

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

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



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

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Pendleton 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 Pendleton County Fiscal Court.

Financial Condition:

The Pendleton County Fiscal Court had total receipts of \$7,379,660 and disbursements of \$7,100,684 in fiscal year 2016. This resulted in a total ending fund balance of \$2,720,423, which is an increase of \$359,307 from the prior year.

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

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

As described in Note 1 of the financial statement, the financial statement is prepared by the Pendleton 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 Pendleton 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 Pendleton 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 Pendleton County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2017, on our consideration of the Pendleton 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 Pendleton County Fiscal Court's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

June 13, 2017

PENDLETON COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

David Fields	County Judge/Executive
Bobby Fogle	Magistrate
Gary Veirs	Magistrate
Alan Whaley	Magistrate
Rick Mineer	Magistrate

Other Elected Officials:

Jeff Dean	County Attorney
Ken Kells	Jailer
Rita Spencer	County Clerk
Mike Redden	Circuit Court Clerk
Craig Peoples	Sheriff
John Steele	Property Valuation Administrator
Jonathan Peoples	Coroner

Appointed Personnel:

Vicky King	County Treasurer
Jenny Schlueter	Payroll Administrator
Marianne Roseberry	Administrative Assistant

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

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 1,576,054	\$	\$	\$
Excess Fees	112,648			
Licenses and Permits	53,334			
Intergovernmental	629,934	2,012,914	109,601	423,270
Charges for Services	590,821		253	
Miscellaneous	72,875	9,218	52	41,980
Interest	1,413	1,015		599
Total Receipts	<u>3,037,079</u>	<u>2,023,147</u>	<u>109,906</u>	<u>465,849</u>
DISBURSEMENTS				
General Government	1,223,526			45,000
Protection to Persons and Property	243,699		455,311	108,989
General Health and Sanitation	202,160			90
Social Services	9,488			
Recreation and Culture	80,585			202,070
Roads		1,418,132		
Other Transportation Facilities and Services	2,163			
Debt Service	8,428			
Capital Projects	11,713			119,852
Administration	755,288	152,108	41,412	9,603
Total Disbursements	<u>2,537,050</u>	<u>1,570,240</u>	<u>496,723</u>	<u>485,604</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>500,029</u>	<u>452,907</u>	<u>(386,817)</u>	<u>(19,755)</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds				
Bond Premium				
Underwriter's Discount				
Payment to Bond Escrow Agent				
Transfers From Other Funds			408,000	
Transfers To Other Funds	(623,000)			
Total Other Adjustments to Cash (Uses)	<u>(623,000)</u>		<u>408,000</u>	
Net Change in Fund Balance	(122,971)	452,907	21,183	(19,755)
Fund Balance - Beginning	1,030,405	317,266	29,394	770,102
Fund Balance - Ending	<u>\$ 907,434</u>	<u>\$ 770,173</u>	<u>\$ 50,577</u>	<u>\$ 750,347</u>
Composition of Fund Balance				
Bank Balance	\$ 917,215	\$ 774,907	\$ 50,577	\$ 385,354
Less: Outstanding Checks	(9,781)	(4,734)		(42)
Certificates of Deposit				365,035
Fund Balance - Ending	<u>\$ 907,434</u>	<u>\$ 770,173</u>	<u>\$ 50,577</u>	<u>\$ 750,347</u>

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

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

Budgeted Funds				Unbudgeted Funds	
Community Development Block Grant Fund	Emergency 911 Fund	Mental Health Fund	Education Fund	Public Properties Corporation Fund	Total Funds
\$	\$ 96,038	\$ 177,900	\$		\$ 1,849,992
		1,730			112,648
471,751	197,416			783,743	55,064
	106		14,653		4,628,629
	60	257	16	9	605,727
<u>471,751</u>	<u>293,620</u>	<u>179,887</u>	<u>14,669</u>	<u>783,752</u>	<u>7,379,660</u>
					1,268,526
471,750	386,818				1,666,567
		163,338	11,506		377,094
					9,488
					282,655
					1,418,132
					2,163
				781,543	789,971
					131,565
	116,457			79,655	1,154,523
<u>471,750</u>	<u>503,275</u>	<u>163,338</u>	<u>11,506</u>	<u>861,198</u>	<u>7,100,684</u>
1	(209,655)	16,549	3,163	(77,446)	278,976
				6,305,000	6,305,000
				668,642	668,642
				(62,546)	(62,546)
				(6,830,765)	(6,830,765)
	215,000				623,000
					(623,000)
	<u>215,000</u>			<u>80,331</u>	<u>80,331</u>
1	5,345	16,549	3,163	2,885	359,307
	29,581	176,666	7,702		2,361,116
<u>\$ 1</u>	<u>\$ 34,926</u>	<u>\$ 193,215</u>	<u>\$ 10,865</u>	<u>\$ 2,885</u>	<u>\$ 2,720,423</u>
\$ 1	\$ 35,106	\$ 193,215	\$ 10,865	\$ 2,885	\$ 2,370,125
	(180)				(14,737)
					365,035
<u>\$ 1</u>	<u>\$ 34,926</u>	<u>\$ 193,215</u>	<u>\$ 10,865</u>	<u>\$ 2,885</u>	<u>\$ 2,720,423</u>

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

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PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

Jail Fund - The primary purpose of this fund is to pay for the housing of county inmates. 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Local Government Economic Assistance (LGEA) Fund - This fund is sourced primarily from minerals/severance tax and an occasional state grant. The funds are restricted for use for protection to persons and property.

Community Development Block Grant (CDBG) Fund - This fund is used for executing community block grants that the county receives. It is set up as pass through fund with funds being disbursed within five business days of receiving.

Emergency 911 Fund - This fund is used to maintain the county emergency 911 center. The primary source of receipts is the 911 fees charged land line phone bills. The other sources of receipts are commercial mobile radio service monies from state cell phones and transfers from the general fund.

Mental Health Fund - This fund is used to pay for mental and health issues of county residents in care of North Key Community Care located in Covington, Kentucky. The primary source of receipts is from the mental health tax collected on the property tax bills.

Education Fund - This fund represents funding previously handled by the Pendleton County 109 Board. The 109 Board now acts in an advisory capacity with regard to funds distributed from the education fund. All receipts and disbursements of the education fund are now handled by the fiscal court in a manner similar to other operating funds of the county.

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 of the 2008 bond issuance and the construction of a justice center. Upon completion of the justice center, the primary purpose of this fund shifted to accounting for debt service payments through the life of the bonded indebtedness.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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.

E. Pendleton County Elected Officials

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

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

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

Note 2. Deposits (Continued)

writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

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

Note 3. Transfers

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

	General Fund	Total Transfers In
Jail Fund	\$ 408,000	\$ 408,000
Emergency 911 Fund	215,000	215,000
Total Transfers Out	<u>\$ 623,000</u>	<u>\$ 623,000</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. Note Receivable

On April 3, 1997, the Pendleton County Fiscal Court entered into a 20-year agreement with the Pendleton County Water District to sublease a 3,700 square foot commercial office building and land. Interest is paid to the county on a monthly basis and a principal payment is made annually to the county until the termination of the agreement in fiscal year ending June 30, 2017, as shown in the following table.

	Fiscal Year Ending June 30	Principal	Scheduled Interest
2017		\$ 10,000	\$ 198
Totals		<u>\$ 10,000</u>	<u>\$ 198</u>

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

Note 5. Long-Term Debt

A. Financing Obligation - Water District

On April 3, 1997, the Pendleton County Fiscal Court entered into a 20-year agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the financing and purchase of a 3,700 square foot commercial office building and land for the Pendleton County Water District. Interest is paid on a monthly basis, and a principal payment is made annually until termination of the lease in fiscal year ending June 30, 2017, as shown in the following table.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 10,000	\$ 198
Totals	<u>\$ 10,000</u>	<u>\$ 198</u>

B. First Mortgage Revenue Bonds, Series 2008

On January 1, 2008, the Pendleton County Public Properties Corporation issued \$11,775,000 in First Mortgage Revenue Bonds, Series 2008 for the purpose of paying the costs for construction of court facilities. The Series 2008 bonds were due to mature on December 1, 2027, bearing interest payable semi-annually on each June 1 and December 1. On February 25, 2016, the county issued \$6,305,000 of revenue bonds. These bonds were issued to partially defease the Series 2008 Revenue Bonds. As of June 30, 2016, the principal balance of this issue is \$1,680,000 as the remaining balance is considered defeased. Bond payments for the remaining years are:

Fiscal Year Ending June 30	Prinicpal	Scheduled Interest
2017	\$ 540,000	\$ 52,200
2018	560,000	32,250
2019	580,000	10,875
Totals	<u>\$ 1,680,000</u>	<u>\$ 95,325</u>

C. Refunding Revenue Bond 2016 Series

On February 25, 2016, the Pendleton County Public Properties Corporation issued 2016 First Mortgage Refunding Revenue Bonds for the purpose of refinancing a portion of the 2008 Revenue Bonds that were used for the construction of the Judicial Center. Pendleton County and the Public Properties Corporation are acting as agents for the Administrative Office of the Courts (AOC) in order to manage and maintain the Judicial Building. The Public Properties Corporation and the county expect annual rentals for the use of the Judicial Building to be in the full amount of the annual principal and interest requirements of the bonds.

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

Note 5. Long-Term Debt (Continued)

C. Refunding Revenue Bond 2016 Series (Continued)

Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank the payment as provided in the lease. The lease agreement is renewable each year. The county and the public properties corporation are relying upon the AOC's payments in order to meet the debt service for the bonds. AOC, with execution of the lease, has expressed its intention to continue to pay in full both the principal and interest in each successive biennial budget period until June 30, 2028; however, the lease does not legally obligate the AOC to do so. Bond payments for the remaining years are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$	\$ 235,850
2018		235,850
2019		235,850
2020	435,000	227,150
2021	635,000	205,750
2022-2026	3,600,000	616,850
2027-2028	1,635,000	49,425
	<u>\$ 6,305,000</u>	<u>\$ 1,806,725</u>

D. 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
Revenue Bonds	\$ 8,595,000	\$ 6,305,000	\$ 6,915,000	\$ 7,985,000	\$ 540,000
Financing Obligations	18,000		8,000	10,000	10,000
Total Long-term Debt	<u>\$ 8,613,000</u>	<u>\$ 6,305,000</u>	<u>\$ 6,923,000</u>	<u>\$ 7,995,000</u>	<u>\$ 550,000</u>

Note 6. 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.

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

Note 6. Employee Retirement System (Continued)

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 \$407,908, FY 2015 was \$377,444, and FY 2016 was \$363,041.

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

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

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

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

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

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

Note 6. Employee Retirement System (Continued)

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 7. Deferred Compensation

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

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

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

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

Note 8. Health Reimbursement Account

The Pendleton County Fiscal Court established a health reimbursement account on November 8, 2011, 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 \$500 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction. This account consists of funds obtained from transfers from general, road, jail, and emergency 911 funds. The beginning balance in the account was \$48,903. Receipts during the year totaled \$37,260 which included interest of \$67. Disbursements totaled \$32,663, leaving a balance of \$53,500 as of June 30, 2016.

Note 9. Insurance

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

Note 10. Self-Insurance

The Pendleton 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.

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PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,387,200	\$ 1,387,200	\$ 1,576,054	\$ 188,854
Excess Fees	115,795	115,795	112,648	(3,147)
Licenses and Permits	55,500	55,500	53,334	(2,166)
Intergovernmental	195,400	772,600	629,934	(142,666)
Charges for Services	458,100	458,100	590,821	132,721
Miscellaneous	29,629	29,629	72,875	43,246
Interest	2,000	2,000	1,413	(587)
Total Receipts	<u>2,243,624</u>	<u>2,820,824</u>	<u>3,037,079</u>	<u>216,255</u>
DISBURSEMENTS				
General Government	945,883	1,371,066	1,223,526	147,540
Protection to Persons and Property	251,875	261,875	243,699	18,176
General Health and Sanitation	193,450	242,250	202,160	40,090
Social Services	42,500	52,123	9,488	42,635
Recreation and Culture	71,300	84,478	80,585	3,893
Airports	20,000	20,000		20,000
Other Transportation Facilities and Services		7,137	2,163	4,974
Debt Service	8,429	8,429	8,428	1
Capital Projects	11,200	226,810	11,713	215,097
Administration	1,165,380	1,004,362	755,288	249,074
Total Disbursements	<u>2,710,017</u>	<u>3,278,530</u>	<u>2,537,050</u>	<u>741,480</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(466,393)</u>	<u>(457,706)</u>	<u>500,029</u>	<u>957,735</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(688,192)</u>	<u>(688,192)</u>	<u>(623,000)</u>	<u>65,192</u>
Total Other Adjustments to Cash (Uses)	<u>(688,192)</u>	<u>(688,192)</u>	<u>(623,000)</u>	<u>65,192</u>
Net Change in Fund Balance	(1,154,585)	(1,145,898)	(122,971)	1,022,927
Fund Balance - Beginning	<u>1,154,585</u>	<u>1,154,585</u>	<u>1,030,405</u>	<u>(124,180)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 8,687</u>	<u>\$ 907,434</u>	<u>\$ 898,747</u>

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

	ROAD FUND			
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 2,049,232	\$ 2,049,232	\$ 2,012,914	\$ (36,318)
Miscellaneous	3,100	3,100	9,218	6,118
Interest	1,000	1,000	1,015	15
Total Receipts	<u>2,053,332</u>	<u>2,053,332</u>	<u>2,023,147</u>	<u>(30,185)</u>
DISBURSEMENTS				
Roads	2,045,357	2,041,254	1,418,132	623,122
Capital Projects	10,000	10,000		10,000
Administration	190,875	194,978	152,108	42,870
Total Disbursements	<u>2,246,232</u>	<u>2,246,232</u>	<u>1,570,240</u>	<u>675,992</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(192,900)</u>	<u>(192,900)</u>	<u>452,907</u>	<u>645,807</u>
Net Change in Fund Balance	(192,900)	(192,900)	452,907	645,807
Fund Balance - Beginning	<u>192,900</u>	<u>192,900</u>	<u>317,266</u>	<u>124,366</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 770,173</u>	<u>\$ 770,173</u>

PENDLETON 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	\$ 112,300	\$ 112,300	\$ 109,601	\$ (2,699)
Interest	1,000	1,000	253	(747)
Interest	100	100	52	(48)
Total Receipts	<u>113,400</u>	<u>113,400</u>	<u>109,906</u>	<u>(3,494)</u>
DISBURSEMENTS				
Protection to Persons and Property	507,850	511,805	455,311	56,494
Administration	71,252	67,297	41,412	25,885
Total Disbursements	<u>579,102</u>	<u>579,102</u>	<u>496,723</u>	<u>82,379</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(465,702)</u>	<u>(465,702)</u>	<u>(386,817)</u>	<u>78,885</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	440,702	440,702	408,000	(32,702)
Total Other Adjustments to Cash (Uses)	<u>440,702</u>	<u>440,702</u>	<u>408,000</u>	<u>(32,702)</u>
Net Change in Fund Balance	(25,000)	(25,000)	21,183	46,183
Fund Balance - Beginning	<u>25,000</u>	<u>25,000</u>	<u>29,394</u>	<u>4,394</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 50,577</u>	<u>\$ 50,577</u>

PENDLETON 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	\$ 324,700	\$ 324,700	\$ 423,270	\$ 98,570
Miscellaneous Revenues	40,000	40,000	41,980	1,980
Interest	1,200	1,200	599	(601)
Total Receipts	<u>365,900</u>	<u>365,900</u>	<u>465,849</u>	<u>99,949</u>
DISBURSEMENTS				
General Government	25,000	45,000	45,000	
Protection to Persons and Property	142,700	145,677	108,989	36,688
Social Services	2,000	2,000	90	1,910
Roads	100,000	214,201	202,070	12,131
Capital Projects	119,851	119,852	119,852	
Administration	708,349	571,170	9,603	561,567
Total Disbursements	<u>1,097,900</u>	<u>1,097,900</u>	<u>485,604</u>	<u>612,296</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(732,000)</u>	<u>(732,000)</u>	<u>(19,755)</u>	<u>712,245</u>
Net Change in Fund Balance	(732,000)	(732,000)	(19,755)	712,245
Fund Balance - Beginning	<u>732,000</u>	<u>732,000</u>	<u>770,102</u>	<u>38,102</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 750,347</u>	<u>\$ 750,347</u>

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

COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 471,751	\$ (28,249)
Total Receipts	500,000	500,000	471,751	(28,249)
DISBURSEMENTS				
Protection to Persons and Property	500,000	500,000	471,750	28,250
Total Disbursements	500,000	500,000	471,750	28,250
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			1	1
Net Change in Fund Balance			1	1
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 1	\$ 1

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

EMERGENCY 911 FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 100,000	\$ 100,000	\$ 96,038	\$ (3,962)
Intergovernmental	135,000	135,000	197,416	62,416
Miscellaneous	150	150	106	(44)
Interest	100	100	60	(40)
Total Receipts	<u>235,250</u>	<u>235,250</u>	<u>293,620</u>	<u>58,370</u>
DISBURSEMENTS				
Protection to Persons and Property	360,140	388,746	386,818	1,928
Administration	142,600	122,681	116,457	6,224
Total Disbursements	<u>502,740</u>	<u>511,427</u>	<u>503,275</u>	<u>8,152</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(267,490)</u>	<u>(276,177)</u>	<u>(209,655)</u>	<u>66,522</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	247,490	247,490	215,000	(32,490)
Total Other Adjustments to Cash (Uses)	<u>247,490</u>	<u>247,490</u>	<u>215,000</u>	<u>(32,490)</u>
Net Change in Fund Balance	(20,000)	(28,687)	5,345	34,032
Fund Balance - Beginning	<u>20,000</u>	<u>20,000</u>	<u>29,581</u>	<u>9,581</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (8,687)</u>	<u>\$ 34,926</u>	<u>\$ 43,613</u>

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

MENTAL HEALTH FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 162,200	\$ 162,200	\$ 177,900	\$ 15,700
Licenses and Permits	1,750	1,750	1,730	(20)
Interest	250	250	257	7
Total Receipts	<u>164,200</u>	<u>164,200</u>	<u>179,887</u>	<u>15,687</u>
DISBURSEMENTS				
General Health and Sanitation	<u>307,200</u>	<u>307,200</u>	<u>163,338</u>	<u>143,862</u>
Total Disbursements	<u>307,200</u>	<u>307,200</u>	<u>163,338</u>	<u>143,862</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(143,000)</u>	<u>(143,000)</u>	<u>16,549</u>	<u>159,549</u>
Net Change in Fund Balance	(143,000)	(143,000)	16,549	159,549
Fund Balance - Beginning	<u>143,000</u>	<u>143,000</u>	<u>176,666</u>	<u>33,666</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 193,215</u>	<u>\$ 193,215</u>

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

	EDUCATION FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 12,000	\$ 12,000	\$ 14,653	\$ 2,653
Interest	20	20	16	(4)
Total Receipts	<u>12,020</u>	<u>12,020</u>	<u>14,669</u>	<u>2,649</u>
DISBURSEMENTS				
General Health and Sanitation	14,020	14,020	11,506	2,514
Total Disbursements	<u>14,020</u>	<u>14,020</u>	<u>11,506</u>	<u>2,514</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,000)</u>	<u>(2,000)</u>	<u>3,163</u>	<u>5,163</u>
Net Change in Fund Balance	(2,000)	(2,000)	3,163	5,163
Fund Balance - Beginning	<u>2,000</u>	<u>2,000</u>	<u>7,702</u>	<u>5,702</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,865</u>	<u>\$ 10,865</u>

PENDLETON 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.

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PENDLETON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

PENDLETON 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	\$ 402,465	\$	\$ 2,562	\$ 399,903
Buildings and Building Improvements	12,352,895			12,352,895
Vehicles and Equipment	1,275,263	79,000		1,354,263
Other Equipment	1,333,915	48,749		1,382,664
Infrastructure	6,064,471	802,024		6,866,495
Total Capital Assets	<u>\$ 21,429,009</u>	<u>\$ 929,773</u>	<u>\$ 2,562</u>	<u>\$22,356,220</u>

PENDLETON 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.

	Capitalization Threshold	Useful Life (Years)
Land	\$ 1	N/A
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 1,000	3-25
Vehicles	\$ 1,000	3-5
Infrastructure	\$ 20,000	10-50

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Fields, Pendleton County Judge/Executive
Members of the Pendleton 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 Pendleton County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Pendleton County Fiscal Court's financial statement and have issued our report thereon dated June 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Pendleton County Fiscal Court's internal control over financial reporting (internal control) to determine 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 Pendleton County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pendleton County Fiscal Court's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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 Pendleton 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

June 13, 2017

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

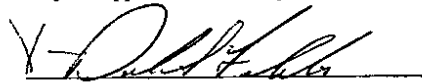
PENDLETON COUNTY FISCAL COURT

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

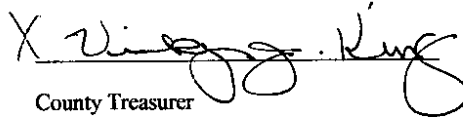
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
PENDLETON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

The Pendleton 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

