

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

**For The Year Ended
June 30, 2018**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
PIKE COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT.....	10
BUDGETARY COMPARISON SCHEDULES.....	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	34
SCHEDULE OF CAPITAL ASSETS.....	37
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS.....	38
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	41
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	42
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 <i>GOVERNMENT AUDITING STANDARDS</i>	45
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE.....	49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	53
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM	

THIS PAGE LEFT BLANK INTENTIONALLY



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 Ray S. Jones II, Pike County Judge/Executive

The Honorable William Deskins, Former Pike County Judge/Executive

Members of the Pike 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 Pike County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Pike County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Ray S. Jones II, Pike County Judge/Executive

The Honorable William Deskins, Former Pike County Judge/Executive

Members of the Pike 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 Pike 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 Pike County Fiscal Court as of June 30, 2018, 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 Pike County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Pike 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.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Ray S. Jones II, Pike County Judge/Executive

The Honorable William Deskins, Former Pike County Judge/Executive

Members of the Pike County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2019, on our consideration of the Pike 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 Pike 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:

- 2018-001 The Fiscal Court Did Not Perform Bank Reconciliations Each Month
- 2018-002 The Fourth Quarter Financial Statement Reflected Budget Amounts That Did Not Agree To The Original Budget Approved By The Department For Local Government (DLG) And Budget Amendments Were Recorded That Were Not Approved
- 2018-003 The Pike County Fiscal Court Is Not Reporting Certificates Of Deposit On Their Fourth Quarter Financial Report
- 2018-004 The Fiscal Court Did Not Accurately Report Debt On Their Fourth Quarter Financial Report
- 2018-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements
- 2018-006 The Pike County Treasurer Reported Debt Service Payments As Operating Expenditures
- 2018-007 Disbursements Exceeded Approved Budget Appropriations For The Road Fund
- 2018-008 The Fiscal Court Did Not Pay Invoices Within 30 Days As Required
- 2018-009 The Fiscal Court Did Not Maintain Detailed Reports Of All Receivables Due From Component Units
- 2018-010 The Fiscal Court Was Not In Compliance With Continuing Debt Disclosure Requirements
- 2018-011 The Jailer Did Not Implement Adequate Segregation Of Duties And Oversight For Receipts, Disbursements, And Reconciliations
- 2018-012 The Jailer Failed To Maintain Sufficient Records Or Prepare An Accurate Annual Report For The Jail Commissary Fund And Failed To Remit Inmate Fees To The Fiscal Court Timely

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 24, 2019

PIKE COUNTY OFFICIALS
For The Year Ended June 30, 2018

Fiscal Court Members:

William M. Deskins	County Judge/Executive
Jeff Anderson	Magistrate
Vernon Chick Johnson	Magistrate
Charlie Compton	Magistrate
Leo Murphy	Magistrate
Kenneth Robinson	Magistrate
Lloyd Hilman Dotson	Magistrate
Bobby Varney	Magistrate

Other Elected Officials:

Howard Keith Hall	County Attorney
Jerry Freddie Lewis	Former Jailer (July 1, 2017 through October 31, 2017)
Brian Morris	Jailer (November 1, 2017 through June 30, 2018)
Rhonda Taylor	County Clerk
Anna Pinson Spears	Circuit Court Clerk
Rodney Scott	Sheriff
Lonnie Osborne	Property Valuation Administrator
Russell Roberts	Coroner

Appointed Personnel:

Johnda Billiter	County Treasurer (July 1, 2017 through June 12, 2018)
Frankie Stacy	County Treasurer (June 13, 2018 through June 30, 2018)
Pamela Vanover	Chief Financial Officer

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 9,102,996	\$	\$	\$
In Lieu Tax Payments	47,048			
Excess Fees	581,344			
Licenses and Permits	287,105			
Intergovernmental	2,107,056	2,836,606	3,440,298	3,825,344
Charges for Services	4,654		71,016	704
Miscellaneous	275,907	766,633	44,792	47,856
Interest	8,142	9		
Total Receipts	<u>12,414,252</u>	<u>3,603,248</u>	<u>3,556,106</u>	<u>3,873,904</u>
DISBURSEMENTS				
General Government	3,533,957			529,628
Protection to Persons and Property	517,303		3,503,352	708,147
General Health and Sanitation	1,441,815			84,623
Social Services	299,042			733,594
Recreation and Culture	327,357			565,687
Roads	90,831	4,777,951		20,338
Airports				91,959
Other Transportation Facilities and Services				
Debt Service	37,413	888,264		
Capital Projects				
Administration	1,581,445	1,361,817	1,048,018	178,293
Total Disbursements	<u>7,829,163</u>	<u>7,028,032</u>	<u>4,551,370</u>	<u>2,912,269</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>4,585,089</u>	<u>(3,424,784)</u>	<u>(995,264)</u>	<u>961,635</u>
Other Adjustments to Cash (Uses)				
Certificate of Deposit Purchased				
Financing Obligation Proceeds	189,121	1,427,076		
Transfers From Other Funds	550,000	2,290,000	1,470,000	
Transfers To Other Funds	(5,230,855)	(350,000)	(377,219)	(550,000)
Total Other Adjustments to Cash (Uses)	<u>(4,491,734)</u>	<u>3,367,076</u>	<u>1,092,781</u>	<u>(550,000)</u>
Net Change in Fund Balance	93,355	(57,708)	97,517	411,635
Fund Balance - Beginning (Restated)	859,662	69,886	(16,506)	440,661
Fund Balance - Ending	<u>\$ 953,017</u>	<u>\$ 12,178</u>	<u>\$ 81,011</u>	<u>\$ 852,296</u>
Composition of Fund Balance				
Bank Balance	\$ 1,097,277	\$ 27,230	\$ 125,917	\$ 905,562
Plus: Deposits In Transit	131			
Less: Outstanding Checks	(144,391)	(15,052)	(44,906)	(53,266)
Certificates of Deposit				
Fund Balance - Ending	<u>\$ 953,017</u>	<u>\$ 12,178</u>	<u>\$ 81,011</u>	<u>\$ 852,296</u>

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

PIKE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Budgeted Funds				
Federal Fund	Forestry Fund	Solid Waste Fund	Local Government Economic Development Fund	Maintenance Garage Fund
\$	\$ 9,155	\$	\$	\$
567,000		321,404		
		5,236,313		
		663,793	152,465	492
		4,238	2,711	
<u>567,000</u>	<u>9,155</u>	<u>6,225,748</u>	<u>155,176</u>	<u>492</u>
	5,719	2,969,752		
				1,053,880
567,000		1,028,310		
		1,737,613		222,238
<u>567,000</u>	<u>5,719</u>	<u>5,735,675</u>		<u>1,276,118</u>
	3,436	490,073	155,176	(1,275,626)
		130,000		
		1,050,000		1,399,789
		(1,495,421)		
		(315,421)		1,399,789
	3,436	174,652	155,176	124,163
		3,772,360	501,650	54,607
<u>\$ 0</u>	<u>\$ 3,436</u>	<u>\$ 3,947,012</u>	<u>\$ 656,826</u>	<u>\$ 178,770</u>
\$	\$ 3,436	\$ 376,007	\$ 656,826	\$ 182,147
		605		
		(141,200)		(3,377)
		3,711,600		
<u>\$ 0</u>	<u>\$ 3,436</u>	<u>\$ 3,947,012</u>	<u>\$ 656,826</u>	<u>\$ 178,770</u>

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

PIKE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

	<u>Unbudgeted Funds</u>			<u>Total Funds</u>
	<u>General Obligation Bond Fund</u>	<u>Public Facilities Construction Corporation Fund</u>	<u>Jail Commissary Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 9,112,151
In Lieu Tax Payments				47,048
Excess Fees				581,344
Licenses and Permits				287,105
Intergovernmental		2,148,028		15,245,736
Charges for Services				5,312,687
Miscellaneous			262,105	2,214,043
Interest	54	216		15,370
Total Receipts	<u>54</u>	<u>2,148,244</u>	<u>262,105</u>	<u>32,815,484</u>
DISBURSEMENTS				
General Government				4,063,585
Protection to Persons and Property				4,734,521
General Health and Sanitation				4,496,190
Social Services				1,032,636
Recreation and Culture			241,439	1,134,483
Roads				4,889,120
Airports				91,959
Other Transportation Facilities and Services				1,053,880
Debt Service	1,243,706	2,146,488		5,344,181
Capital Projects				567,000
Administration		1,540		6,130,964
Total Disbursements	<u>1,243,706</u>	<u>2,148,028</u>	<u>241,439</u>	<u>33,538,519</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,243,652)</u>	<u>216</u>	<u>20,666</u>	<u>(723,035)</u>
Other Adjustments to Cash (Uses)				
Certificate of Deposit Purchased				130,000
Financing Obligation Proceeds				1,616,197
Transfers From Other Funds	1,243,706			8,003,495
Transfers To Other Funds				(8,003,495)
Total Other Adjustments to Cash (Uses)	<u>1,243,706</u>			<u>1,746,197</u>
Net Change in Fund Balance	54	216	20,666	1,023,162
Fund Balance - Beginning (Restated)	<u>1,339</u>	<u>9,520</u>	<u>14,867</u>	<u>5,708,046</u>
Fund Balance - Ending	<u>\$ 1,393</u>	<u>\$ 9,736</u>	<u>\$ 35,533</u>	<u>\$ 6,731,208</u>
Composition of Fund Balance				
Bank Balance	\$ 1,393	\$ 9,736	\$ 40,447	\$ 3,425,978
Plus: Deposits In Transit				736
Less: Outstanding Checks			(4,914)	(407,106)
Certificates of Deposit				3,711,600
Fund Balance - Ending	<u>\$ 1,393</u>	<u>\$ 9,736</u>	<u>\$ 35,533</u>	<u>\$ 6,731,208</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
NOTE 2.	DEPOSITS	13
NOTE 3.	TRANSFERS.....	13
NOTE 4.	AGENCY TRUST FUNDS	14
NOTE 5.	SHORT-TERM DEBT	14
NOTE 6.	LONG-TERM DEBT	15
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	18
NOTE 8.	DEFERRED COMPENSATION.....	20
NOTE 9.	INSURANCE.....	21
NOTE 10.	CLOSURE AND POST-CLOSURE CARE COSTS OF MUNICIPAL SOLID WASTE LANDFILL	21
NOTE 11.	CONDUIT DEBT.....	21
NOTE 12.	RECEIVABLES	22
NOTE 13.	PRIOR PERIOD ADJUSTMENTS	22
NOTE 14.	SUBSEQUENT EVENT	22

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The Pike County Interlocal 911 Board and Pike County Golf Management Corporation 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 they are not presented as part of the reporting entity.

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

Federal Fund - The primary purpose of this fund is to account for the receipts and disbursements for a Community Development Block Grant from the federal government.

Forestry Fund - The primary purpose of this fund is to account for collections and disbursements of taxes relating to fire protection.

Solid Waste Fund - The primary purpose of this fund is to account for activities of the solid waste collection services in Pike County and account for the operation of the Ford's Branch landfill. The primary sources of receipts for this fund are solid waste collection services and landfill disposal fees.

Local Government Economic Development 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.

Maintenance Garage Fund - The purpose of this fund is to account for expenses for the maintenance garage.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

General Obligation Bond Fund - The purpose of this fund is to account for debt service requirements of the General Obligation Refunding Bonds. The Department of Local Government does not require the fiscal court to budget this fund.

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

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(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 jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the General Obligation Bond Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

The state local finance officer does not require the Public Properties Construction Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Pike County Elected Officials

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

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

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

G. Long-term Obligations

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

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2018.

	General Fund	Road Fund	Jail Fund	LGEA Fund	Solid Waste Fund	Total Transfers In
General Fund	\$	\$	\$	\$	\$ 550,000	\$ 550,000
Road Fund	1,740,000			550,000		2,290,000
Jail Fund	1,470,000					1,470,000
Solid Waste Fund	1,050,000					1,050,000
Maintenance Garage Fund	500,000	350,000			549,789	1,399,789
General Obligation Bond Fund	470,855		377,219		395,632	1,243,706
Total Transfers Out	<u>\$ 5,230,855</u>	<u>\$ 350,000</u>	<u>\$ 377,219</u>	<u>\$ 550,000</u>	<u>\$ 1,495,421</u>	<u>\$ 8,003,495</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 3. Transfers (Continued)

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Agency Trust Funds

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

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2018, was \$61,500.

Note 5. Short-term Debt

A. Truck #42

On December 22, 2016, the Pike County Fiscal Court entered into a 12 month lease agreement with the Kentucky Association of Counties Finance Corporation in the amount of \$1,410,000 and bearing an interest at a rate of 4 percent. The lease agreement was paid in full in October 2017.

B. John Deere Backhoe

On May 16, 2017, the Pike County Fiscal Court entered into a 12 month lease agreement with John Deere Financial in the amount of \$25,701 and at an interest rate of 1.99 percent. The lease agreement was paid in full in March 2018.

C. Truck #43

On December 13, 2017, the Pike County Fiscal Court entered into a 12 month lease agreement with Kentucky Association of Counties Finance Corporation in the amount of \$1,427,076 and bearing an interest rate of 3.4 percent. The lease agreement balance as of June 30, 2018, was \$1,427,076.

D. Changes In Short-term Debt

Short-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 1,435,701	\$ 1,427,076	\$ 1,435,701	\$ 1,427,076	\$ 1,427,076
Total Short-term Debt	<u>\$ 1,435,701</u>	<u>\$ 1,427,076</u>	<u>\$ 1,435,701</u>	<u>\$ 1,427,076</u>	<u>\$ 1,427,076</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Long-term Debt

A. Compactor Lease

On February 21, 2017, the Pike County Fiscal Court, entered into a 60-month lease for a new compactor at the landfill. The lease requires monthly payments starting September 15, 2017, in the amount of \$10,986, including interest at a rate of 2.95 percent. The lease matures on August 15, 2022. The balance at June 30, 2018, totaled \$506,570. Lease payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 108,477	\$ 12,365
2020	121,727	10,101
2021	125,365	6,463
2022	129,111	2,717
2023	21,890	81
Totals	<u>\$ 506,570</u>	<u>\$ 31,727</u>

B. Public Properties Corporation First Mortgage Revenue Bonds, Series 2010

On August 5, 2010, the Pike County Fiscal Court, issued \$30,925,000 in revenue bonds for the building of the new Judicial Center. The bonds require semiannual interest payments due March 1 and September 1 and one principal payment each year due March 1. The bonds will mature August 1, 2029. As of June 30, 2018, the principal amount outstanding was \$20,600,000. Bond payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 1,400,000	\$ 748,413
2020	1,445,000	702,181
2021	1,495,000	652,538
2022	1,545,000	599,338
2023	1,600,000	544,300
2024-2028	8,990,000	1,748,250
2029-2033	4,125,000	166,700
Totals	<u>\$ 20,600,000</u>	<u>\$ 5,161,720</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Long-term Debt (Continued)

C. Revenue Refunding Bond, Series 2012

In August 2012, the Pike County Fiscal Court, issued \$7,345,000 in general obligation-refunding bonds to refinance four outstanding debt issues. The bonds require semiannual interest payments due March 1 and September 1 and one principal payment each year due September 1. The bonds will mature September 1, 2019. As of June 30, 2018, the principal amount outstanding was \$1,165,000. Bond payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 760,000	\$ 15,700
2020	405,000	4,050
Totals	<u>\$ 1,165,000</u>	<u>\$ 19,750</u>

D. Revenue Refunding Bond, Series 2013

In April 2013, the Pike County Fiscal Court, issued \$7,340,000 in general obligation refunding bonds to refinance the 2005 Improvement Bonds and for Courthouse Energy Savings improvements. The bonds require semiannual interest payments due March 1 and September 1 and one principal payment each year due September 1. The bonds will mature on March 1, 2036. As of June 30, 2018, the principal amount outstanding was \$6,155,000. Bond payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 300,000	\$ 167,056
2020	310,000	164,056
2021	320,000	154,856
2022	330,000	148,456
2023	335,000	141,856
2024-2028	1,840,000	589,688
2029-2033	1,660,000	339,100
2034-2036	<u>1,060,000</u>	<u>75,075</u>
Totals	<u>\$ 6,155,000</u>	<u>\$ 1,780,143</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Long-term Debt (Continued)

E. PNC Bank

On December 4, 2015, the Pike County Fiscal Court entered into a seven year lease agreement with PNC Bank for several trucks. The principal amount of the lease was \$1,738,002. The interest rate was 3.556. The lease agreement balance was \$1,157,830 at June 30, 2018. Lease payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 245,045	\$ 37,198
2020	251,885	28,374
2021	258,915	19,303
2022	266,142	9,978
2023	135,843	1,412
Totals	<u>\$ 1,157,830</u>	<u>\$ 96,265</u>

F. Five Trucks Lease

On September 14, 2017, the Pike County Fiscal Court entered into a 5 year lease agreement with Ally Financial for 5 trucks. The principal amount of the lease was \$189,121 with an interest rate of 3.14 percent. The lease agreement balance of June 30, 2018, was \$155,796. Lease payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 30,290	\$ 3,721
2020	37,409	3,405
2021	38,600	2,213
2022	39,830	984
2023	9,667	49
Totals	<u>\$ 155,796</u>	<u>\$ 10,372</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Long-term Debt (continued)

G. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 8,360,000	\$	\$ 1,040,000	\$ 7,320,000	\$ 1,060,000
Revenue Bonds	21,955,000		1,355,000	20,600,000	1,400,000
Financing Obligations	2,000,222	189,121	369,147	1,820,196	383,812
Total Long-term Debt	<u>\$ 32,315,222</u>	<u>\$ 189,121</u>	<u>\$ 2,764,147</u>	<u>\$ 29,740,196</u>	<u>\$ 2,843,812</u>

Note 7. Employee Retirement System

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

The county's contribution for FY 2016 was \$1,413,361, FY 2017 was \$1,323,633, and FY 2018 was \$1,435,441.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Employee Retirement System (Continued)

The county's contribution rate for nonhazardous employees was 19.18 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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 proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 8. Deferred Compensation

The Pike 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.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 8. Deferred Compensation (Continued)

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

Note 9. Insurance

For the fiscal year ended June 30, 2018, the Pike County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Closure and Post-Closure Care Costs of Municipal Solid Waste Landfill

Sections 2 and 3 of 401 KAR 48:310 require the owner or operator of a landfill to have a detailed written estimate, in current dollars, of the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. The Ford's Branch Landfill closure plan currently calls for six phases. As of February 9, 2018, the 2018 annual survey indicated approximately 53 percent of phase five of the landfill capacity had been used.

Pike County must comply with established state and federal closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure. Estimated closure costs total \$3,267,652, and estimated post closure care costs total \$50,705 per year for 30 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Since the financial statement is prepared on a regulatory basis of accounting, no liability has been recognized for closure or post closure costs.

The fiscal court is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The fiscal court annually deposits \$130,000 of solid waste receipts into an account reserved for the landfill closing. At June 30, 2018, the Ford's Branch Landfill Closing Account had a cash balance of \$3,711,600.

The Ford's Branch Landfill phase four was completed in 2011, and phase five is scheduled to close in 2026. It is anticipated that sufficient funds will be available in the Ford's Branch Landfill Closing Account to pay estimated closure and post-closure costs.

Note 11. Conduit Debt

From time to time the county has issued debt instruments to provide financial assistance to local agencies for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Pike 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.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 12. Receivables

The Pike County Fiscal Court pays the salaries and fringe benefits of the Interlocal 911 Board and Pikeville/Pike County Airport Board. These boards are then to reimburse the fiscal court for these expenses. As of June 30, 2018, the following receivables are due:

911 Board	\$784,825
Airport Board	\$392,366

Note 13. Corrections to Beginning Balances

The following adjustments were necessary to correct the current year beginning balances. The beginning balances were inaccurate due to prior year errors.

	General Fund	Road Fund	Jail Fund	LGEA Fund	Solid Waste Fund	Maintenance Garage Fund
Prior Year Ending Balance	\$ 693,582	\$ 75,900	\$28,400	\$493,927	\$ 227,319	\$ 32,155
Restated Beginning Balance	859,662	69,886	(16,506)	440,661	3,772,360	54,607
Difference	\$ (166,080)	\$ 6,014	\$44,906	\$ 53,266	\$ (3,545,041)	\$ (22,452)

Note 14. Subsequent Event

The Pike County Fiscal Court has filed a lawsuit against a company for a breach of contract. The fiscal court is seeking potential damages of \$300,000 plus interest. This lawsuit is pending.

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

THIS PAGE LEFT BLANK INTENTIONALLY

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 7,227,984	\$ 7,227,984	\$ 9,102,996	\$ 1,875,012
In Lieu Tax Payments	42,351	42,351	47,048	4,697
Excess Fees	586,379	586,379	581,344	(5,035)
Licenses and Permits	288,805	288,805	287,105	(1,700)
Intergovernmental	8,046,278	8,046,278	2,107,056	(5,939,222)
Charges for Services	21,625	21,625	4,654	(16,971)
Miscellaneous	74,140	74,140	275,907	201,767
Interest	2,250	2,250	8,142	5,892
Total Receipts	<u>16,289,812</u>	<u>16,289,812</u>	<u>12,414,252</u>	<u>(3,875,560)</u>
DISBURSEMENTS				
General Government	3,572,674	3,690,633	3,533,957	156,676
Protection to Persons and Property	760,379	533,360	517,303	16,057
General Health and Sanitation	6,183,943	4,823,842	1,441,815	3,382,027
Social Services	540,142	495,858	299,042	196,816
Recreation and Culture	325,960	327,357	327,357	
Roads	115,869	94,679	90,831	3,848
Debt Service	1,928,118	1,931,380	37,413	1,893,967
Administration	1,586,506	1,735,240	1,581,445	153,795
Total Disbursements	<u>15,013,591</u>	<u>13,632,349</u>	<u>7,829,163</u>	<u>5,803,186</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,276,221</u>	<u>2,657,463</u>	<u>4,585,089</u>	<u>1,927,626</u>
Other Adjustments to Cash (Uses)				
Borrowed Money	1,500,000	1,500,000		(1,500,000)
Financing Obligation Proceeds			189,121	189,121
Transfers From Other Funds			550,000	550,000
Transfers To Other Funds	(2,851,221)	(2,851,221)	(5,230,855)	(2,379,634)
Total Other Adjustments to Cash (Uses)	<u>(1,351,221)</u>	<u>(1,351,221)</u>	<u>(4,491,734)</u>	<u>(3,140,513)</u>
Net Change in Fund Balance	(75,000)	1,306,242	93,355	(1,212,887)
Fund Balance - Beginning (Restated)	<u>75,000</u>	<u>75,000</u>	<u>859,662</u>	<u>784,662</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 1,381,242</u>	<u>\$ 953,017</u>	<u>\$ (428,225)</u>

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 113	\$ 113	\$	\$ (113)
Intergovernmental	4,231,424	4,231,424	2,836,606	(1,394,818)
Miscellaneous	849,202	849,202	766,633	(82,569)
Interest			9	9
Total Receipts	<u>5,080,739</u>	<u>5,080,739</u>	<u>3,603,248</u>	<u>(1,477,491)</u>
DISBURSEMENTS				
Roads	5,203,442	3,720,917	4,777,951	(1,057,034)
Debt Service		888,264	888,264	
Administration	1,162,002	1,417,540	1,361,817	55,723
Total Disbursements	<u>6,365,444</u>	<u>6,026,721</u>	<u>7,028,032</u>	<u>(1,001,311)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,284,705)</u>	<u>(945,982)</u>	<u>(3,424,784)</u>	<u>(2,478,802)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			1,427,076	1,427,076
Transfers From Other Funds	1,800,494	1,800,494	2,290,000	489,506
Transfers To Other Funds	(515,789)	(515,789)	(350,000)	165,789
Total Other Adjustments to Cash (Uses)	<u>1,284,705</u>	<u>1,284,705</u>	<u>3,367,076</u>	<u>2,082,371</u>
Net Change in Fund Balance		338,723	(57,708)	(396,431)
Fund Balance - Beginning (Restated)			<u>69,886</u>	<u>69,886</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 338,723</u>	<u>\$ 12,178</u>	<u>\$ (326,545)</u>

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,963,074	\$ 2,963,074	\$ 3,440,298	\$ 477,224
Charges for Services	171,000	171,000	71,016	(99,984)
Miscellaneous	10,000	10,000	44,792	34,792
Total Receipts	<u>3,144,074</u>	<u>3,144,074</u>	<u>3,556,106</u>	<u>412,032</u>
DISBURSEMENTS				
Protection to Persons and Property	3,274,089	3,503,352	3,503,352	
Debt Service	377,219	377,219		377,219
Administration	938,558	1,048,018	1,048,018	
Total Disbursements	<u>4,589,866</u>	<u>4,928,589</u>	<u>4,551,370</u>	<u>377,219</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,445,792)</u>	<u>(1,784,515)</u>	<u>(995,264)</u>	<u>789,251</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,445,792	1,445,792	1,470,000	24,208
Transfers To Other Funds			(377,219)	(377,219)
Total Other Adjustments to Cash (Uses)	<u>1,445,792</u>	<u>1,445,792</u>	<u>1,092,781</u>	<u>(353,011)</u>
Net Change in Fund Balance		(338,723)	97,517	436,240
Fund Balance - Beginning (Restated)			(16,506)	(16,506)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (338,723)</u>	<u>\$ 81,011</u>	<u>\$ 419,734</u>

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,897,460	\$ 2,897,460	\$ 3,825,344	\$ 927,884
Charges for Services	1,000	1,000	704	(296)
Miscellaneous	8,255	8,255	47,856	39,601
Total Receipts	<u>2,906,715</u>	<u>2,906,715</u>	<u>3,873,904</u>	<u>967,189</u>
DISBURSEMENTS				
General Government	97,039	529,628	529,628	
Protection to Persons and Property	621,948	708,198	708,147	51
General Health and Sanitation	60,000	84,623	84,623	
Social Services	716,599	733,594	733,594	
Recreation and Culture	519,272	565,687	565,687	
Roads		20,338	20,338	
Airports	83,613	91,959	91,959	
Administration	162,213	178,293	178,293	
Total Disbursements	<u>2,260,684</u>	<u>2,912,320</u>	<u>2,912,269</u>	<u>51</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>646,031</u>	<u>(5,605)</u>	<u>961,635</u>	<u>967,240</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(646,031)</u>	<u>(646,031)</u>	<u>(550,000)</u>	<u>96,031</u>
Total Other Adjustments to Cash (Uses)	<u>(646,031)</u>	<u>(646,031)</u>	<u>(550,000)</u>	<u>96,031</u>
Net Change in Fund Balance		(651,636)	411,635	1,063,271
Fund Balance - Beginning (Restated)			<u>440,661</u>	<u>440,661</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (651,636)</u>	<u>\$ 852,296</u>	<u>\$ 1,503,932</u>

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	FEDERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,065,815	\$ 1,065,815	\$ 567,000	\$ (498,815)
Total Receipts	<u>1,065,815</u>	<u>1,065,815</u>	<u>567,000</u>	<u>(498,815)</u>
DISBURSEMENTS				
Capital Projects	1,065,815	1,065,815	567,000	498,815
Total Disbursements	<u>1,065,815</u>	<u>1,065,815</u>	<u>567,000</u>	<u>498,815</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	FORESTRY FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 7,000	\$ 7,000	\$ 9,155	\$ 2,155
Total Receipts	<u>7,000</u>	<u>7,000</u>	<u>9,155</u>	<u>2,155</u>
DISBURSEMENTS				
Protection to Persons and Property	32,771	32,771	5,719	27,052
Total Disbursements	<u>32,771</u>	<u>32,771</u>	<u>5,719</u>	<u>27,052</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(25,771)</u>	<u>(25,771)</u>	<u>3,436</u>	<u>29,207</u>
Net Change in Fund Balance	(25,771)	(25,771)	3,436	29,207
Fund Balance - Beginning	<u>25,771</u>	<u>25,771</u>		<u>(25,771)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,436</u>	<u>\$ 3,436</u>

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 96,015	\$ 96,015	\$ 321,404	\$ 225,389
Charges for Services	5,110,000	5,110,000	5,236,313	126,313
Miscellaneous	669,229	669,229	663,793	(5,436)
Interest	300	300	4,238	3,938
Total Receipts	<u>5,875,544</u>	<u>5,875,544</u>	<u>6,225,748</u>	<u>350,204</u>
DISBURSEMENTS				
General Health and Sanitation	4,097,767	3,375,016	2,969,752	405,264
Debt Service		1,028,310	1,028,310	
Administration	1,548,163	1,737,613	1,737,613	
Total Disbursements	<u>5,645,930</u>	<u>6,140,939</u>	<u>5,735,675</u>	<u>405,264</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>229,614</u>	<u>(265,395)</u>	<u>490,073</u>	<u>755,468</u>
Other Adjustments to Cash (Uses)				
Certificate of Deposit			130,000	130,000
Transfers From Other Funds	250,966	250,966	1,050,000	799,034
Transfers To Other Funds	(549,789)	(549,789)	(1,495,421)	(945,632)
Total Other Adjustments to Cash (Uses)	<u>(298,823)</u>	<u>(298,823)</u>	<u>(315,421)</u>	<u>(16,598)</u>
Net Change in Fund Balance	(69,209)	(564,218)	174,652	738,870
Fund Balance - Beginning (Restated)	69,209	69,209	3,772,360	3,703,151
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (495,009)</u>	<u>\$ 3,947,012</u>	<u>\$ 4,442,021</u>

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 111,780	\$ 111,780	\$ 152,465	\$ 40,685
Interest	500	500	2,711	2,211
Total Receipts	<u>112,280</u>	<u>112,280</u>	<u>155,176</u>	<u>42,896</u>
DISBURSEMENTS				
General Government	604,612	604,612		604,612
Total Disbursements	<u>604,612</u>	<u>604,612</u>		<u>604,612</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(492,332)</u>	<u>(492,332)</u>	<u>155,176</u>	<u>647,508</u>
Net Change in Fund Balance	(492,332)	(492,332)	155,176	647,508
Fund Balance - Beginning	<u>492,332</u>	<u>492,332</u>	<u>501,650</u>	<u>9,318</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 656,826</u>	<u>\$ 656,826</u>

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	MAINTENANCE GARAGE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$ 492	\$ 492
Total Receipts			492	492
DISBURSEMENTS				
Other Transportation Facilities and Services	880,031	1,077,937	1,053,880	24,057
Administration	185,547	222,238	222,238	
Total Disbursements	1,065,578	1,300,175	1,276,118	24,057
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,065,578)	(1,300,175)	(1,275,626)	24,549
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,065,578	1,065,578	1,399,789	334,211
Total Other Adjustments to Cash (Uses)	1,065,578	1,065,578	1,399,789	334,211
Net Change in Fund Balance		(234,597)	124,163	358,760
Fund Balance - Beginning (Restated)			54,607	54,607
Fund Balance - Ending	\$ 0	\$ (234,597)	\$ 178,770	\$ 413,367

PIKE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

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

Road Fund Roads exceeded budgeted appropriations by \$1,057,034. The county did not properly budget for and record the proceeds of a \$1,616,197 financing obligation agreements and the debt service associated with the purchase of vehicles.

PIKE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

THIS PAGE LEFT BLANK INTENTIONALLY

PIKE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements*	\$ 12,378,892	\$ 958,764	\$	\$ 13,337,656
Buildings*	51,111,323	396,814		51,508,137
Vehicles and Equipment*	16,838,747	736,908	29,150	17,546,505
Infrastructure*	133,925,807	578,082	908,201	133,595,688
 Total Capital Assets	 <u>\$ 214,254,769</u>	 <u>\$ 2,670,568</u>	 <u>\$ 937,351</u>	 <u>\$ 215,987,986</u>

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

June 30, 2018

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-70
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	5-7
Infrastructure	\$ 20,000	2-40

Note 2. Restatement of Capital Assets Beginning Balances

The beginning balances for land improvements, buildings, vehicles and equipment, and infrastructure were reduced by \$192,434, \$306,326, \$9,326, and \$2,367,841 respectively, for assets included in the prior years that were below the capitalization threshold. Land was increased by \$3,472,788 to include purchases that were made through federal grants.

**PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2018

THIS PAGE LEFT BLANK INTENTIONALLY

**PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2018

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	68-5C16-10-190	\$	\$ 25,500
Total U.S. Department of Agriculture				25,500
<u>U.S. Department of Housing and Urban Development</u>				
<i>Passed-Through State Department for Local Government</i>				
Community Development Block Grant/State's Program (State-Administered Small Cities Program)				
Pike County Elkhorn City School Apartments	14.228	CDBG # 16-014		\$ 567,000
Total U.S. Department of Housing and Urban Development				567,000
<u>U.S. Department of Homeland Security</u>				
<i>Passed-Through State Department of Military Affairs</i>				
Flood Mitigation Assistance	97.029	PO2-095-1500001675-1		305,377
Disaster Grants Public Assistance - April 2015 Flood	97.036	FEMA-4217-DR-KY		9,644
Disaster Grants Public Assistance - February 2018 Flood	97.036	FEMA-4538-DR-KY		97,217
Hazard Mitigation Grant Program - Rocky Court Buyout	97.039	PON2-095-1300002443-1		110
Hazard Mitigation Grant Program - Meta/Belfry Buyout	97.039	PON2-095-1300000008-1		110
Hazard Mitigation Grant Program - Upper Pompey Road Buyout	97.039	PON2-095-1700000001-1		525,243
Emergency Management Performance Grants	97.042	PON2-095-1800001567-1		38,086
Total U.S. Department of Homeland Security				975,787
Total Expenditures of Federal Awards			\$ 0	\$ 1,568,287

The accompanying notes are an integral part of this schedule.

PIKE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2018

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Pike County, Kentucky under programs of the federal government for the year ended June 30, 2018. 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 Pike County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pike County, Kentucky.

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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost

Pike County has not adopted an indirect cost rate.

Note 4. Determination of Major Program

The Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$750,000 for fiscal year 2018 or were deemed high risk. The major programs tested were:

- CFDA #14.228 Community Development Block Grant/State's Program
- CFDA #97.039 Hazard Mitigation Assistance

**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***

THIS PAGE LEFT BLANK INTENTIONALLY



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ray S. Jones II, Pike County Judge/Executive
The Honorable William Deskins, Former Pike County Judge/Executive
Members of the Pike 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 Pike County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Pike County Fiscal Court's financial statement and have issued our report thereon dated April 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Pike 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 Pike County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pike 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 a certain deficiency in internal control that we consider to be a material weakness 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 to be a material weakness.



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 2018-002, 2018-006, 2018-009, 2018-010, 2018-011 and 2018-012 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pike 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 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-007, 2018-008, 2018-010 and 2018-012.

Views of Responsible Officials and Planned Corrective Action

Pike 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

April 24, 2019

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

THIS PAGE LEFT BLANK INTENTIONALLY



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ray S. Jones II, Pike County Judge/Executive
The Honorable William Deskins, Former Pike County Judge/Executive
Members of the Pike 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 Pike 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 the Pike County Fiscal Court's major federal programs for the year ended June 30, 2018. The Pike 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Pike 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 the 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 the Pike County Fiscal Court'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 on the Pike 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)

Opinion on Each Major Federal Program

In our opinion, the Pike 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 each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Pike 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 Pike 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 audit 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 the 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 Pike County Fiscal Court's internal control over compliance.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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 result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 24, 2019

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

For The Year Ended June 30, 2018

THIS PAGE LEFT BLANK INTENTIONALLY

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2018

Section I: Summary of Auditor's Results

Financial Statement

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant/State's Program
97.039	Hazard Mitigation Grant Program

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

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018
(Continued)

Section II: Financial Statement Findings

2018-001 The Fiscal Court Did Not Perform Bank Reconciliations Each Month

This is a repeat finding and was included in the prior year audit report as finding 2017-001. The former Pike County Treasurer did not complete bank reconciliations monthly before her resignation. The former treasurer resigned on June 12, 2018, and a new treasurer was appointed as of June 13, 2018. The new treasurer performed all bank reconciliations for the entire fiscal year ended June 30, 2018, and submitted a timely fourth quarter report to the Department for Local Government.

The fiscal court did not have sufficient oversight or implement controls to ensure reconciliations were completed monthly. The fiscal court's failure to establish a review of the county treasurer's reconciliations could result in incorrect reporting of the county's financial position for the fiscal year and lead to improper decision making.

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* requires that monthly bank reconciliations be performed. Strong internal controls require timely reconciliation of all accounts so that accurate balances are reported and so any mistakes or errors can be detected and corrected timely.

We recommend the fiscal court implement controls in order to ensure that monthly reconciliations are performed each month.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The former treasurer had not completed any monthly bank reconciliations prior to the current treasurer's appointment. All of the bank reconciliations were completed by June 30, 2019 by the current treasurer. This has been corrected in the 2018-2019 fiscal year, as all bank reconciliations are current.

2018-002 The Fourth Quarter Financial Statement Reflected Budget Amounts That Did Not Agree To The Original Budget Approved By The Department For Local Government (DLG) And Budget Amendments Were Recorded That Were Not Approved

The Fourth Quarter Financial Statement reflected budget amounts that did not agree to the original budget approved by DLG for two account codes in the road fund and two in the forestry fund. Also, a budget amendment was recorded that was not approved per KRS 68.280.

The former treasurer made changes to the original budget in the accounting system the current treasurer wasn't aware of. The current treasurer did not have enough time to go through the process of getting an approved budget amendment once he was appointed by June 30.

The fiscal court relies on information in the quarterly reports to make financial decisions for the county. If this information is inaccurate, it can lead to improper decision making.

KRS 68.210 states, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials." *The County Budget Preparation and State Local Finance Officer Policy Manual* requires

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018
(Continued)

Section II: Financial Statement Findings (Continued)

2018-002 The Fourth Quarter Financial Statement Reflected Budget Amounts That Did Not Agree To The Original Budget Approved By The Department For Local Government (DLG) And Budget Amendments Were Recorded That Were Not Approved (Continued)

county officials to submit quarterly reports that show, among other things, the amounts from the original budget for each category of receipts and expenditures.

The *County Budget Preparation and State Local Finance Officer Policy Manual* states “[a] budget amendment is an ordinance and must be approved by the fiscal court in the statutorily prescribed manner including advertising and publishing requirements. All amendments to a county budget must be approved by the State Local Finance Officer as mandated by KRS 68.280.”

We recommend the county treasurer ensure the amounts reported on the quarterly financial reports as budgeted amounts reflect the amounts approved by the fiscal court and DLG in the original budget and to only record properly approved budget amendments.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: This was done by the former treasurer. There was not enough time when the current treasurer took the position to get a budget amendment done; He was not aware that she had made changes to the original budget. This has been corrected in the 2018-2019 fiscal year.

2018-003 The Pike County Fiscal Court Is Not Reporting Certificates Of Deposit On Their Fourth Quarter Financial Report

The Pike County Fiscal Court holds three certificates of deposits totaling \$3,711,600 as of June 30, 2018. These certificate of deposits are restricted for the use of post-closure costs for the Ford’s Branch Landfill.

Since the funds are restricted, the treasurer did not report them on the fourth quarter report. Failure to record the activity of the certificates of deposit can result in inaccurate or misleading financial statements.

County treasurers are required by the Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual* to prepare financial reports that include all receipts, claims allowed, and cash balances.

We recommend financial reports prepared by the Pike County Treasurer include the certificate of deposit balances for the restricted post-closure costs of the Ford Branch Landfill.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: This has never been required on any of our prior financial statements before. We took the recommendation of the State Auditor’s office to report the CD’s, and as of the March 2019 Quarterly financial statement, they are being reported.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018
(Continued)

Section II: Financial Statement Findings (Continued)

2018-004 The Fiscal Court Did Not Accurately Report Debt On Their Fourth Quarter Financial Report

The debt schedule presented with the Fourth Quarter Financial Report (which serves as the year-end financial statement) inaccurately reported debt obligations. In total, the county overstated principal debt obligation by \$2,604,522 and interest by \$1,483,351.

The county treasurer made an undetected error due to former treasurer resigning in June 2018.

Due to these errors and the omissions, long-term and short-term debt were overstated by a total of \$4,087,873, which is material to the financial statement as a whole and could impact the fiscal court's ability to make sound financial decisions.

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Due to the time the current treasurer had to correct the financial statements, he did not have time to adjust the Liabilities Section of the June 30, 2018 financial statements. This has been corrected in the 2018-2019 fiscal year, and the Liabilities Register has been adjusted to accurately reflect current debt.

2018-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements

The fiscal court entered into a lease purchase agreement in the amounts of \$189,121 and a short-term lease in the amount of \$1,427,076 for the purchase of trucks.

The current treasurer was not aware that these transactions had not been budgeted and recorded by the former treasurer. As a result, the fiscal court failed to properly budget and record \$1,616,197 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 according to KRS 68.280, they were not in compliance with 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.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018
(Continued)

Section II: Financial Statement Findings (Continued)

2018-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements
 (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The current treasurer did not have time to do any budget amendments since taking the county treasurer position on June 13, 2019. However, for the 2018-2019 fiscal year, this has been corrected and all debt related disbursements are properly budgeted.

2018-006 The Pike County Treasurer Reported Debt Service Payments As Operating Expenditures

The Pike County Treasurer reported debt service payments as operating expenditures resulting in a material reclassification. Reclassifications were necessary in the general fund, road fund, and the solid waste fund as noted below:

- General fund - general health and sanitation to debt service of \$37,413
- Road fund - roads to debt service of \$888,264
- Solid waste fund - general health and sanitation to debt service of \$1,028,310

The treasurer believed that posting these payments as operating expenditures was correct and was not aware that they needed to be posted to the debt service line item. Amounts reported in the county's quarterly report submitted to the Department for Local Government were inaccurate due to the misclassifications.

Good internal controls over the processing and review of financial reporting could eliminate these errors. It is important to separate debt payments (which are ongoing obligations) from operating expenditures in order to properly budget, plan, and allocate resources in accordance with the needs of the county. It is easier to ensure debt payments are being made timely, and it is easier to ensure the county doesn't over-extend financial resources when all expenditures are properly classified.

We recommend the fiscal court ensure that all debt service payments are posted to their correct line item.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This has never been asked of us to recode these transactions on any of our prior financial statements. We took the recommendation of the State Auditor's office to report debt services payments in the proper account code, and as of the March 2019 Quarterly financial statement, all of the debt service payments have been recoded to new account numbers in the debt service account codes.

2018-007 Disbursements Exceeded Approved Budget Appropriations For The Road Fund

Disbursements in the road fund exceeded approved budget appropriations. The former county treasurer did not have a debt addition budgeted nor added to the fourth quarter report as discussed in 2018-005 finding causing the road fund line item listed below to be over budget.

Road Fund - roads disbursements exceeded the budget by \$1,057,034

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*

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018
(Continued)

Section II: Financial Statement Findings (continued)

2018-007 Disbursements Exceeded Approved Budget Appropriations For The Road Fund (Continued)

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: The current treasurer did not have time to amend the Road Fund budget by June 30, 2019; I think this falls back on the prior treasurer for failure to do a timely budget amendment. However, for the 2018-2019 fiscal year, disbursements in all funds have been properly budgeted.

2018-008 The Fiscal Court Did Not Pay Invoices Within 30 Days As Required

This is a repeat finding and was included in the prior year audit report as finding 2017-003. The Pike County Fiscal Court did not pay invoices within 30 days of receipt of invoice. Kentucky Association of Counties (KACO) payments were late, which resulted in \$11,809 being charged and paid in finances charges.

Management was aware the invoices were not being paid timely, but chose to delay payment due to cash flow issues. As a result, the fiscal court is in violation of statute and paid finance charges, which are an inefficient use of taxpayer resources.

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 performance or improper invoicing by the vendor or by the vendor’s subcontractor.”

We recommend the county comply with KRS 65.140(2) by paying invoices within 30 working days.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The only invoice that was not paid within 30 days of receipt was the KACO invoice for property and liability insurance. We paid interest after October 31st, 2017 on the invoice until cash flow from property taxes in January 2018, because it was cheaper to pay the invoice late and pay ½% interest monthly than it was to borrow money from the bank on a short-term note and pay the invoice. KACO also does not consider our payment late, as long as all payments are made within that fiscal year; they give the counties discretion on when and how they wish to make the payments.

2018-009 The Fiscal Court Did Not Maintain Detailed Reports Of All Receivables Due From Component Units

The Pike County Fiscal Court pays the Interlocal 911 Board and Pike County/Pikeville Airport Board’s salaries, matching social security, retirement, health insurance and life insurance and the boards are to reimburse the fiscal court for all these expenses. Both entities owe the Pike County Fiscal Court a substantial amount as of June 30, 2018, for unreimbursed expenses.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018
(Continued)

Section II: Financial Statement Findings (continued)

2018-009 The Fiscal Court Did Not Maintain Detailed Reports Of All Receivables Due From Component Units (Continued)

The former county treasurer failed to request reimbursements from the Interlocal 911 and Pike County/Pikeville Airport Board. Failure to attempt to collect receivables to due to the county could cause cash flow problems for the county.

The Pike County/Pikeville Airport Board and the Interlocal 911 Board owe reimbursement to the Pike County Fiscal Court as follows:

<u>Interlocal 911 Board</u>	<u>Amount</u>	<u>Pike County/Pikeville Airport Board</u>	<u>Amount</u>
Balance Due as of 6/30/17	\$ 358,624	Balance Due as of 6/30/17	\$ 276,855
FY 2017-2018 Expenses	\$ 426,201	FY 2017-2018 Expenses	\$ 115,511
Total Due as of 6/30/18	\$ 784,825	Total Due as of 6/30/18	\$ 392,366
Amount Paid on 12/6/18	\$ (358,624)		
Remainder Due	\$ 426,201		

Strong internal controls require that expenses paid on behalf of other entities be tracked, totaled, and billed timely. It is essential that the county seek reimbursement for payments made on behalf of other entities in order to ensure adequate funds are available for county operations.

We recommend the fiscal court request reimbursement from the Interlocal 911 Board and Pike County/Pikeville Airport Board for payroll expenses paid by the county. Furthermore, we recommend the county implement procedures to track these receivables and collect the amounts due timely.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The prior treasurer had failed to bill the 911 Board and the Airport Board for the prior two fiscal years. As of today, the Airport Board and the 911 Board have reimbursed all expenses to the Fiscal Court through June 30, 2018.

2018-010 The Fiscal Court Was Not In Compliance With Continuing Debt Disclosure Requirements

The Pike County Fiscal Court did not comply with continuing debt disclosure requirements. Our review of the county's debt agreements revealed the General Obligation Refunding Bond Series 2012, the General Obligation Refunding and Improvement Bonds Series 2013, and the Public Properties Corporation First Mortgage Revenue Bonds (Justice Center Project) Series 2010 required continuing debt disclosures that were not completed in accordance with Securities and Exchange Commission (SEC) Rule 15c2-12.

Management failed to implement proper controls over financial reporting for fiscal year ended June 30, 2017, resulting in a disclaimer of opinion for that fiscal year due to incomplete financial records and inaccurate cash balances reported in the financial statement. Part of the compliance with continuing debt disclosures requires audited financial statements to be reported to the Municipal Securities Rulemaking Board (MSRB) on the Electronic Municipal Market Access (EMMA) website timely.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018
(Continued)

Section II: Financial Statement Findings (Continued)

2018-010 The Fiscal Court Was Not In Compliance With Continuing Debt Disclosure Requirements
 (Continued)

The Pike County Fiscal Court bond rating was withdrawn in June 2018 due to a lack of sufficient financial information to maintain the rating. This impacts the county's ability to borrow money at favorable interest rates.

SEC Rule 15c2-12 requires governmental entities that issue bonds to provide certain financial information, referred to as continuing debt disclosures, on an ongoing basis to promote transparency and informed decision making for investors. Continuing disclosure requirements ensure an entity is properly reporting financial statements and offering a fair presentation of financial and operating conditions. The bond issuance documents outline the requirements for continuing debt disclosures. This is a contractual obligation of the fiscal court.

We recommended the fiscal court review all continuing debt disclosure requirements and ensure the county is compliance with those requirements. Further, we recommend the county ensure proper controls and procedures are in place over financial reporting.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This was due to the lack of financial statements that were not completed by the former treasurer; it was based a lot on a disclaimed opinion for the June 30, 2017 audit. For the June 30, 2018 fiscal year, as soon as the audit is available for release, it will be reported to the EMMA website pursuant to SEC Rule 15c2-12.

2018-011 The Jailer Did Not Implement Adequate Segregation Of Duties And Oversight For Receipts, Disbursements, And Reconciliations

The jailer did not maintain adequate segregation of duties over receipts, disbursements, and reconciliations. The bookkeeper prepares deposits, takes the deposit to the bank, prepares checks, posts these disbursements and receipts, and performs the monthly bank reconciliation.

Due to the limited number of employees, the jailer was unable to maintain adequate segregation of duties over receipts, disbursements, and reconciliations. Failure to maintain adequate segregation of duties or implement compensating controls, such as strong oversight, increases the risk for fraud or theft.

Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business. Without proper segregation of duties, inaccurate financial reporting and misappropriation of assets can occur.

To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and misappropriation of assets, we recommend the jailer implement strong oversight in these areas, either by an employee independent of those functions or by the jailer, such as:

- The jailer should periodically compare bank deposits to the daily checkout sheet and receipts ledger. Any differences should be reconciled. The jailer should document this by initialing the bank deposit, the daily checkout sheet, and the receipts ledger.
- The jailer should review supporting documentation for all disbursements made. The jailer should also compare disbursements posted to the disbursements ledger. The jailer should document this by initialing the supporting documentation and the disbursements ledger.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018
(Continued)

Section II: Financial Statement Findings (Continued)

2018-011 The Jailer Did Not Implement Adequate Segregation Of Duties And Oversight For Receipts, Disbursements, And Reconciliations (Continued)

- The jailer should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The jailer should document this by initialing the bank reconciliation and the balance in the checkbook.

Views of Responsible Official and Planned Corrective Action:

Jailer's Response: The Jail Finance Officer was in charge of receipts and reconciliations; however, she could not sign checks. Only the Jailer, [jail employee 3], and [jail employee 1] could sign checks. For adequate internal controls, the Jailer will leave [jail employee 2] on oversight of receipts and move [jail employee 3] to reconciliation of the bank accounts.

2018-012 The Jailer Failed To Maintain Sufficient Records Or Prepare An Accurate Annual Report For The Jail Commissary Fund And Failed To Remit Inmate Fees To The Fiscal Court Timely

During our review and testing of the jail commissary fund, we noted the following deficiencies:

- Receipts and disbursements ledgers were not properly maintained
- Accurate bank reconciliations were not prepared and agreed to book balances
- The year-end financial report presented to the county treasurer lacked detail and contained inaccuracies
- Items purchased from commissary account did not have supporting documentation

We also noted the jailer is not remitting fees collected from inmates for booking, housing, medical fees, and home incarceration fees to the fiscal court in a timely manner. The last payment given to the county was March 2018 for February fees collected. All other payments were not remitted until fiscal year 2019.

The jailer failed to implement adequate procedures and controls to ensure the financial activity of the jail commissary and inmate account is completely and accurately documented, recorded, reported, and reconciled.

The failure to maintain accurate, detailed reports does not provide a true picture of the activities within the jailer's accounts. It also increases the risk of errors, fraud, misstatements, or omissions. Not remitting fees to the fiscal court overstates the jail's inmate account balance and prevents the fiscal court from utilizing these funds for the intended purposes.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines the following minimum accounting and reporting requirements pursuant to the authority to prescribe a system of uniform accounts for all counties and county officials given to the state local finance officer by KRS 68.210:

- Receipts Journal
- Disbursements Journal
- Jail Commissary Summary and Reconciliation

As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual - Jail Commissary Fund Instructions for Disbursements Journal*, "Each check written must be posted to the proper category listed on the form."

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018
(Continued)

Section II: Financial Statement Findings (Continued)

2018-012 The Jailer Failed To Maintain Sufficient Records Or Prepare An Accurate Annual Report For The Jail Commissary Fund And Failed To Remit Inmate Fees To The Fiscal Court Timely (Continued)

According to KRS 441.135(2):

All profits from the canteen shall be used:

- (a) for the benefit and to enhance the well-being of the prisoners; or
- (b) To enhance safety and security within the jail.

The jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account.

We recommend the jailer review the jail operations and ensure compliance with DLG's manual and applicable statutes.

Views of Responsible Official and Planned Corrective Action:

Jailer's Response: All of this was done by the prior finance officer, [name redacted], who left prior to June 30, 2018 without completing all of his duties. A new finance officer, [name redacted], was placed into his position and caught up all of the financial reports and remittance of inmate fees to Fiscal Court.

Section III: Federal Award Findings And Questioned Costs

None.

Section IV: Summary Schedule of Prior Audit Findings

Finding Number	Prior Year Finding Title	Status	Corrective Action
2017-001	The Fiscal Court Did Not Perform Bank Reconciliations	Unresolved	See Corrective Action Plan for 2018 Report #2018-001
2017-002	The Fiscal Court Did Not Record Transfers As They Occurred In The Accounting Software	Resolved	
2017-003	The Fiscal Court Did Not Pay Invoices Presented To The Court Within 30 Day	Unresolved	See Corrective Action Plan for 2018 Report #2018-008
2017-004	The Fiscal Court Did Not Submit The Fourth Quarter Report To The Department For Local Government	Resolved	
2017-005	The County Treasurer Did Not Present An Annual Settlement To The Fiscal Court Within The Time Period Required By State Law	Resolved	

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

PIKE COUNTY FISCAL COURT

For The Year Ended June 30, 2018

THIS PAGE LEFT BLANK INTENTIONALLY

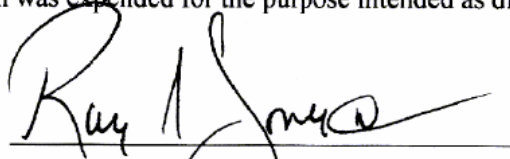
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

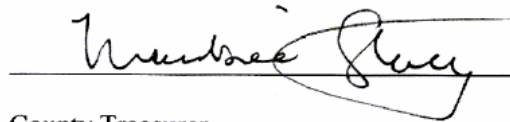
PIKE COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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

A handwritten signature in black ink, appearing to read "Ray A. Smith", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to read "Wanda Sue", written over a horizontal line.

County Treasurer