

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

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



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

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Perry 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 Perry County Fiscal Court. In accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, we have issued a modified opinion on the compliance requirements that are applicable to the Perry County Fiscal Court's major federal program: Disaster Grants - Public Assistance (CFDA #97.036).

Financial Condition:

The Perry County Fiscal Court had total receipts of \$11,337,340 and disbursements of \$14,802,524 in fiscal year 2016. This resulted in a total ending fund balance of \$(131,412), which is a decrease of \$248,049 from the prior year.

Findings:

- 2016-001 The Perry County Fiscal Court Lacks Adequate Oversight Over Financial Management Practices
- 2016-002 The Fiscal Court Paid \$605 for Paving On Private Property
- 2016-003 The County Had A Negative Fund Balance In The General And Local Government Economic Assistance Funds
- 2016-004 The Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement
- 2016-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements
- 2016-006 The Fiscal Court Did Not Follow Proper Procedures For Budget Amendments
- 2016-007 Disbursements Exceeded Approved Budget Appropriations For The General, Road, And Coal Severance Funds
- 2016-008 The County Judge/Executive And County Jailer Did Not Receive The Maximum Salary Set By The Department For Local Government
- 2016-009 The County Did Not Maintain Complete And Accurate Capital Asset Schedules
- 2016-010 The Fiscal Court Did Not Pay Invoices Timely
- 2016-011 The Treasurer Did Not Report Encumbrances On The Fourth Quarter Report
- 2016-012 Funds Received For Coal Severance And Mineral Severance Were Not Used As Required By KRS 42.455
- 2016-013 The Treasurer Did Not Establish Adequate Controls Over The Public Properties Corporation Bond Fund And Justice Center Corporation Fund
- 2016-014 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented
- 2016-015 The Fiscal Court Did Not Comply With Competitive Bidding Requirements
- 2016-016 The County Judge/Executive Failed To Report Related Party Transactions
- 2016-017 The Fiscal Court Failed To Implement Adequate Internal Controls Over Compliance For Federal Programs
- 2016-018 The Fiscal Court Did Not Pay Invoices Related To Federal Awards Timely
- 2016-019 The Fiscal Court Did Not Comply With Competitive Bidding Requirements For Federal Awards

Deposits:

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

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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 Scott Alexander, Perry County Judge/Executive
Members of the Perry 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 Perry County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Perry County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
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The Honorable Scott Alexander, Perry County Judge/Executive
Members of the Perry County Fiscal Court

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Perry 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 Perry 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 Perry 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.

Emphasis of Matter

Deficit Fund Balance

As discussed in Note 4 to the financial statement, the Perry County Fiscal Court has an actual deficit fund balance in its general fund totaling \$639,046. The deficit balance is the cumulative result of interfund payables created when restricted funds were transferred and used for general expenditures of the county. Management does not have a plan to ensure the restricted funds are transferred back to the appropriate funds. The financial statement does not include any adjustments for this interfund payable. This matter does not affect our opinion on the financial statements.

Related Party Transactions

As discussed in Note 15 to the financial statement, the Perry County Fiscal Court had numerous significant transactions with businesses controlled by a business partner of the Perry County Judge/Executive. Our opinion is not modified with respect to this matter.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
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 The Honorable Scott Alexander, Perry County Judge/Executive
 Members of the Perry County Fiscal Court

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 Perry County Fiscal Court. The Budgetary Comparison Schedules, Capital Asset Schedule, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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, Capital Asset Schedule, and Schedule of Expenditures of Federal Awards 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, Capital Asset Schedule, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2018, on our consideration of the Perry 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 Perry 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 Questioned Costs included herein, which discusses the following report findings:

- 2016-001 The Perry County Fiscal Court Lacks Adequate Oversight Over Financial Management Practices
- 2016-002 The Fiscal Court Paid \$605 for Paving On Private Property
- 2016-003 The County Had A Negative Fund Balance In The General And Local Government Economic Assistance Funds
- 2016-004 The Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement
- 2016-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements
- 2016-006 The Fiscal Court Did Not Follow Proper Procedures For Budget Amendments
- 2016-007 Disbursements Exceeded Approved Budget Appropriations For The General, Road, And Coal Severance Funds
- 2016-008 The County Judge/Executive And County Jailer Did Not Receive The Maximum Salary Set By The Department For Local Government
- 2016-009 The County Did Not Maintain Complete And Accurate Capital Asset Schedules

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Members of the Perry County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

- 2016-010 The Fiscal Court Did Not Pay Invoices Timely
- 2016-011 The Treasurer Did Not Report Encumbrances On The Fourth Quarter Report
- 2016-012 Funds Received For Coal Severance And Mineral Severance Were Not Used As Required By KRS 42.455
- 2016-013 The Treasurer Did Not Establish Adequate Controls Over The Public Properties Corporation Bond Fund And Justice Center Corporation Fund
- 2016-014 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented
- 2016-015 The Fiscal Court Did Not Comply With Competitive Bidding Requirements
- 2016-016 The County Judge/Executive Failed To Report Related Party Transactions
- 2016-017 The Fiscal Court Failed To Implement Adequate Internal Controls Over Compliance For Federal Programs
- 2016-018 The Fiscal Court Did Not Pay Invoices Related To Federal Awards Timely
- 2016-019 The Fiscal Court Did Not Comply With Competitive Bidding Requirements For Federal Awards

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 5, 2018

PERRY COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Scott Alexander	County Judge/Executive
Keith Miller	Magistrate
Ronald Combs	Magistrate
Kenny Cole	Magistrate

Other Elected Officials:

John Carl Shackelford	County Attorney
Dexter Howard	Jailer
Haven King	County Clerk
Charlie Patterson	Circuit Court Clerk
Les Burgett	Sheriff
John Frank Gross	Property Valuation Administrator
Jimmy Maggard	Coroner

Appointed Personnel:

Tonya McQueen	County Treasurer
Joyce Napier	Chief Financial Officer

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

For The Year Ended June 30, 2016

PERRY 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	\$ 1,596,452	\$ 2,866	\$
Excess Fees	30,016		
Licenses and Permits	378,784		
Intergovernmental	465,632	1,331,366	151,780
Charges for Services	42,470		135,994
Miscellaneous	46,054	277,718	109
Interest	499	414	
Total Receipts	<u>2,559,907</u>	<u>1,612,364</u>	<u>287,883</u>
DISBURSEMENTS			
General Government	1,547,594		
Protection to Persons and Property	106,719		1,744,653
General Health and Sanitation			
Social Services			
Recreation and Culture	33,399		
Roads		2,281,545	
Debt Service	592,124	92,594	
Administration	1,450,455	172,348	220,727
Total Disbursements	<u>3,730,291</u>	<u>2,546,487</u>	<u>1,965,380</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,170,384)</u>	<u>(934,123)</u>	<u>(1,677,497)</u>
Other Adjustments to Cash (Uses)			
Lease Proceeds	1,072,465	337,185	
Premium On Lease Proceeds			
Short-Term Borrowed Money	350,000		
Financing Obligation Proceeds	80,000	129,135	
KY Infrastructure Authority-loan only			
Transfers From Other Funds	620,660	726,000	2,087,000
Transfers To Other Funds	(971,752)	(253,050)	(411,781)
Total Other Adjustments to Cash (Uses)	<u>1,151,373</u>	<u>939,270</u>	<u>1,675,219</u>
Net Change in Fund Balance	(19,011)	5,147	(2,278)
Fund Balance - Beginning	7,313	4,425	2,438
Fund Balance - Ending	<u>\$ (11,698)</u>	<u>\$ 9,572</u>	<u>\$ 160</u>
Composition of Fund Balance			
Bank Balance	64,942	99,596	41,768
Plus: Deposits In Transit			
Less: Outstanding Checks	<u>(76,640)</u>	<u>(90,024)</u>	<u>(41,608)</u>
Fund Balance - Ending	<u>\$ (11,698)</u>	<u>\$ 9,572</u>	<u>\$ 160</u>

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

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

Budgeted Funds					
Local Government Economic Assistance Fund	Community Development Block Grant Fund	Emergency Planning Fund	Water And Sewer Fund	Coal Severance Fund	E-911 Fund
\$	\$	\$	\$	\$	\$ 466,676
3,801,615		3,813		868,874	141,892
176,756			567,830		
30,438					
1,200			2,436	302	133
<u>4,010,009</u>		<u>3,813</u>	<u>570,266</u>	<u>869,176</u>	<u>608,701</u>
		1,004		93,025	
1,178,896					404,404
197,963			702,255	336,860	
184,723					
167,851				68,471	
753,115					
274,326			470		
373,773			12,156	237,500	95,942
<u>3,130,647</u>		<u>1,004</u>	<u>714,881</u>	<u>735,856</u>	<u>500,346</u>
879,362		2,809	(144,615)	133,320	108,355
1,075,350					
15,000					
			158,000		
129,000				131,752	23,500
(2,436,500)				(244,000)	(65,660)
<u>(1,217,150)</u>			<u>158,000</u>	<u>(112,248)</u>	<u>(42,160)</u>
(337,788)		2,809	13,385	21,072	66,195
42,018	93	4,565	1,141	14,618	17,466
<u>\$ (295,770)</u>	<u>\$ 93</u>	<u>\$ 7,374</u>	<u>\$ 14,526</u>	<u>\$ 35,690</u>	<u>\$ 83,661</u>
379,904	93	7,374	59,760	176,479	87,432
			322		
<u>(675,674)</u>			<u>(45,556)</u>	<u>(140,789)</u>	<u>(3,771)</u>
<u>\$ (295,770)</u>	<u>\$ 93</u>	<u>\$ 7,374</u>	<u>\$ 14,526</u>	<u>\$ 35,690</u>	<u>\$ 83,661</u>

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

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

	<u>Unbudgeted Funds</u>			<u>Total Funds</u>
	<u>Public Properties Corporation Fund</u>	<u>Public Properties Corporation Bond Fund</u>	<u>Justice Center Corporation Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 2,065,994
Excess Fees				30,016
Licenses and Permits				378,784
Intergovernmental		188,645	470,475	7,424,092
Charges for Services				923,050
Miscellaneous	156,000			510,319
Interest	99	1	1	5,085
Total Receipts	<u>156,099</u>	<u>188,646</u>	<u>470,476</u>	<u>11,337,340</u>
DISBURSEMENTS				
General Government				1,641,623
Protection to Persons and Property				3,434,672
General Health and Sanitation				1,237,078
Social Services				184,723
Recreation and Culture				269,721
Roads				3,034,660
Debt Service	5,340	1,003,817	468,475	2,437,146
Administration				2,562,901
Total Disbursements	<u>5,340</u>	<u>1,003,817</u>	<u>468,475</u>	<u>14,802,524</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>150,759</u>	<u>(815,171)</u>	<u>2,001</u>	<u>(3,465,184)</u>
Other Adjustments to Cash (Uses)				
Lease Proceeds				2,485,000
Premium On Lease Proceeds				15,000
Short-Term Borrowed Money				350,000
Financing Obligation Proceeds				209,135
KY Infrastructure Authority-loan only				158,000
Transfers From Other Funds	70,000	815,172		4,603,084
Transfers To Other Funds	(220,341)			(4,603,084)
Total Other Adjustments to Cash (Uses)	<u>(150,341)</u>	<u>815,172</u>		<u>3,217,135</u>
Net Change in Fund Balance	418	1	2,001	(248,049)
Fund Balance - Beginning	507	18,699	3,354	116,637
Fund Balance - Ending	<u>\$ 925</u>	<u>\$ 18,700</u>	<u>\$ 5,355</u>	<u>\$ (131,412)</u>
Composition of Fund Balance				
Bank Balance	925	20,162	5,355	943,790
Plus: Deposits In Transit				322
Less Outstanding Checks		(1,462)		(1,075,524)
Fund Balance - Ending	<u>\$ 925</u>	<u>\$ 18,700</u>	<u>\$ 5,355</u>	<u>\$ (131,412)</u>

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

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PERRY COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

Perry County Ambulance Authority, Inc. would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis, it is no longer a required component of the reporting entity. Audits of the entity can be obtained from the Perry County Fiscal Court, P.O. Drawer 210, Hazard, KY, 41701 or the Perry County Ambulance Authority, Inc., 2264 North Main Street, Hazard, KY, 41701.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

Community Development Block Grant (CDBG) Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary source of receipts for this fund is the Community Development Block Grant, which is a federal grant.

Emergency Planning Fund - The primary purpose of this fund is to account for emergency planning expenses of the county. The primary source of receipts for this fund is state grants.

Water and Sewer Fund - The primary purpose of this fund is to account for the water and sewer services in the county. The primary source of receipts for this fund is customer payments.

Coal Severance Fund - The primary purpose of this fund is to account for assistance provided for community development and infrastructure throughout Perry County. The source of receipts for this fund is coal severance grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

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

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 road construction. The Department for Local Government does not require the fiscal court to report or budget this fund; however, the Perry County Fiscal Court prepares and approves a budget annually for the public properties corporation fund.

Public Properties Corporation Bond Fund - The purpose of this fund is to account for debt service requirements of the general obligation refunding bonds, Series 2008. The Department for Local Government does not require the fiscal court to report or budget this fund.

Justice Center Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt to fund construction of the justice center. The Department for Local Government does not require the fiscal court to report or budget this fund.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the 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 Public Properties Corporation bond fund or the Justice Center Corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Perry County Elected Officials

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

H. Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based upon these criteria, the Kentucky River Regional Jail is considered a joint venture of the Perry County Fiscal Court and the Knott County Fiscal Court.

Kentucky River Regional Jail

On October 1, 2005, Perry County and Knott County entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the maintenance and financing of the Kentucky River Regional Jail. Pursuant to this interlocal agreement, Perry County financed the acquisition and construction of the Kentucky River Regional Jail. On November 1, 2007, the Perry County Fiscal Court issued \$4,975,000 of General Obligation Bonds to refund the Perry County Detention Center Bond issued in December 2001.

Pursuant to the lease and sublease, Perry County and Knott County covenant to meet their proportionate share of the debt service requirements on the bond as follows: 75 percent for Perry County and 25 percent for Knott County.

Note 2. Deposits

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

Custodial Credit Risk - Deposits

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

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

Note 3. Transfers

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

	General Fund	Road Fund	Jail Fund	LGEA Fund	Coal Severance Fund	E-911 Fund	Public Properties Corporation Fund	Total Transfers In
General Fund	\$	\$	\$	\$ 440,000	\$ 115,000	\$ 65,660	\$	\$ 620,660
Road Fund	295,000			431,000				726,000
Jail Fund	545,000			1,472,000			70,000	2,087,000
LGEA Fund					129,000			129,000
Coal Severance Fund	131,752							131,752
E-911 Fund				23,500				23,500
Public Properties Corporation Fund				70,000				70,000
Public Properties Corporation Bond Fund		253,050	411,781				150,341	815,172
Total Transfers Out	\$ 971,752	\$ 253,050	\$ 411,781	\$ 2,436,500	\$ 244,000	\$ 65,660	\$ 220,341	\$4,603,084

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. Interfund Receivables and Liabilities

The table below reflects fund balances after accounting for receivables and liabilities that are not included on the financial statement prepared in accordance with the regulatory basis of accounting.

	General Fund	LGEA Fund
Fund Balance - Ending	\$ (11,698)	\$ (295,770)
Interfund Receivables (Liability) 2015	(310,739)	310,739
Interfund Receivables (Liability) 2016	(316,609)	316,609
Total	\$ (639,046)	\$ 331,578

Note 5. Short-term Debt

- A.** On April 6, 2015, the fiscal court entered into a short term loan for \$350,000 to operate the county for the remainder of the 2015 fiscal year. The note had an interest rate of 4 percent and was due to mature on June 30, 2015. On July 2, 2015, the loan was paid in full.
- B.** On July 1, 2015, the fiscal court entered into a short term loan for \$350,000 to refinance the 2015 short term loan. The note had an interest rate of 4 percent with a monthly payment of \$29,810 until March 25, 2016, then interest only payments were due. As of June 30, 2016, \$118,453 principal is due for this short term loan.

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

Note 5. Short-term Debt (Continued)

C. Changes In Short-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Short-Term Note	\$ 350,000	\$ 350,000	\$ 581,547	\$ 118,453	\$ 118,453
Total Short-term Debt	<u>\$ 350,000</u>	<u>\$ 350,000</u>	<u>\$ 581,547</u>	<u>\$ 118,453</u>	<u>\$ 118,453</u>

Note 6. Long-term Debt

A. General Obligation Refunding Bonds, Series 2010

On June 1, 2010, the Perry County Fiscal Court issued \$1,125,000 in General Obligation Refunding Bonds to purchase a building. The bonds are scheduled to mature in June 2018 and have a variable interest rate of 2 percent to 3.625 percent. Semiannual interest payments are required in June and December with the principal amount due each June. As of June 30, 2016, the principal balance outstanding was \$185,000. Debt service requirements for the remaining years are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2017	\$ 150,000	\$ 6,331
2018	<u>35,000</u>	<u>1,269</u>
Totals	<u>\$ 185,000</u>	<u>\$ 7,600</u>

B. General Obligation Refunding Bonds, Series 2007

In November 2007, the Perry County Fiscal Court issued \$4,975,000 in General Obligation Refunding Bonds to refund the Perry County Detention Center Bond from December 2001. The bonds are scheduled to mature in December 2026 and have an interest rate of 3.85 percent. Semiannual interest payments are required in June and December with principal amount due each December. As of June 30, 2016, the principal balance outstanding was \$3,680,000. Debt service requirements for the remaining years are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2017	\$ 275,000	\$ 136,386
2018	285,000	125,606
2019	295,000	114,441
2020	310,000	102,796
2021	320,000	90,668
2022-2027	<u>2,195,000</u>	<u>262,857</u>
Totals	<u>\$ 3,680,000</u>	<u>\$ 832,754</u>

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

Note 6. Long-term Debt (Continued)

C. Revenue Refunding Bonds, Series 2012

On July 17, 2012, the Perry County Fiscal Court issued \$3,875,000 of revenue refunding bonds for the refinancing of the Judicial Center. The bonds require semiannual interest and principal payments to be made on October 1 and April 1 of each year, commencing on October 1, 2012. The agreement has a variable interest rate of 1 percent to 2.5 percent. The bonds will mature June 30, 2023. As of June 30, 2016, the principal amount outstanding was \$3,045,000. Debt service requirements for the remaining years are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 410,000	\$ 60,400
2018	420,000	53,650
2019	425,000	45,725
2020	435,000	37,125
2021	440,000	27,825
2022-2023	915,000	23,063
Totals	<u>\$ 3,045,000</u>	<u>\$ 247,788</u>

D. Financing Obligation - Land Purchase And Demolition Refinancing

On May 13, 2009, the Perry County Justice Center Corporation entered into a capital lease agreement with the Kentucky Area Development District (KADD) Financing Trust, on behalf of the Administrative Office of the Courts (AOC) in the amount of \$1,910,000, for the purpose of refinancing a prior debt issue. Terms of the lease agreement stipulate a 12-year repayment schedule with semiannual interest payments and annual principal payments. The Perry County Justice Center Corporation and KADD are acting as an agent for AOC in order to plan, design, construct, manage, and maintain the Justice Building. The Perry County Justice Center Corporation and KADD expect annual rentals for use of the Justice Building to be in the full amount of the annual principal and interest requirements of this KADD lease. Under the terms of an additional use and sublease agreement, AOC has agreed to pay directly to the paying agent bank the use allowance payment as provided in the use and sublease agreement. The use and sublease agreement is renewable each year. The Perry County Justice Center Corporation and KADD are in reliance upon the use allowance payment in order to meet the debt service for the KADD lease.

The use allowance payment has commenced prior to the occupancy of the Justice Building by AOC. AOC, with the execution of the use and sublease agreement, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 2018, but the use and sublease agreement does not legally obligate AOC to do so.

This lease requires semiannual interest and principal payments to be made on October 20 and September 20 of each year, commencing on November 20, 2009. The agreement has a variable interest rate of 1.25 percent to 4 percent. As of June 30, 2016, the principal amount outstanding was \$970,000. Debt service requirements for the remaining years are as follows:

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

Note 6. Long-term Debt (Continued)

D. Financing Obligation - Land Purchase And Demolition Refinancing (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 150,000	\$ 39,163
2018	150,000	34,150
2019	160,000	28,905
2020	165,000	22,990
2021	170,000	16,558
2022	175,000	9,590
Totals	<u>\$ 970,000</u>	<u>\$ 151,356</u>

E. Financing Obligation - Road Improvement

On November 12, 2010, the Perry County Fiscal Court entered into a \$2,000,000 lease agreement with KADD for the purpose of road improvements. This lease requires semiannual interest and principal payments be made on October 20 and May 20 of each year, commencing on May 20, 2011. The agreement has a variable interest rate of 2 percent to 4 percent. As of June 30, 2016, the principal amount outstanding was \$1,145,000. Debt service requirements for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 215,000	\$ 37,469
2018	220,000	30,939
2019	230,000	23,338
2020	235,000	14,906
2021	245,000	5,250
Totals	<u>\$ 1,145,000</u>	<u>\$ 111,902</u>

F. Financing Obligation - Dump Truck

On May 14, 2015, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$269,804 for the purchase of two dump trucks. The agreement requires variable monthly payments to be paid in full on November 20, 2016, with an interest rate of 3.75 percent. As of June 30, 2016, the principal amount outstanding was \$143,609. Debt service requirements for the remaining year are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 143,609	\$ 5,218
Totals	<u>\$ 143,609</u>	<u>\$ 5,218</u>

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

Note 6. Long-term Debt (Continued)

G. Financing Obligation - Mowers

On August 5, 2014, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$155,937 for the purchase of two mowers. The agreement requires variable monthly payments with an interest rate of 3.11 percent. As of June 30, 2016, the principal amount outstanding was \$103,565. Debt service requirements for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 31,043	\$ 2,780
2018	31,768	1,804
2019	32,509	806
2020	8,245	43
Totals	<u>\$ 103,565</u>	<u>\$ 5,433</u>

H. Financing Obligation - Long Term Lease

On October 22, 2015, the Perry County Fiscal Court entered into a lease agreement receiving \$2,485,000 in lease proceeds to finance the repair of roads and other expenditures related to flood damage. Lease principal and interest payments are due monthly beginning January 20, 2016. Interest accrues at a rate of 3 percent. As of June 30, 2016, the remaining principal outstanding was \$2,377,500. Debt service requirements for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 220,000	\$ 71,325
2018	227,500	64,725
2019	232,500	57,900
2020	240,000	50,925
2021	247,500	43,725
2022-2025	<u>1,210,000</u>	<u>102,675</u>
Totals	<u>\$ 2,377,500</u>	<u>\$ 391,275</u>

I. Financing Obligation - Sheriff's Vehicles

On September 17, 2015, the Perry County Fiscal Court entered into a lease agreement with Kentucky Association of Counties in the amount of \$80,000 for the purchase of two 2015 Chevrolet Silverado trucks for the Perry County Sheriff's Office. The agreement requires variable yearly payments to be paid in full on December 20, 2019 with a variable interest rate. The Sheriff's Office is currently making these debt service payments. As of June 30, 2016 the principal amount outstanding was \$63,564. Debt service requirements for the remaining years are as follows:

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

Note 6. Long-term Debt (Continued)

I. Financing Obligation - Sheriff's Vehicles (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 15,342	\$ 2,894
2018	15,704	2,189
2019	16,071	1,476
2020	16,447	747
Totals	<u>\$ 63,564</u>	<u>\$ 7,306</u>

J. Financing Obligation - Caterpillar Backhoe

On September 7, 2015, the Perry County Fiscal Court entered into a lease agreement with a vendor in the amount of \$129,135 for the purchase of a backhoe loader. The agreement requires a monthly payment of \$2,870 with an interest rate of 3.2 percent. As of June 30, 2016, the principal amount outstanding was \$95,776. Debt service requirements for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 29,144	\$ 2,423
2018	32,783	1,654
2019	33,849	590
Totals	<u>\$ 95,776</u>	<u>\$ 4,667</u>

K. 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	\$ 4,275,000	\$	\$ 410,000	\$ 3,865,000	\$ 425,000
Revenue Bonds	3,445,000		400,000	3,045,000	410,000
Financing Obligations	2,873,704	2,694,135	668,825	4,899,014	804,138
Total Long-term Debt	<u>\$ 10,593,704</u>	<u>\$ 2,694,135</u>	<u>\$ 1,478,825</u>	<u>\$ 11,809,014</u>	<u>\$ 1,639,138</u>

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

Note 7. Commitments and Contingencies

On November 1, 2015, the Perry County Fiscal Court entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a loan in the amount of \$350,000, of which \$50,000 is forgivable over the life of the loan with a .75 percent interest rate. The project will include the installation of two new pump stations, several water meters, replacement of the telemetry at the Acup Tank; replacement of approximately 3,385 linear feet exposed service line, and a chlorine tester kit. A portion of the loan money will go towards debt to Knott County Water and Sewer district in the amount of \$158,000. During fiscal year 2016, \$158,000 of the loan has been received and expended, interest only payments of \$470 were paid, and \$22,571 has been forgiven. Since all monies have not been expended, the loan is not completed, with interest only payments due.

Note 8. Employee Retirement System

A. Plan Description

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

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

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

The county's contribution for FY 2014 was \$631,151, FY 2015 was \$559,312, and FY 2016 was \$582,102.

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

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

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

Note 8. Employee Retirement System (Continued)

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

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

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

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

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

Note 9. Deferred Compensation

The Perry 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.

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

Note 10. Health Reimbursement Account

The Perry County Fiscal Court established a flexible spending account on July 1, 2015, to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides \$1,500 for each individual plan. The balance of the plan is \$61,741.

Note 11. Insurance

For the fiscal year ended June 30, 2016, the Perry 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. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to others for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Perry 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. As of June 30, 2016, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 13. Deficit Fund Balance

As of June 30, 2016, the general fund had a deficit fund balance of \$11,698 and the local government economic assistance (LGEA) fund had a deficit fund balance of \$295,770, contributing to an overall negative fund balance of \$131,412. After the interfund liabilities and interfund receivables in Note 4 are accounted for, the general fund has a deficit fund balance of \$639,046 and the LGEA fund has a balance of \$331,571.

Note 14. Vicco Wastewater Treatment Plant

In March of 2015, the Perry County Fiscal Court took over operations of the Vicco Wastewater Treatment Plant. The plant has received several notices from the Kentucky Department for Environmental Protection for violations pertaining to the operations and maintenance of the facility as well as other noncompliance. As of June 30, these violations have not been resolved. Information on these violations may be obtained at the Perry County Fiscal Court, 233 Birch St., Hazard, KY 41701 or the Energy and Environmental Cabinet, Department For Environmental Protection, Division of Water.

Note 15. Related Party Transactions

For the fiscal year ended June 30, 2016, the Perry County Fiscal Court purchased auto parts and auto supplies from a company that is owned by a business partner of the Perry County Judge/Executive. The Perry County Fiscal Court paid \$45,828 to this vendor.

For the fiscal year ended June 30, 2016, the Perry County Fiscal Court purchased tires, tire services, and contract labor from another company that is owned by a business partner of the Perry County Judge/Executive. The Perry County Fiscal Court paid \$64,799 to this vendor.

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

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PERRY 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	\$ 1,755,000	\$ 1,795,506	\$ 1,596,452	\$ (199,054)
Excess Fees	8,000	30,015	30,016	1
Licenses and Permits	402,500	402,500	378,784	(23,716)
Intergovernmental	531,360	531,560	465,632	(65,928)
Charges for Services	52,500	66,054	42,470	(23,584)
Miscellaneous	36,000	52,620	46,054	(6,566)
Interest	500	500	499	(1)
Total Receipts	<u>2,785,860</u>	<u>2,878,755</u>	<u>2,559,907</u>	<u>(318,848)</u>
DISBURSEMENTS				
General Government	1,360,125	1,601,125	1,547,594	53,531
Protection to Persons and Property	54,300	66,721	106,719	(39,998)
Recreation and Culture	22,866	43,666	33,399	10,267
Debt Service	353,000	764,342	592,124	172,218
Administration	1,544,265	2,474,062	1,450,455	1,023,607
Total Disbursements	<u>3,334,556</u>	<u>4,949,916</u>	<u>3,730,291</u>	<u>1,219,625</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(548,696)</u>	<u>(2,071,161)</u>	<u>(1,170,384)</u>	<u>900,777</u>
Other Adjustments to Cash (Uses)				
Lease Proceeds	350,000	1,422,465	1,072,465	(350,000)
Short-Term Borrowed Money	353,000	353,000	350,000	(3,000)
Financing Obligation Proceeds			80,000	80,000
Transfers From Other Funds	145,696	145,696	620,660	474,964
Transfers To Other Funds	(400,000)	(400,000)	(971,752)	(571,752)
Total Other Adjustments to Cash (Uses)	<u>448,696</u>	<u>1,521,161</u>	<u>1,151,373</u>	<u>(369,788)</u>
Net Change in Fund Balance	(100,000)	(550,000)	(19,011)	530,989
Fund Balance - Beginning	100,000	100,000	7,313	(92,687)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (450,000)</u>	<u>\$ (11,698)</u>	<u>\$ 438,302</u>

PERRY 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				
Taxes	\$ 4,500	\$ 4,500	\$ 2,866	\$ (1,634)
Intergovernmental	1,760,007	1,760,139	1,331,366	(428,773)
Miscellaneous		277,718	277,718	
Interest	1,000	1,000	414	(586)
Total Receipts	<u>1,765,507</u>	<u>2,043,357</u>	<u>1,612,364</u>	<u>(430,993)</u>
DISBURSEMENTS				
Transportation Facilities and Services	100,000			
Roads	1,312,170	1,847,256	2,281,545	(434,289)
Debt Service	265,532	358,826	92,594	266,232
Administration	187,805	237,275	172,348	64,927
Total Disbursements	<u>1,865,507</u>	<u>2,443,357</u>	<u>2,546,487</u>	<u>(103,130)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(100,000)</u>	<u>(400,000)</u>	<u>(934,123)</u>	<u>(534,123)</u>
Other Adjustments to Cash (Uses)				
Lease Proceeds			337,185	337,185
Financing Obligation Proceeds			129,135	129,135
Transfers From Other Funds			726,000	726,000
Transfers To Other Funds			(253,050)	(253,050)
Total Other Adjustments to Cash (Uses)			<u>939,270</u>	<u>939,270</u>
Net Change in Fund Balance	(100,000)	(400,000)	5,147	405,147
Fund Balance - Beginning	100,000	100,000	4,425	(95,575)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (300,000)</u>	<u>\$ 9,572</u>	<u>\$ 309,572</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 210,100	\$ 210,100	\$ 151,780	\$ (58,320)
Miscellaneous	75,000	135,994	135,994	
Interest	200	200	109	(91)
Total Receipts	<u>285,300</u>	<u>346,294</u>	<u>287,883</u>	<u>(58,411)</u>
DISBURSEMENTS				
Protection to Persons and Property	1,979,022	1,835,573	1,744,653	90,920
Debt Service	411,782	411,782		411,782
Administration	17,634	222,077	220,727	1,350
Total Disbursements	<u>2,408,438</u>	<u>2,469,432</u>	<u>1,965,380</u>	<u>504,052</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,123,138)</u>	<u>(2,123,138)</u>	<u>(1,677,497)</u>	<u>445,641</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,111,138	2,111,138	2,087,000	(24,138)
Transfers To Other Funds			(411,781)	(411,781)
Total Other Adjustments to Cash (Uses)	<u>2,111,138</u>	<u>2,111,138</u>	<u>1,675,219</u>	<u>(435,919)</u>
Net Change in Fund Balance	(12,000)	(12,000)	(2,278)	9,722
Fund Balance - Beginning	12,000	12,000	2,438	(9,562)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 160</u>	<u>\$ 160</u>

PERRY 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	\$ 2,200,575	\$ 4,113,367	\$ 3,801,615	\$ (311,752)
Charges for Services	10,000	21,254	30,438	9,184
Miscellaneous	106,600	198,247	176,756	(21,491)
Interest	2,500	2,500	1,200	(1,300)
Total Receipts	<u>2,319,675</u>	<u>4,335,368</u>	<u>4,010,009</u>	<u>(325,359)</u>
DISBURSEMENTS				
Protection to Persons and Property	111,400	1,192,153	1,178,896	13,257
General Health and Sanitation	110,236	219,913	197,963	21,950
Social Services	199,500	209,756	184,723	25,033
Recreation and Culture	77,000	174,872	167,851	7,021
Roads	441,310	757,013	753,115	3,898
Debt Service		274,590	274,326	264
Administration	516,815	1,934,006	373,773	1,560,233
Total Disbursements	<u>1,456,261</u>	<u>4,762,303</u>	<u>3,130,647</u>	<u>1,631,656</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>863,414</u>	<u>(426,935)</u>	<u>879,362</u>	<u>1,306,297</u>
Other Adjustments to Cash (Uses)				
Lease Proceeds		1,090,349	1,075,350	(14,999)
Premium On Lease Proceeds			15,000	15,000
Transfers From Other Funds	1,377,724	1,377,724	129,000	(1,248,724)
Transfers To Other Funds	(2,341,138)	(2,341,138)	(2,436,500)	(95,362)
Total Other Adjustments to Cash (Uses)	<u>(963,414)</u>	<u>126,935</u>	<u>(1,217,150)</u>	<u>(1,344,085)</u>
Net Change in Fund Balance	(100,000)	(300,000)	(337,788)	(37,788)
Fund Balance - Beginning	100,000	100,000	42,018	(57,982)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (200,000)</u>	<u>\$ (295,770)</u>	<u>\$ (95,770)</u>

PERRY 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	\$	\$ 489,000	\$	\$ (489,000)
Total Receipts		489,000		(489,000)
DISBURSEMENTS				
General Health and Sanitation	93	489,093		489,093
Total Disbursements	93	489,093		489,093
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(93)	(93)		93
Net Change in Fund Balance	(93)	(93)		93
Fund Balance - Beginning	93	93	93	
Fund Balance - Ending	\$ 0	\$ 0	\$ 93	\$ 93

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

EMERGENCY PLANNING FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	3,812	\$ 3,813	\$ 1
Total Receipts		3,812	3,813	1
DISBURSEMENTS				
General Government	3,026	6,838	1,004	5,834
Total Disbursements	3,026	6,838	1,004	5,834
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(3,026)	(3,026)	2,809	5,835
Net Change in Fund Balance	(3,026)	(3,026)	2,809	5,835
Fund Balance - Beginning	3,026	3,026	4,565	1,539
Fund Balance - Ending	\$ 0	\$ 0	\$ 7,374	\$ 7,374

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

WATER AND SEWER FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 800,000	\$ 800,000	\$ 567,830	\$ (232,170)
Interest	500	2,427	2,436	9
Total Receipts	<u>800,500</u>	<u>802,427</u>	<u>570,266</u>	<u>(232,161)</u>
DISBURSEMENTS				
General Health and Sanitation	800,500	948,938	702,255	246,683
Debt Service		471	470	1
Administration		12,158	12,156	2
Total Disbursements	<u>800,500</u>	<u>961,567</u>	<u>714,881</u>	<u>246,686</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(159,140)</u>	<u>(144,615)</u>	<u>14,525</u>
Other Adjustments to Cash (Uses)				
Borrowed Money		158,000		158,000
KY Infrastructure Authority-loan only			158,000	(158,000)
Total Other Adjustments to Cash (Uses)		<u>158,000</u>	<u>158,000</u>	
Net Change in Fund Balance		(1,140)	13,385	14,525
Fund Balance - Beginning		<u>1,140</u>	<u>1,141</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,526</u>	<u>\$ 14,526</u>

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

COAL SEVERANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,524,000	\$ 2,524,000	\$ 868,874	\$ (1,655,126)
Interest	500	500	302	(198)
Total Receipts	<u>2,524,500</u>	<u>2,524,500</u>	<u>869,176</u>	<u>(1,655,324)</u>
DISBURSEMENTS				
General Government	1,636,080	(38,954)	93,025	(131,979)
General Health and Sanitation		419,063	336,860	82,203
Recreation and Culture		68,471	68,471	
Administration		247,119	237,500	9,619
Total Disbursements	<u>1,636,080</u>	<u>695,699</u>	<u>735,856</u>	<u>(40,157)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>888,420</u>	<u>1,828,801</u>	<u>133,320</u>	<u>(1,695,481)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			131,752	131,752
Transfers To Other Funds	(893,420)	(893,420)	(244,000)	649,420
Total Other Adjustments to Cash (Uses)	<u>(893,420)</u>	<u>(893,420)</u>	<u>(112,248)</u>	<u>781,172</u>
Net Change in Fund Balance	(5,000)	935,381	21,072	(914,309)
Fund Balance - Beginning	5,000	14,619	14,618	(1)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 950,000</u>	<u>\$ 35,690</u>	<u>\$ (914,310)</u>

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

	E-911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 370,000	\$ 429,993	\$ 466,676	\$ 36,683
Intergovernmental	165,000	165,000	141,892	(23,108)
Interest	500	500	133	(367)
Total Receipts	<u>535,500</u>	<u>595,493</u>	<u>608,701</u>	<u>13,208</u>
DISBURSEMENTS				
Protection to Persons and Property Administration	412,000	433,119	404,404	28,715
	138,500	179,840	95,942	83,898
Total Disbursements	<u>550,500</u>	<u>612,959</u>	<u>500,346</u>	<u>112,613</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(15,000)</u>	<u>(17,466)</u>	<u>108,355</u>	<u>125,821</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			23,500	23,500
Transfers To Other Funds			(65,660)	(65,660)
Total Other Adjustments to Cash (Uses)			<u>(42,160)</u>	<u>(42,160)</u>
Net Change in Fund Balance	(15,000)	(17,466)	66,195	83,661
Fund Balance - Beginning	15,000	17,466	17,466	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 83,661</u>	<u>\$ 83,661</u>

PERRY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

- A. General fund protection to persons and property exceeded budgeted appropriations by \$39,998. The county did not budget for and record the proceeds of \$80,000 in financing obligation agreements with the Kentucky Association of Counties Finance Corporation and the expenditure associated with the purchase of trucks for the sheriff.
- B. Road fund roads exceeded budgeted appropriations by \$434,289. The county did not budget for and record the proceeds of \$466,320 in financing obligation agreements and the expenditure associated with the purchase of road equipment.
- C. Coal severance fund general government exceeded budgeted appropriations by \$131,979. The county treasurer made an error when posting line item transfers, causing this line item to be over budget.

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

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PERRY 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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 2,862,802	\$ 100,000	\$	\$ 2,962,802
Buildings and Building Improvements	16,341,683	173,000		16,514,683
Machinery, Vehicles, and Equipment	3,332,174	551,572		3,883,746
Infrastructure	<u>17,163,055</u>	<u>131,897</u>		<u>17,294,952</u>
 Total Capital Assets	 <u>\$ 39,699,714</u>	 <u>\$ 956,469</u>	 <u>\$ 0</u>	 <u>\$40,656,183</u>

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

June 30, 2016

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	12,500	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	5,000	5-15
Office Furniture and Equipment	5,000	3-5
Vehicles	5,000	5-7
Infrastructure	20,000	2-5

PERRY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2016

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PERRY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<u>U. S. Department of Agriculture</u>				
<i>Direct Program</i>				
Emergency Watershed Protection Program	10.923	68-5C16-15	\$	\$ 152,682
Emergency Watershed Protection Program	10.923	68-5C16-16	_____	_____ 176,106
Total U.S. Department of Agriculture			_____	_____ 328,788
<u>U.S. Department of Homeland Security</u>				
<i>Passed-Through State Department of Military Affairs</i>				
Public Assistance Grants - February 2015 Snow	97.036	FEMA-4216-DR-KY	\$	\$ 113,381
Public Assistance Grants - March 2015 Flood	97.036	FEMA-4218-DR-KY		617,013
Public Assistance Grants - July 2015 Flood	97.036	FEMA-4239-DR-KY		127,688
Emergency Management Assistance Program	97.042	Not Available	_____	_____ 18,411
Total U.S. Department of Homeland Security			_____	_____ 876,493
<u>U. S. Department of Commerce</u>				
<i>Direct Program</i>				
Economic Adjustment Assistance	11.307	04-79-07105	\$	\$ 10,000
Total U.S. Department of Commerce			_____	_____ 10,000
<u>Appalachian Regional Commission</u>				
<i>Direct Program</i>				
Appalachian Area Development	23.002	23-002PCPFS	\$	\$ 3,727
Total Appalachian Regional Commission			_____	_____ 3,727
Total Expenditures of Federal Awards			\$ 0	\$ 1,219,008

PERRY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2016

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Perry County, Kentucky under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Perry County Fiscal Court, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Perry County Fiscal Court.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Perry County Fiscal Court has not adopted an indirect cost rate.

**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 Scott Alexander, Perry County Judge/Executive
Members of the Perry 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 Perry County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Perry County Fiscal Court's financial statement and have issued our report thereon dated June 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Perry 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 Perry County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Perry 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 Questioned Costs, 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 Questioned Costs as items 2016-001, 2016-002, 2016-007, 2016-009, 2016-010, 2016-011, 2016-012, 2016-015, 2016-017, 2016-018, and 2016-019 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 Questioned Costs as items 2016-003, 2016-004, 2016-013, 2016-014, and 2016-016 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Perry 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 Questioned Costs as items 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, 2016-009, 2016-010, 2016-011, 2016-012, 2016-014, 2016-015, 2016-016, 2016-018, and 2016-019.

Views of Responsible Officials and Planned Corrective Action

Perry County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. 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

June 5, 2018

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH UNIFORM GUIDANCE**

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Scott Alexander, Perry County Judge/Executive
Members of the Perry County Fiscal Court

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited the Perry County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of Perry County Fiscal Court's major federal programs for the year ended June 30, 2016. The Perry County Fiscal Court's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Perry County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Perry County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Perry County Fiscal Court's compliance.



Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance
(Continued)

Basis for Modified Opinion on CFDA 97.036

As described in the accompanying Schedule of Findings and Questioned Costs, the Perry County Fiscal Court did not comply with requirements regarding CFDA 97.036 Disaster Grants – Public Assistance as described in finding numbers 2016-018 for Cash Management and 2016-019 for Procurement, Suspension, and Debarment. Compliance with such requirements is necessary, in our opinion, for the Perry County Fiscal Court to comply with the requirements applicable to that program.

Modified Opinion on CFDA 97.036

In our opinion, except for the noncompliance described in the Basis for Modified Opinion paragraph, the Perry County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 97.036 Disaster Grants - Public Assistance for the year ended June 30, 2016.

Other Matters

The Perry County Fiscal Court's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Perry County Fiscal Court's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the Perry County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Perry County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Perry County Fiscal Court's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2016-017, 2017-018, and 2016-019 to be material weaknesses.

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance
(Continued)

Report on Internal Control over Compliance (Continued)

The Perry County Fiscal Court's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Perry County Fiscal Court's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

June 5, 2018

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**PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2016

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**PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2016

Section I: Summary of Auditor's Results

Financial Statements

Type of report auditor issued: Adverse on GAAP and Unmodified on Regulatory Basis.

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any non-compliances material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs: <i>Modified</i>		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings

2016-001 The Perry County Fiscal Court Lacks Adequate Oversight Over Financial Management Practices

This is a repeat audit finding and was reported in the prior year audit report as finding 2015-001. Numerous deficiencies were noted in the county's internal control structure over their financial management practices, which resulted in numerous and pervasive audit comments as listed below:

- The Fiscal Court Paid \$605 for Paving On Private Property (2016-002)
- The County Had A Negative Fund Balance In The General And Local Government Economic Assistance Funds (2016-003)
- The Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement (2016-004)
- The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements (2016-005)
- The Fiscal Court Did Not Follow Proper Procedures For Budget Amendments (2016-006)
- Disbursements Exceeded Approved Budget Appropriations For The General, Road, And Coal Severance Funds (2016-007)
- The County Judge/Executive And County Jailer Did Not Receive The Maximum Salary Set By The Department For Local Government (2016-008)
- The County Did Not Maintain Complete And Accurate Capital Asset Schedules (2016-009)
- The Fiscal Court Did Not Pay Invoices Timely (2016-010)
- The Treasurer Did Not Report Encumbrances On The Fourth Quarter Report (2016-011)
- Funds Received For Coal Severance And Mineral Severance Were Not Used As Required By KRS 42.455 (2016-012)
- The Treasurer Did Not Establish Adequate Controls Over The Public Properties Corporation Bond Fund And Justice Center Corporation Fund (2016-013)
- Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented (2016-014)
- The Fiscal Court Did Not Comply With Bidding Requirements (2016-015)
- The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Programs (2016-017)
- The Fiscal Court Did Not Pay Invoices Related To Federal Awards Timely (2016-018)
- The Fiscal Court Did Not Comply With Bidding Requirements For Federal Awards (2016-019)

Management overrode internal controls or did not follow established internal control procedures, administrative code policies, and compliance requirements.

These internal control deficiencies and noncompliance issues affect the entity as a whole and greatly increase the possibilities that the internal control system would not detect financial misstatements, errors, or fraud.

Adherence to internal control procedures and compliance with statutes gives the fiscal court the ability to provide financial information that is complete, accurate, valid, and free of misstatements.

We recommend the fiscal court review the deficiencies and noncompliance issues as noted and take appropriate action to correct each finding.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court will review the deficiencies and non-compliance issues and take appropriate action to correct each finding.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-002 The Fiscal Court Paid \$605 For Paving On Private Property

At Creekside Bend, the county paid \$605 for paving on private property during the 2015 winter storm. Our review of this project worksheet shows the county notified the Federal Emergency Management Agency (FEMA) and these funds were deobligated due to the mistake.

According to the county judge/executive and emergency management director, the county made a mistake in the assessment stage that included an additional section of the road at Creekside Bend that was part of private property.

As a result, the county was in violation of the state constitution and county funds were not expended for the benefit of the public.

Section 171 of the Kentucky Constitution does not permit a county to expend public funds for private purposes. Public funds may not be used for paving on private property. In order for the fiscal court to adopt a private road into the county road system, the court must approve the road by ordinance or resolution.

We recommend the fiscal court provide adequate oversight and monitoring for any road project to ensure work is completed in compliance with applicable laws and regulations and that public resources are not used for private purposes. We also recommend the fiscal court seek guidance from the county attorney to determine if the fiscal court should seek reimbursement from the property owner who received the paving.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court has made changes to its oversight and monitoring of road projects.

2016-003 The County Had A Negative Fund Balance In The General And Local Government Economic Assistance Funds

The county had a negative fund balance in the general fund and Local Government Economic Assistance (LGEA) fund at year end. On June 30, 2016, the fund balance of the General Fund was (\$11,698) and the LGEA Fund was (\$295,770).

The finance officer prepared checks for invoices received and posted the disbursements to the disbursements ledger. The treasurer was given the checks, however, the treasurer did not sign and release them due to lack of funds. According to the treasurer the checks were held in a secure location until funds became available. These checks cleared the bank anywhere from four to five months after the checks were written.

Negative fund balances could be indicative of cash flow problems and inadequate monitoring and could result in improper financial decision making and inaccurate financial reporting.

KRS 68.110(1) says, "[t]he fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year[.]" Purchase orders and invoices should not be approved if sufficient funds are not available to cover the expenditure.

We recommend the county maintain positive balances in all funds by monitoring fund balances before checks are written and cease the practice of approving expenditures if funds are not available.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-003 The County Had A Negative Fund Balance In The General And Local Government Economic Assistance Funds (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court experienced a significant decrease in revenue which created cash flow issues and financial strain. The Fiscal Court has worked to decrease expenditures and increase revenue by implementing an occupational license.

2016-004 The Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement

This is a repeat audit finding and was reported in the prior audit report as finding 2015-004. The debt schedule presented with the fourth quarter report (which serves as the year-end financial statement) inaccurately reported debt obligations. The quarterly report did not include the Perry County Justice Center Bonds, (with an outstanding balance of \$3,045,000), three financing obligations for the purchase of mowers (with a balance of \$103,566), sheriff's vehicles (with a balance of \$63,563), and a backhoe loader (with a balance of \$95,775). In addition, two debts are shown incorrectly: KADD Road financing obligation is understated by \$290,000 and a KACo lease for trucks is overstated by \$594.

The county treasurer knew the requirements but failed to include all county debt. Due to these errors and the omissions, long-term debt was understated on the quarterly financial statement by a total of \$3,597,310.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires all county debt be reflected properly on the quarterly financial statement.

We recommend the county treasurer ensure the correct amounts are shown on all financial statements presented to the public and the Department for Local Government. We further recommend management review all aspects of the quarterly reports before signing and submitting.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Perry County Justice Center Bonds are a debt obligation that is paid directly by the Administrative Office of the Courts, although Perry County Fiscal Court is legally obligated to pay the debt in the event of a default. Since this obligation is paid by AOC directly, the Treasurer has not reconciled that account in the normal quarterly reports. The Treasurer will maintain a separate ledger and report that information as part of all quarterly reports in the future.

2016-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements

This is a repeat audit finding and was reported in the prior year audit as finding 2015-005. The fiscal court entered into lease purchase agreements in the amounts of \$80,000 for the purchase of sheriff's vehicles, and \$129,135 for the purchase of a backhoe loader. The county also entered into a lease agreement for \$2,500,000, and while some of the proceeds were budgeted and expended properly, the following were not: \$247,745 for an excavator and \$89,440 for three trucks for the road department.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements
 (Continued)

According to the county treasurer, she was not aware these transaction should be reflected on the county's financial statement. These transactions did not run through the fiscal court's bank account and were not included in the fiscal court's budget process or reflected on the fiscal court's fourth quarter report. As a result, the fiscal court failed to properly budget and record \$546,320 in debt related receipts and disbursements for the fiscal year.

KRS 68.300 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." KRS 68.280 states, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby."

Because the fiscal court failed to amend the budget, it was not in compliance with applicable statutes. We recommend the fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all county disbursements and amending the budget as necessary to reflect unanticipated receipts and disbursements, including those handled by a third-party lender.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Perry County Fiscal Court will make all necessary budget amendments to reflect unanticipated receipts and disbursements including those handled by third party lenders.

2016-006 The Fiscal Court Did Not Follow Proper Procedures For Budget Amendments

An emergency budget amendment was used in June 2016. In order to approve an emergency amendment, an order must be in place naming and describing the emergency. We could not find documentation of this action.

The county used an emergency budget amendment at the end of the year to ensure they were under budget. According to the county treasurer, the county was unaware that year-end emergency amendments are not proper and valid without proper supporting documentation regarding the emergency. As a result, the county is in violation of KRS 67.078 and KRS 68.280.

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

KRS 67.078(2) states, "[a] majority of the fiscal court may declare an emergency to exist by naming and describing the emergency, and thereafter may adopt a county ordinance to address that emergency[.]" KRS 68.280 states, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby. The amendment shall be submitted to the state local finance officer subject to the same provisions as the original budget[.]"

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-006 The Fiscal Court Did Not Follow Proper Procedures For Budget Amendments (Continued)

We recommend the fiscal court adhere to the provisions of KRS 67.078 and KRS 68.280 and use emergency budget amendments only in the appropriate circumstances.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court will make all necessary budget amendments.

2016-007 Disbursements Exceeded Approved Budget Appropriations For The General, Road, And Coal Severance Funds

Disbursements exceeded approved budget appropriations for the general fund, road fund, and coal severance fund. The treasurer did not budget debt additions or add them to the fourth quarter report as discussed in finding 2016-005, causing the general fund and road fund line items listed below to be over budget. An error in coding by the county treasurer when doing line item transfers caused the coal severance line item listed below to be over budget. The fund disbursement line items were overspent as follows:

	Disbursements Exceeded Budget
<u>General Fund</u>	
Protection to Persons and Property	\$ 39,998
<u>Road Fund</u>	
Roads	434,289
<u>Coal Severance Fund</u>	
General Government	131,979

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* provides guidance regarding annual budgets adopted on a regulatory basis of accounting. The budget is prepared by fund, and disbursements may not exceed budgeted appropriations. Furthermore, KRS 68.300 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."

We recommend the fiscal court review the budget for completeness and limit disbursements to what is budgeted.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This was caused by a coding error on the part of the county treasurer. When coding several thousand items, it is inevitable that an error may occur. The Treasurer will reconcile the monthly reports with the quarterly reports which should reveal any inconsistencies.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-008 The County Judge/Executive And County Jailer Did Not Receive The Maximum Salary Set By The Department For Local Government

The Perry County Fiscal Court did not pay the county judge/executive his maximum salary set by the Department of Local Government and it did not pay the county jailer his full salary as set by the fiscal court. When the county judge/executive began his term, his salary was set at \$79,197. In February 2015, the Department for Local Government increased his salary when the new Consumer Price Index was released. The adjusted amount was \$79,797. As a result, the county judge/executive was underpaid \$600. The county judge/executive also began his term on January 5, 2015, which falls in the middle of a pay period. Due to this, the county treasurer prorated the county judge/executive's initial check by \$1,959. This resulted in underpayment for the county judge/executive's salary totaling \$2,559.

The county jailer began his term on January 5, 2015, as well, which resulted in the county treasurer prorating his first check. The county jailer was underpaid \$1,715 due to this clerical error.

The issue occurred due to lack of oversight and review of pay rates approved by the Department for Local Government for the county judge/executive and the salary schedule set by the fiscal court for the jailer. As a result, the fiscal court is not in compliance with the salary requirements and should pay the county judge/executive \$2,559 and the county jailer \$1,715 for the salary underpayments.

KRS 64.5275(2) states, "[e]ffective on the first Monday in January of 1999, the maximum salary of county judges/executive, county clerks, jailers who operate a full service jail, and sheriffs shall be fixed by the Department for Local Government according to a salary schedule in accordance with Section 246 of the Kentucky Constitution." Since Perry County does not have a full service jail, KRS 64.527 also is applicable. KRS 64.527 states in part, "[t]he Department for Local Government shall notify the appropriate governing bodies charged by law to fix the compensation of the above elected officials of the annual rate of compensation to which the elected officials are entitled in accordance with the increase or decrease in the consumer price index. Upon notification from the Department for Local Government, the appropriate governing body may set the annual compensation of the above elected officials at a rate no greater than that stipulated by the Department for Local Government."

We recommend the Perry County Fiscal Court pay the county judge/executive \$2,559 and the jailer \$1,715 for the 2015 salary underpayments.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: These corrections will be made during the next pay period.

2016-009 The County Did Not Maintain Complete And Accurate Capital Asset Schedules

The county did not maintain a complete and accurate capital asset schedule for the fiscal year ended June 30, 2016. While the county maintained a capital asset schedule, some asset purchases made during the fiscal year were not included. During the audit, adjustments/corrections totaling \$421,214 were recommended to management.

The fiscal court lacks adequate controls over reporting and valuation of capital assets. The fiscal court has not adequately monitored and tracked capital assets as required by the Department for Local Government (DLG). Without adequate controls, the risk of asset misappropriation increases. Furthermore, without a complete and

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-009 The County Did Not Maintain Complete And Accurate Capital Asset Schedules (Continued)

accurate capital asset schedule, the county may fail to properly insure all assets and could continue insurance coverage for assets the county no longer owns.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* provides guidance regarding capital asset documentation. Capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, and long range planning for property replacement.

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court has implemented new procedures to identify and track all capital assets.

2016-010 The Fiscal Court Did Not Pay Invoices Timely

This is a repeat audit finding and was reported in the prior year audit report as finding 2015-003. Due to cash flow issues and lack of adequate oversight by management, 24 invoices totaling \$348,953, four Natural Resources Conservation Service (NRCS) invoices totaling \$58,328, and two health insurance invoices totaling \$136,804, were not paid within 30 working days. Late payments increase the risk that funds could be misused or invoices lost resulting in late payment fees and accrued interest.

KRS 65.140(2) states "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." KRS 65.140(3) states "[a]n interest penalty of one (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor's invoice by the purchaser."

We recommend the fiscal court pay invoices within 30 working days as required by statute.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court experienced a significant decrease in revenue which caused cash flow issues and financial strain. The Fiscal Court has worked to decrease expenditures and increase revenue.

2016-011 The Treasurer Did Not Report Encumbrances On The Fourth Quarter Report

The county treasurer did not include a list of encumbrances, totaling \$606,405, on the quarterly financial report submitted to the Department for Local Government (DLG). Encumbrances were reported and entered into the accounting system used by the Perry County Fiscal Court, but not recorded on the fourth quarter financial report.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-011 The Treasurer Did Not Report Encumbrances On The Fourth Quarter Report (Continued)

Failure to report encumbrances reduces the ability of the county to accurately monitor receipts and disbursements, which could result in mismanagement of finances. By failing to report encumbrances, the county is not in compliance with Department for Local Government guidelines.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* requires quarterly reports to be submitted by each county to the State Local Finance Officer. These reports should include all money received to date in all funds both budgeted and unbudgeted, transfers, borrowed money, as well as claims allowed since the beginning of the fiscal year for actual and budgeted amounts. This report should also include encumbrances.

We recommend the fiscal court report encumbrances on the fourth quarter report as required by DLG.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Treasurer will report all encumbrances on the quarterly reports as required.

2016-012 Funds Received For Coal Severance And Mineral Severance Were Not Used As Required By KRS 42.455

This is a repeat audit finding and was reported in the prior year audit report as finding 2015-006. The fiscal court did not monitor coal severance or mineral severance receipts to determine what should be used in priority categories as outlined in the applicable statute. The Perry County Fiscal Court used 30 percent of the annual coal severance receipts for coal haul roads but the remaining seventy percent 70 percent of coal severance funds totaling \$316,609 were not used in priority categories as designated by KRS 42.455. The fiscal court transferred \$440,000 from the LGEA fund to the general fund to be used in priority categories but only \$123,391 of transferred funds was spent in allowable categories. The fiscal court spent \$316,609 in excess of the allowable amount and this amount is due back from the general fund.

The Perry County Fiscal Court did not use LGEA funds properly and is in violation of KRS 42.455. The fiscal court did not sign the certification of compliance for LGEA funds due to these issues. Furthermore, this created a \$316,609 liability due back to the LGEA fund for expenditures in unallowable categories spent from the general fund.

According to KRS 42.455, "[t]hirty percent (30%) of all moneys in the fund shall be spent on the coal haul road system. . . [t]he remaining seventy percent (70%) of the fund shall be spent on priority categories[.]" Also, The Department of Local Government handbook requires that 100 percent of mineral severance should be spent in these priority accounts in the same manner. No funds received from Coal Severance should be used for the purpose of general government. Also, KRS 42.460 states in part, "the audit report shall include a certification that the funds were expended for the purpose intended."

We recommend that the Perry County Fiscal Court follow guidelines set forth by KRS 42.455 to ensure that coal severance funds are used in accordance with statute. Also, we recommend the fiscal court transfer funds from the general fund to the LGEA fund \$316,609 for Fiscal Year 2016 and \$310,739 from Fiscal Year 2015 for the transfers used in unallowable categories.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-012 Funds Received For Coal Severance And Mineral Severance Were Not Used As Required By KRS 42.455 (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court will comply with all guidelines set forth in KRS 42.455 and will reimburse the LGEA fund in the appropriate amount to be taken from the General Fund.

2016-013 The Treasurer Did Not Establish Adequate Controls Over The Public Properties Corporation Bond Fund And Justice Center Corporation Fund

This is a repeat audit finding and was reported in the prior year report as finding 2015-010. The treasurer did not maintain adequate controls over the Public Properties Corporation Bond Fund or the Justice Center Corporation Fund.

The treasurer knew the requirement but did not agree with it and decided not to reconcile bank statements or prepare financial statements for the Public Properties Corporation Bond Fund or the Justice Center Corporation Fund.

As a result, the fiscal court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted funds. This could result in undetected fraud, errors, and misstatements.

These are unbudgeted funds of the fiscal court. The fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation Bond Fund and the Justice Center Corporation Fund. The fiscal court should require that proper records be maintained for these unbudgeted funds.

We recommend the county treasurer reconcile these accounts and prepare a financial statement for the Public Properties Corporation Bond Fund and the Justice Center Corporation Fund.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Public Properties Corporation Bond Fund and the Justice Center Corporation Fund obligations is paid by the Administrative Office of the Court, although the Perry County Fiscal Court is legally obligated for the debt. The Treasurer will reconcile these accounts and prepare financial statements for the funds.

2016-014 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented

This is a repeat audit finding and was reported in the prior year audit report as finding 2015-011. The Perry County Fiscal Court had credit card expenditures that could not be properly validated and were not properly documented. The fiscal court had two credit cards. One credit card was for the county judge/executive's use and the other was for other county personnel use. After noting several charges did not have proper or adequate documentation, auditors expanded testing and reviewed every credit card statement for fiscal year 2016. We did not note any areas of concern with the credit card used by the other county employees. However, we noted areas of concern with the county judge/executive's credit card use. Of the \$15,087 in credit card expenditures on the county judge/executive's credit card, purchases of \$4,401 were incurred without adequate documentation.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-014 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented (Continued)

These statements reflected \$626 in general charges, meals totaling \$2,294, gratuities of \$501, and hotel charges totaling \$980 that do not have documentation as to why they were a reasonable and necessary expense. The following is a breakdown of these charges:

General Charges		
8/6/2015 Unknown Purchase at Convenience Store	\$ 69	Invoice does not document what was purchased
9/8/2015 Unknown Purchase at Convenience Store	66	No Invoice
10/23/2015 General Merchandise at Convenience Store	37	Invoice does not document what was purchased
11/22/2015 General Merchandise at Convenience Store	56	Invoice does not document what was purchased
12/7/2015 Groceries at Convenience Store	26	Invoice does not document what was purchased
12/16/2015 Unknown Purchase at Convenience Store	53	Invoice does not document what was purchased
12/22/2015 Groceries at Convenience Store	55	Invoice does not document what was purchased
1/22/2016 General Merchandise at Convenience Store	49	Invoice does not document what was purchased
3/23/2016 Unknown Purchase at Convenience Store	58	Invoice does not document what was purchased
4/28/2016 Unknown Purchase at Convenience Store	61	Invoice does not document what was purchased
5/12/2016 Unknown Purchase at Convenience Store	54	Invoice does not document what was purchased
5/17/2016 Unknown Purchase at Convenience Store	42	Invoice does not document what was purchased
	\$ 626	
Meals Without Adequate Documentation		
	Meals	Tips/Gratuities
7/10/2015 Meals for 2 Guests	\$ 33	\$
9/3/2015 Meals for 2 Guests	79	
11/2/2015 Meals for 2 Guests	102	
1/13/2016 20 Meals from Convenience Store	106	
1/15/2016 Meals for 2 Guests	24	
2/1/2016 Meals for 3 Guests	94	
2/18/2016 Meals for 3 Guests	101	
3/1/2016 Meals for 9 Guests	145	25 Tips/Gratuities
3/16/2016 55 Buffet Meals	583	150 Tips/Gratuities
3/18/2016 Meals for 2 Guests	45	7 Tips/Gratuities
3/30/2016 17 Meals from Convenience Store	85	
4/1/2016 Meals for 8 Guests	95	
4/11/2016 Meals for 18 Guests	230	119 Tips/Gratuities
5/7/2016 54 Buffet Meals	572	200 Tips/Gratuities
	\$ 2,294	\$ 501
Hotels		
7/10/2015 Hotel	\$ 309	Invoice does not document reason
8/28/2015 Hotel	325	No Invoice
11/19/2015 Hotel Charge	37	No Invoice
12/1/2015 Hotel	129	No Invoice
2/26/2016 Hotel	180	No Invoice
	\$ 980	

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-014 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented (Continued)

As noted in the breakdown of charges, the county judge/executive purchased meals on various occasions without adequate documentation. The meals charged were provided to parties ranging from two people to 55 people. These meals also included tips totaling \$501. None of these meal charges have a public purpose for the county. In addition to the \$4,401 charges in the breakdown, the county judge/executive charged \$3,057 for gas on this credit card. These gas charges were for the county judge/executive's personal vehicle, which he drove in his elected capacity on the job. We were unable to determine if the charges were for work or personal use because he did not maintain a mileage or work log.

The lack of oversight by the fiscal court over the use of credit cards allowed the county judge/executive to make charges that did not provide a public purpose for the county. As a result, the fiscal court was not in compliance with the county's administrative code. Additionally, due to lack of proper support, taxpayer funds could have been used for purposes other than for the benefit of the public.

Strong internal controls dictate procedures put in place to reconcile monthly credit card receipts submitted by the county judge/executive to the credit card statement. All receipts for credit card transactions should be attached to the statement and filed for preparation of the claims list. Once the statement is received and all receipts related to that statement are attached to the credit card statement, a detailed list of transactions should be included on the claims list presented to the fiscal court for approval. A travel voucher/mileage log should be maintained to support gas expenses if a personal vehicle is used for county business. Also, travel vouchers should be maintained to support meal, hotel, and other travel-related expenditures. All receipts for such expenses should be attached to the vouchers with the signature of the county judge/executive to substantiate and provide adequate documentation. In addition Section 5.54(A) of the county's administrative code states that subject to budgetary limitations, any officer or employee of the county incurring expenses for approved travel on behalf of the County shall be reimbursed for allowable out-of-County travel expenses. Subsection 2 of this section states a per diem will be paid at a rate of \$25.00 per day, unless staying out of town overnight or after 7:00 p.m., in which case the rate shall be \$50.00 per day for those days when the employee is required to be out of town overnight or after & 7:00 p.m. Meal costs in excess of allowed per diem may be paid under special circumstances provided receipts are provided. Furthermore, Section 5.54(C) requires the Request for Reimbursement Form must be completed (including required receipts) and submitted to the county judge/executive within 30 thirty days after returning from travel.

We recommend the fiscal court apply best practices when exercising its responsibilities. We recommend all employees of the county abide by the adopted travel policies set forth by the fiscal court. We also recommend the fiscal court have more control of credit card usage and require documentation of the reason the card was used with supporting documentation attached.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court will ensure that all supporting documentation is present before payment is approved.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-015 The Fiscal Court Did Not Comply With Competitive Bidding Requirements

This is a repeat audit finding and was reported in the prior year audit report as finding 2015-002. The Perry County Fiscal Court failed to advertise for bids in compliance with KRS 45A.365 and its Administrative Code for the following purchases:

- \$1,284,285 paid for steel and drilling
- \$28,922 paid to a vendor for contract labor and supplies. The contract labor consisted of courthouse maintenance, grader work, and work at the county garage and park.
- \$137,374 paid for diesel fuel
- \$53,075 paid for plastic pipe
- \$36,318 paid for drilling
- \$35,440 paid for guardrail
- \$32,744 paid for heavy equipment parts and service
- \$64,799 paid for tires, vehicle repairs and maintenance, and contract labor. The vendor paid for these expenditures also constitutes a related party transaction for the Perry County Judge/Executive.
- \$45,828 paid for vehicle parts and service. The vendor paid for these expenditures also constitutes a related party transaction for the Perry County Judge/Executive.

While individual items purchased for some of the vendors did not exceed the \$20,000 bid threshold, they did exceed the threshold in the aggregate. When the fiscal court can reasonably anticipate spending over \$20,000 with a single vendor in a fiscal year, competitive bids should be solicited to achieve the best price.

The Perry County Fiscal Court knew the bidding requirements but decided to proceed. Competitive bidding ensures that the county procures materials and services at the best price available. By limiting competition, the county may not get this benefit.

KRS 45A.365(1) states that “[a]ll contracts or purchases shall be awarded by competitive sealed bidding, which include the use of a reverse auction,” unless certain exceptions apply such as purchases less than \$20,000. According to the Administrative Code, “[a]ll purchases of items of like or similar nature in excess of \$20,000 in a fiscal year shall be advertised for bids[.]”

We recommend the fiscal court follow the requirements of KRS 45A.365 and the county’s administrative policy. Purchases of \$20,000 or more should be competitively bid.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The Fiscal Court will follow the requirements of KRS 424.260 and will implement controls to ensure compliance.

2016-016 The County Judge/Executive Failed To Report Related Party Transactions

This is a repeat audit finding and was reported in the prior year audit report as finding 2015-012. In an initial related party questionnaire given to the Perry County Judge/Executive (signed by him on October 18, 2016), the county judge/executive did not disclose any related party transactions between the Perry County Fiscal Court and himself or any related parties.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-016 The County Judge/Executive Failed To Report Related Party Transactions (Continued)

While performing audit procedures, auditors found that he may not have disclosed some related parties and another questionnaire was given to him. When the county judge/executive finished the new questionnaire, he disclosed two related parties that had not been previously disclosed.

According to the county judge/executive, he did not understand that related parties include any business relationships that he may have. Also, the fiscal court does not have adequate controls in place to identify, track, and disclose related parties and related party transactions. Related party transactions can create an opportunity for management to engage in fraudulent activities or fraudulent financial reporting.

Governmental Accounting Standards Board (GASB) Statement No. 56 establishes specific accounting and disclosure requirements for related party relationships, transactions, and balances to ensure users of the financial statement understand their nature and potential effects on the financial statement. Related party transactions involving family, personal, financial, or business relationships are not necessarily illegal; however, they must be disclosed in the notes to the financial statements.

We recommend that the county judge/executive gain an understanding about related party transactions and ensure that all related parties are fully disclosed.

County Judge/Executive's Response: The county judge/executive did not provide a response.

Section III: Federal Award Findings And Questioned Costs

2016-017 The Fiscal Court Failed To Implement Adequate Internal Controls Over Compliance For Federal Programs

Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security

Pass Through Agency: Department of Military Affairs

Compliance Area: Cash Management; Procurement and Suspension and Debarment

Questioned Costs: None

Perry County qualified for disaster relief and had expenditures that fell under Federal Emergency Management Agency (FEMA) regulations (Disasters #4216, #4218, and #4239). The county expended \$858,052 for FEMA disasters during the fiscal year ended June 30, 2016. Deficiencies were noted in the design and implementation of internal controls over compliance for federal awards which resulted in the following non-compliance issues:

- The Fiscal Court Did Not Pay Invoices Related To Federal Awards Timely (see finding 2016-018)
- The Fiscal Court Did Not Comply With Bidding Requirements For Federal Award Projects (see finding 2016-019)

The fiscal court failed to implement adequate controls to ensure complete understanding of federal awards and compliance with all requirements. According to the Perry County Emergency Management Director, management was not familiar with the requirement that federal awards must follow all state and local procurement laws and regulations, including KRS 45A.365 related to bidding and KRS 65.140 related to paying invoices within 30 days. Additionally, the fiscal court was facing cash flow issues and didn't fully understand the implications of delaying federal payments to contractors/vendors.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section III: Federal Award Findings And Questioned Costs (Continued)

2016-017 The Fiscal Court Failed To Implement Adequate Internal Controls Over Compliance For Federal Programs (Continued)

These issues resulted in material noncompliance with federal grants in the areas of Cash Management and Procurement and Suspension and Debarment. The audit opinion for federal awards will be modified to reflect this material non-compliance.

The *Code of Federal Regulations, Subpart D, Section 303 (2 CFR 200.303(a))* states “[t]he non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

We recommend the fiscal court ensure they fully understand all compliance requirements related to federal awards. Furthermore, we recommend the fiscal court review their internal controls over federal awards and design and implement controls that will ensure material compliance with applicable requirements for all federal awards.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The official did not respond.

2016-018 The Fiscal Court Did Not Pay Invoices Related To Federal Awards Timely

Federal Program: CFDA 97.036

Name of Federal Agency: U. S. Department of Homeland Security

Pass-Through Agency: Department of Military Affairs

Compliance Requirement: Cash Management

Type of Finding: Material Non-Compliance; Significant Deficiency

Amount of Questioned Costs: \$91,141

Sixteen invoices totaling \$121,521 were not paid within 30 working days. These invoices were for work charged to public assistance grants received from the Department of Homeland Security for various projects completed in Fiscal Year 2016. Invoice payment dates are as follows:

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section III: Federal Award Findings And Questioned Costs (Continued)

2016-018 The Fiscal Court Did Not Pay Invoices Related To Federal Awards Timely (Continued)

	Disaster	Project Worksheet	Amount	Date Invoice Received	Date Check Written	Date Check Cleared Bank	
Invoice #1	4216	100	\$ 339	4/25/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #2	4216	132	604	12/5/2015	4/19/2016	5/2/2016	Invoice was held until payment was made.
Invoice #3	4216	117	277	4/26/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #4	4218	275	42,875	4/22/2016	6/1/2016	11/9/2016	Check was held and then released for payment.
Invoice #5	4218	269	43,732	4/22/2016	6/1/2016	11/9/2016	Check was held and then released for payment.
Invoice #6	4218	298	1,446	4/1/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #7	4218	298	294	4/4/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #8	4218	298	276	4/4/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #9	4218	295	2,271	4/13/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #10	4218	295	161	4/14/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #11	4218	295	571	4/14/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #12	4218	295	161	4/15/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #13	4218	297	10,290	4/20/2016	6/1/2016	11/1/2016	Check was held and then released for payment.
Invoice #14	4218	296	16,292	4/20/2016	6/1/2016	11/1/2016	Check was held and then released for payment.
Invoice #15	4239	215	116	7/1/2015	9/15/2015	10/13/2015	Invoice was held until payment was made.
Invoice #16	4239	36	1,816	12/5/2015	4/19/2016	5/2/2016	Invoice was held until payment was made.
Total Invoices Paid Late			<u>\$121,521</u>				

The work on these projects was complete and the reimbursements for these projects had been received from the federal government, but these 16 contractors did not receive payment timely.

Due to cash flow issues and lack of adequate oversight by management, the fiscal court did not pay invoices timely. Untimely payments could lead to misuse of funds or missing invoices, as well as late payment penalties and interest.

The fiscal court is in violation of federal rules and regulations regarding federal grants and this could potentially jeopardize qualifying for or receiving federal grants in the future. Federal guidance for cash management is outlined in *Code of Federal Regulations, Subpart D, Section 305 (2 CFR 200.305(b)(1))* which states, “[t]he non-Federal entity must be paid in advance, provided that it maintains, or demonstrates the willingness to maintain both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, and financial management systems that meet the standard for fund control and accountability[.]” In addition, guidance for procurement is outlined at *2 CFR 200.318*, and states, “[t]he non-Federal entity must use its own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.” There are also state laws that require invoices to be paid within a certain time frame. KRS 65.140(2) states in part, “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.” KRS 65.140(3) states, “[a]n interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty working days which followed receipt of vendor’s invoice by the purchaser.”

We recommend the fiscal court pay invoices within 30 working days as required by state law in order to comply with federal regulations for federal grants.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section III: Federal Award Findings And Questioned Costs (Continued)

2016-018 The Fiscal Court Did Not Pay Invoices Related To Federal Awards Timely (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The county judge/executive did not respond.

2016-019 The Fiscal Court Did Not Comply With Competitive Bidding Requirements For Federal Awards

Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security

Pass Through Agency: Department of Military Affairs

Compliance Area: Procurement and Suspension and Debarment

Questioned Costs: \$615,584

During fiscal year 2016, the Fiscal Court qualified for disaster relief under Federal Emergency Management Agency (FEMA) regulations (disaster #4216 - February 15 through February 22, 2015, disaster #4218 - March 3 through March 8, 2015, and disaster #4239 - July 11 through July 20, 2015). The fiscal court expended \$820,778 for drilling and railroad steel to repair embankment failures caused by the natural disasters. The fiscal court declared emergencies for these natural disasters and treated these federal projects as emergency work. When work commenced, the county did not solicit competitive bids due to the emergency declaration and the use of a state price contract. However, emergency work defined by FEMA Publication 32, is work that must be performed to reduce or eliminate an immediate threat of life, protect health and safety, and to protect improved property that is threatened in a significant way as a result of the disaster. The work on these projects did not happen within a reasonable timeframe and competitive bids could have been solicited. In addition, the fiscal court relied on a state price contract with two vendors for the disaster work. This state contract price was only for the rental of a drill with an operator. These contractors performed the drilling, provided the steel, and managed the projects. Therefore, the state price contract is not applicable.

The Perry County Fiscal Court knew the bidding requirements but thought the disasters would be covered under the emergency declaration and the vendor's state contract.

Competitive bidding ensures that the county procures materials and service contracts at the best price available. By limiting competition, the county may not get the benefits of the best price available. Also, the county could be out of compliance with federal and state requirements.

Federal grant agreements require applicants to comply with all applicable provisions of federal and state procurement laws and regulations. KRS 45A.380 states that purchase by noncompetitive negotiation is allowed when "a written determination is made that competition is not feasible" and that "[a]n emergency exists which will cause public harm as a result of the delay in competitive procedures[.]" Emergency work should be done immediately and not several months later. In this case, the expenditures were governed by the Administrative Code of the county. According to the Administrative Code, "[a]ll purchases of items of like or similar nature in excess of \$20,000 in a fiscal year shall be advertised for bids[.]"

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending June 30, 2016
(Continued)

Section III: Federal Award Findings And Questioned Costs (Continued)

2016-019 The Fiscal Court Did Not Comply With Competitive Bidding Requirements For Federal Awards
 (Continued)

We recommend the fiscal court implement controls to ensure compliance with federal awards, including provisions that indicate the entity must comply with all state and local regulations, which includes the county's administrative code. We further recommend the fiscal court follow the requirements of KRS 424.260. Purchases of \$20,000 or more should be competitively bid unless the requirements for negotiated procurement have been met.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The county judge/executive did not respond.

Section IV: Summary Schedule of Prior Audit Findings

Corrective action was taken and the following prior year audit findings were corrected:

2015-007 The Fiscal Court Did Not Distribute Coal Severance Grants As Directed By The Grant
 2015-008 The Fiscal Court Encumbered Expenses Beyond Their Current Resources
 2015-009 The Fiscal Court Does Not Have Adequate Controls Over Payroll Procedures

Corrective action was not taken and the following prior year findings are repeated in the current Schedule of Findings and Questioned Costs:

2015-001 The Fiscal Court Lacks Adequate Oversight Over Financial Management Practices - *Repeated as current year 2016-001*
 2015-002 The Fiscal Court Did Not Comply With Competitive Bidding Requirements - *Repeated as current year 2016-002*
 2015-003 The Fiscal Court Did Not Pay Invoices Timely - *Repeated as current year 2016-003*
 2015-004 The Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement - *Repeated as current year 2016-004*
 2015-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements - *Repeated as current year 2016-005*
 2015-006 The Fiscal Court Did Not Use Coal And Mineral Severance Monies As Required By KRS 42.455 - *Repeated as current year 2016-006*
 2015-010 The Fiscal Court Has Not Established Adequate Controls Over The Public Properties Corporation Bond Fund And Justice Center Corporation Fund - *Repeated as current year 2016-010*
 2015-011 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented - *Repeated as current year 2016-011*
 2015-012 The County Judge/Executive Failed To Report Related Party Transactions - *Repeated as current year 2016-012*