocal agreement with the Northern Kentucky Public Entity Joint Health Insurance Board to administer the health insurance program. The agreement allows for one appointed member of the county and one vote on all matters. The county submits monthly installments due on the first of each month based on their number of participants and types of coverage determined by a pre-set monthly premium rate. To the extent that additional funds are necessary, the board will determine the assessment of these costs to each entity.

Note 13. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to various agencies 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

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

Note 13. Conduit Debt (Continued)

bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Grant 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 and an aggregate total could not be determined.

Note 14. Prior Period Adjustments

General Fund:

Ending Cash Balance Prior Year	\$ 1,999,033
To Account for Detention Center funds reported separately in PYA	59
To adjust for prior year outstanding checks	253
Ending Cash Balance Prior Year (adjusted)	<u>\$ 1,999,345</u>

Jail Fund:

Ending Cash Balance Prior Year	\$ 411,174
To adjust for rounding	1
Ending Cash Balance Prior Year (adjusted)	<u>\$ 411,175</u>

Jail Commissary Fund:

Ending Cash Balance Prior Year	\$ 52,026
To adjust for rounding	(1)
Ending Cash Balance Prior Year (adjusted)	<u>\$ 52,025</u>

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GRANT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

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GRANT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 2,235,000	\$ 2,235,000	\$ 2,254,262	\$ 19,262
Excess Fees	2,000	2,000	106,628	104,628
Licenses and Permits	87,300	87,300	89,526	2,226
Intergovernmental	1,693,188	1,693,188	1,507,783	(185,405)
Charges for Services	70,000	70,000	70,600	600
Miscellaneous	322,550	322,550	582,252	259,702
Interest	10,000	10,000	7,681	(2,319)
Total Receipts	<u>4,420,038</u>	<u>4,420,038</u>	<u>4,618,732</u>	<u>198,694</u>
DISBURSEMENTS				
General Government	4,180,731	4,250,840	3,334,580	916,260
Protection to Persons and Property	368,500	320,009	245,894	74,115
General Health and Sanitation	490,747	487,091	359,012	128,079
Social Services	10,000	7,000	4,600	2,400
Recreation and Culture	264,550	314,969	288,468	26,501
Debt Service	647,633	655,000	655,000	
Administration	1,236,984	1,164,236	1,149,529	14,707
Total Disbursements	<u>7,199,145</u>	<u>7,199,145</u>	<u>6,037,083</u>	<u>1,162,062</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,779,107)</u>	<u>(2,779,107)</u>	<u>(1,418,351)</u>	<u>1,360,756</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds	1,500,000	1,500,000	5,290,000	3,790,000
Bond Reoffering Premium			48,479	48,479
Bond Underwriters Discount			(55,892)	(55,892)
Bond Proceeds To Escrow Agent			(3,641,713)	(3,641,713)
Bond Cost of issuance			(67,860)	(67,860)
Transfers From Other Funds			15,000	15,000
Transfers To Other Funds			(463,500)	(463,500)
Total Other Adjustments to Cash (Uses)	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,124,514</u>	<u>(375,486)</u>
Net Change in Fund Balance	(1,279,107)	(1,279,107)	(293,837)	985,270
Fund Balance - Beginning	<u>1,069,455</u>	<u>1,069,455</u>	<u>1,999,345</u>	<u>929,890</u>
Fund Balance - Ending	<u>\$ (209,652)</u>	<u>\$ (209,652)</u>	<u>\$ 1,705,508</u>	<u>\$ 1,915,160</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,522,554	\$ 1,652,393	\$ 1,313,176	\$ (339,217)
Miscellaneous	5,775	5,775	7,162	1,387
Interest	2,000	2,000	965	(1,035)
Total Receipts	<u>1,530,329</u>	<u>1,660,168</u>	<u>1,321,303</u>	<u>(338,865)</u>
DISBURSEMENTS				
Roads	1,086,467	1,233,372	1,491,691	(258,319)
Administration	220,152	203,086	160,262	42,824
Total Disbursements	<u>1,306,619</u>	<u>1,436,458</u>	<u>1,651,953</u>	<u>(215,495)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>223,710</u>	<u>223,710</u>	<u>(330,650)</u>	<u>(554,360)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			15,000	15,000
Transfers To Other Funds			(15,000)	(15,000)
Loan Proceeds			376,810	376,810
Total Other Adjustments to Cash (Uses)			<u>376,810</u>	<u>376,810</u>
Net Change in Fund Balance	223,710	223,710	46,160	(177,550)
Fund Balance - Beginning			<u>158,019</u>	<u>158,019</u>
Fund Balance - Ending	<u>\$ 223,710</u>	<u>\$ 223,710</u>	<u>\$ 204,179</u>	<u>\$ (19,531)</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 3,682,087	\$ 3,682,087	\$ 2,721,027	\$ (961,060)
Charges for Services	82,500	82,500	155,463	72,963
Miscellaneous	150,500	150,500	137,458	(13,042)
Interest	750	750	648	(102)
Total Receipts	<u>3,915,837</u>	<u>3,915,837</u>	<u>3,014,596</u>	<u>(901,241)</u>
DISBURSEMENTS				
Protection to Persons and Property	3,047,083	3,080,469	2,874,928	205,541
Administration	874,802	841,416	733,076	108,340
Total Disbursements	<u>3,921,885</u>	<u>3,921,885</u>	<u>3,608,004</u>	<u>313,881</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(6,048)</u>	<u>(6,048)</u>	<u>(593,408)</u>	<u>(587,360)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			448,500	448,500
Total Other Adjustments to Cash (Uses)			<u>448,500</u>	<u>448,500</u>
Net Change in Fund Balance	(6,048)	(6,048)	(144,908)	(138,860)
Fund Balance - Beginning			<u>411,175</u>	<u>411,175</u>
Fund Balance - Ending	<u>\$ (6,048)</u>	<u>\$ (6,048)</u>	<u>\$ 266,267</u>	<u>\$ 272,315</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 55,000	\$ 55,000	\$	\$ (55,000)
Interest	500	500	335	(165)
Total Receipts	<u>55,500</u>	<u>55,500</u>	<u>335</u>	<u>(55,165)</u>
DISBURSEMENTS				
Other Transportation Facilities and Services	6,000	6,000		6,000
Road Facilities	57,500	57,500	46,634	10,866
Total Disbursements	<u>63,500</u>	<u>63,500</u>	<u>46,634</u>	<u>16,866</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(8,000)</u>	<u>(8,000)</u>	<u>(46,299)</u>	<u>(38,299)</u>
Net Change in Fund Balance	(8,000)	(8,000)	(46,299)	(38,299)
Fund Balance - Beginning			120,422	120,422
Fund Balance - Ending	<u>\$ (8,000)</u>	<u>\$ (8,000)</u>	<u>\$ 74,123</u>	<u>\$ 82,123</u>

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

	FOREST FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,722	\$ 1,722	\$ 1,926	\$ 204
Charges for Services	50	50		(50)
Interest	10	10	6	(4)
Total Receipts	<u>1,782</u>	<u>1,782</u>	<u>1,932</u>	<u>150</u>
DISBURSEMENTS				
Protection to Persons and Property	1,782	1,782	1,721	61
Total Disbursements	<u>1,782</u>	<u>1,782</u>	<u>1,721</u>	<u>61</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>211</u>	<u>211</u>
Net Change in Fund Balance			211	211
Fund Balance - Beginning			<u>1,108</u>	<u>1,108</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,319</u>	<u>\$ 1,319</u>

GRANT COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

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

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

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

Note 2. Unbudgeted Funds

The Grant County Fiscal Court did not budget lease proceeds and related disbursements in the road fund.

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

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GRANT COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,073,172	\$	\$	\$ 1,073,172
Buildings and Building Improvements	22,528,135	933,870	21,000	23,441,005
Vehicles	1,601,791	348,802		1,950,593
Machinery and Equipment	1,650,262	118,791		1,769,053
Infrastructure	1,978,540	326,995		2,305,535
	<u>\$ 28,831,900</u>	<u>\$ 1,728,458</u>	<u>\$ 21,000</u>	<u>\$30,539,358</u>
Total Capital Assets	<u>\$ 28,831,900</u>	<u>\$ 1,728,458</u>	<u>\$ 21,000</u>	<u>\$30,539,358</u>

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

June 30, 2016

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5-15
Infrastructure	\$ 20,000	10-50

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Stephen Wood, Grant County Judge/Executive
Members of the Grant 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 Grant County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Grant County Fiscal Court's financial statement and have issued our report thereon dated February 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Grant 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 Grant County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Grant 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 2016-001 and 2016-002 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)

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 2016-003, 2016-004, 2016-005, 2016-006, and 2016-007 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Grant County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-003, 2016-004, 2016-005, and 2016-007.

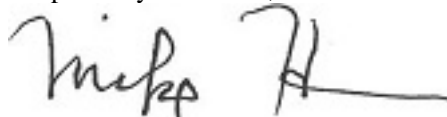
Views of Responsible Officials and Planned Corrective Action

Grant 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

February 14, 2018

**GRANT COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2016

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GRANT COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Grant County Fiscal Court Materially Misstated The Public Properties Corporation (PPC) Debt On The Liabilities Section Of The Quarterly Report

The Grant County Fiscal Court has PPC debt for the judicial center. This debt was materially misstated on the liabilities section of the quarterly report. The principal ending balance was understated by \$565,000 and the interest ending balance was overstated by \$1,197,838.

The amounts reported were from an old amortization schedule. During fiscal year 2016, Administrative Office of the Courts established a revenue refunding bond with a portion of the original debt. This created two loans, but the debt schedule change was not reflected on the county's report.

By not accurately reporting debt, the county is not in compliance with KRS 68.210. In addition, the county is not providing a complete overview of their outstanding debt.

According to the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, all county money is to be reported on the financial statement whether it is included in the budget or not. Documentation of the county's liabilities must be submitted to the State Local Finance Officer.

We recommend the county ensure accuracy when reporting the county's liabilities on the fourth quarter report submitted to DLG.

Views of Responsible Official and Planned Corrective Action:

County Judge Executive's Response: The debt was reported as one liability, but going forward it will be reported separate.

2016-002 The Grant County Fiscal Court's Master Capital Assets Listing Was Materially Misstated

The county did not maintain an accurate capital asset listing. Our review of the fiscal court minutes and the county's disbursements ledger disclosed \$1,280,863 of capital asset purchases during fiscal year 2016 that were not included on the county's capital asset listing. In addition, \$314,052 of prior year deletions and \$216,415 of prior year additions were not accounted for on the County's Master Capital Asset Listing.

The county did not have proper controls in place to ensure that the capital asset listing was updated as required. The county updated an older version of the capital asset listing that did not include additions or deletions from the prior fiscal year. This resulted in the capital asset listing being materially misstated. Furthermore, the risk of undetected misappropriation of assets increases with material misstatements.

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.

In order to strengthen the county's internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of the asset, an inventory control number or serial number, the date acquired, location, date destroyed or sold as surplus, and a brief description as to why the asset was discarded. The inventory of county assets should be updated as new assets are purchased or sold. We also recommend the county reconcile asset purchases and disposals with the disbursements ledger and receipts ledger. The county should also conduct a physical inspection of county

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Grant County Fiscal Court's Master Capital Assets Listing Was Materially Misstated
(Continued)

assets at the end of each year and make comparisons to the county's list of inventoried assets and insurance policy.

Views of Responsible Official and Planned Corrective Action:

County Judge Executive's Response: The county will maintain a detailed list of all Capital Assets and conduct a physical inspection of county assets annually and compare that to the list of inventoried assets and insurance policy.

2016-003 The Grant County Fiscal Court Did Not Prepare A Balanced Budget

The Grant County Fiscal Court's fiscal year 2016 budget submitted to the Department for Local Government (DLG) did not balance in accordance with KRS 68.220. The general fund budgeted disbursements were \$209,652 more than the budgeted receipts, road fund budgeted disbursements were \$223,710 less than the budgeted receipts, jail fund budgeted disbursements were \$6,048 more than budgeted receipts, and Local Government Economic Assistance (LGEA) fund budgeted disbursements were \$8,000 more than the budgeted receipts.

The Grant County Fiscal Court did not have adequate management oversight to detect errors and omissions.

This could result in a noncompliance with KRS 68.300, which states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable." When a county fails to establish a balanced budget, this could result in funds being spent that are not available, leading to financial strains on the county due to the lack of funds to cover necessary expenditures. See finding 2016-004.

Per KRS 68.220, "[t]he county budget shall provide for all the funds to be expended by the county from current revenue for each fiscal year." In summary, the disbursements estimated for the county should not exceed the estimated receipts the county expects to receive for that fiscal year and should balance by fund.

We recommend the county strengthen management oversight with regard to the budgeting process to ensure a balanced and accurate budget is provided to DLG.

Views of Responsible Official and Planned Corrective Action:

County Judge Executive's Response: The county has since placed responsible individuals in place to review any oversight that may have occurred in the past to ensure a balanced and accurate budget is provided to DLG.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-004 The Grant County Fiscal Court Had Inadequate Internal Controls Over Disbursements And Was Not Compliant With Various Statutes

The auditor noted the following issues when testing disbursements:

- Three disbursements did not have adequate supporting documentation for credit card transactions. Receipts are not required for credit cards used for gas purchases to ensure the billing statement's accuracy. Meal purchases on credit cards did not provide detail of the purchases, only showing the total of the meal with tip.
- Three instances where the fiscal court did not retain the state price contract information for their files for items purchased using the state price contract.
- Two instances where disbursements could not be verified because the check image was not available and could not be retrieved by the treasurer.
- Three disbursements were not able to be agreed to the claims list as there was no claims list in the fiscal court order book. The auditor was unable to ensure these were approved by the fiscal court.
- Three instances where disbursements were not paid within 30 days as required by statute.
- Fifty-two instances where the county did not adhere to purchase order guidance per the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. Purchase orders were not issued for utilities, payroll, and other disbursements covered under the standing order. There were instances where one purchase order was issued for a vendor and the same number was used for all purchases made with that vendor for the entire fiscal year. Purchase orders were not used in sequence as there was more than one person issuing and they would be logged when the finance officer would receive them. Credit card purchases were made by various departments without confirming that the funds were available.
- There were negative balances on the purchase order log, indicating that purchases were made without adequate appropriations.

The fiscal court lacks strong internal controls and oversight with regard to the purchase order process and fails to follow the procedures as established by DLG.

The lax internal controls and oversight led to three disbursement accounts having a negative balance at year end, meaning that funds were spent from the line item that were not available per the appropriations ledger. Numerous account codes had a negative balance at some point during the fiscal year. This is neither compliant with purchasing requirements for counties, nor an effective implementation of internal controls. Management is unable to determine where potential issues with spending are before the expense is already incurred, creating the opportunity for waste, fraud, and abuse. This could lead to financial strain on the county due to overspending and lack of funds to cover necessary expenses of the county.

KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling of public funds, including required purchasing procedures for counties. These requirements prescribe that, "[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made."

Good internal controls for purchase requests exceeding budget appropriations would lead to discussion with both the county treasurer and county judge/executive as to whether the purchase order will be issued, the necessity and appropriateness of a budget transfer to cover the expense, and if other issues need to be addressed related to spending. Purchase orders should be issued for all goods and services utilized by the fiscal court.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-004 The Grant County Fiscal Court Had Inadequate Internal Controls Over Disbursements And Was Not Compliant With Various Statues (Continued)

The Department for Local Government (DLG) issued a memorandum on August 4, 2016, in which it “highly recommends” implementation of issuing purchase orders for payroll and utilities. This control allows the fiscal court to ensure that sufficient budget allocation is available for all expenses.

Per KRS 68.300, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.” See finding 2016-003.

Finally, KRS 65.140(2) states, “[u]nless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.” Without invoices with adequate information, there is not proper justification for the disbursement.

We recommend the fiscal court work to ensure they adhere with DLG’s requirements and guidance for the purchase order procedures per the *County Budget Preparation and State Local Finance Officer Policy Manual*. Furthermore, we recommend the county strengthen controls over the disbursements process to ensure compliance with applicable statutes and to provide better oversight to ensure funds are available prior to issuing purchase orders.

Views of Responsible Official and Planned Corrective Action:

County Judge Executive’s Response: Going forward the fiscal court will work to ensure they adhere with DLG’s requirements and guidance for the purchase order procedures.

2016-005 The Grant County Detention Center Does Not Have Adequate Controls Over Disbursements For The Jail Commissary and Inmate Trust Funds

During our testing of 30 jail disbursements, we noted the following issues:

- Six invoices totaling \$24,027 had no supporting documentation.
- Three transactions to inmates for closeout did not have inmate or employee signatures.

The Grant County Detention Center did not comply with the State Local Finance Officer *County Budget Preparation and State Local Finance Officer Policy Manual* due to poorly designed policies and procedures, inconsistent, incomplete, and inaccurate implementation of controls, and lack of management oversight/involvement.

The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud. This risk results in the need to alert management of the necessity to improve controls over the financial activities of the office.

Good internal controls dictate that proper controls be in place to eliminate errors in recordkeeping. Without adequate oversight, undetected errors and omissions can lead to inaccurate financial reporting.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 The Grant County Detention Center Does Not Have Adequate Controls Over Disbursements For The Jail Commissary and Inmate Trust Funds (Continued)

We recommend that all disbursements be adequately documented and supported. All inmate release reports should be signed by the inmate and an employee.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: We will be in compliance; we have a deposit book for each account here at the Detention center that backs any money deposited into the commissary and trust as well as any funds that have been disbursed to the fiscal court or any other entity that we may utilize. The trust checks are not always signed by the inmates because they are usually sent to another detention center or the inmate would like them mailed. Anything we give to the fiscal court will now have sufficient backing and signed for by them as a receipt they received it from the commissary account going forward. After numerous of audits, I was told with separate deposit books and receipt books, that was adequate control for questions that may arise.

Auditor's Reply: This finding addresses deficiencies with the disbursements from the canteen account, not deposits and receipts into the canteen account. When testing disbursements from the jail canteen account, six checks were written from the canteen account that did not have supporting documentation for the disbursement amount. Every disbursement should have an invoice or other supporting documentation to verify that the disbursement amount is accurate.

2016-006 The Grant County Detention Center Lacks Oversight And Evidence Of Supervisory Reviews

As reported in the prior year audit, auditors could find no evidence the jailer, or a designated employee, is reviewing key functions and activities of the Grant County Detention Center (e.g. bank reconciliations, ledgers, daily checkouts, deposits, etc.). These functions include commissary transactions that are handled by a third party vendor, including inmate purchase history reports, and produce financial data for the jail. These transactions are performed by a third party vendor and there is little oversight or review performed by the jailer. According to the jailer, information available to the jailer regarding inmate accounts is limited.

This condition is a result of a lack of management oversight and a lack of adequate documentation of supervisory reviews. According to the jailer, this is also a result of utilizing a vendor that is unable to provide the detail needed for account reconciliations and oversight.

A lack of proper accounting practices and internal controls increases the risk of undetected misstatements of financial activity and fraud. The failure to maintain accurate, detailed reports could result in an inaccurate picture of the activities within the jailer's accounts and increased risk of misstatements or omissions.

Management has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of financial reporting. Good internal controls further dictate that all decreases in inmate account balances are reviewed and signed by the inmate, and all supporting documentation is maintained.

In order to provide a reasonable assurance that assets are safeguarded and transactions are processed in accordance with applicable laws and regulations, we recommend the jailer implement sufficient supervisory reviews of key functions and activities. If he designates a manager to perform these reviews, he should ensure the employee understands their role in the supervisory process. All supervisory reviews should be evidenced in writing.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 The Grant County Detention Center Lacks Oversight And Evidence Of Supervisory Reviews
(Continued)

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: Jailer Hankins does look over things here at the Detention center and will initial and proceed as your recommendation after speaking with you all in regards to this matter, we will also get with the commissary and medical companies to assure all backing is there for supporting documentation.

2016-007 The Grant County Fiscal Court Lacked Adequate Internal Controls And Oversight Over Processing
Of Payroll

Lax internal controls and oversight led to the following payroll issues:

- Timesheets were pulled from December 14, 2015 through April 30, 2016 for an employee of the county. The timesheets showed the use of sick and vacation for 5.5 weeks, timesheet noted “worked in hospital” for 6 weeks, and “office” for another 5.5 weeks. There were only two days where actual hours were noted to show how much actual time was worked during this 4.5 months reviewed. Auditor also noted that hours were maintained and documented for this same employee in July 2015, indicating that prior to this situation hours were documented.
- Documentation for leave accumulation and balance was not available for the employee’s timesheets above. The auditor was unable to determine if the employee had accumulated leave time for the timesheets documented and if there was leave time accumulated during this time period.
- Four instances were noted where timesheets did not have the supervisor’s signature of approval and review prior to payment.
- Flexible spending and health reimbursement benefits were not accurately reported by the third-party administrator. All funds were showing as flexible spending when they were health reimbursement. Some participants had administrative fees deducted from their election amount while others did not. The fee was deducted for those accounts set up as a flexible spending account. Some funds were shown as employee deposits but were actually employer deposits.
- Payroll deduction authorization forms were not maintained in employee files for the portion of the cell phone bills that were covered by employees through deduction from their pay.
- Auditor was informed that some employees were considered exempt and did not receive overtime pay. Auditor was unable to find documentation that these employees met the criteria for an exempt employee.

The fiscal court lacked strong internal controls and oversight over the processing of payroll. Review procedures were in place; however, they were not adequately performed to eliminate or reduce errors. This is neither compliant with payroll requirements for counties, nor an effective implementation of internal control. The cause appears to be a lack of strong internal controls and oversight over the payroll process.

Management is unable to ensure employees are accurately reporting hours, using leave appropriately, and ensuring payroll expenses were actually incurred, creating the opportunity for waste, fraud, or abuse. This could lead to financial strains on the county due to erroneous payment for hours not worked and for lawsuits that could derive from failure to ensure accurate time is reported.

KRS 337.320(1) states “[e]very employer shall keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires.” KRS 337.320(2) states, “[s]uch records shall be kept on file for at least one (1)

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-007 Grant County Fiscal Court Lacked Adequate Internal Control And Oversight Over Processing Of Payroll (Continued)

year after entry. They shall be open to the inspection. . .at any reasonable time, and every employer shall furnish to the commissioner or the commissioner's authorized representative on demand a sworn statement of them.”

Guidance by 803 KAR 1:070 defines what constitutes an individual employed in an executive, administrative, or supervisory position. This guidance will assist in determining if an employee is eligible for exemption.

Good internal controls dictate that adequate oversight and strong internal controls are essential for ensuring that payroll disbursements are properly reported and accounted for. These controls will assist in making sure that the county is compliant with applicable regulations, to protect the county from fraud or abuse, and to ensure employees are accurately compensated.

We recommend the county strengthen controls over the payroll process to ensure compliance with applicable statutes and to provide better oversight to ensure accuracy in payroll disbursements. All employees should be required to submit timesheets detailing hours worked per day, and appropriate review and approval should be documented. Furthermore, we recommend the county ensure all authorization forms are completed and maintained on file to support deductions authorized by the employees.

Views of Responsible Official and Planned Corrective Action:

County Judge Executive's Response: The county will strengthen controls over payroll process making sure all employees have submitted timesheets detailing hours worked per day. Also retain all authorization forms on file to support deductions authorized by the employee.

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

GRANT COUNTY FISCAL COURT

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

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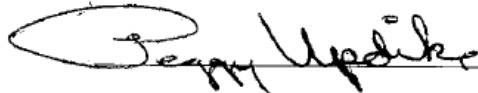
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
GRANT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

The Grant County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program or *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