

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

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



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

June 30, 2016

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

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

Financial Condition:

The Washington County Fiscal Court had total receipts of \$6,626,607 and disbursements of \$6,922,872 in fiscal year 2016. This resulted in a total ending fund balance of \$1,815,572, which is an increase of \$47,810 from the prior year.

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

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

Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Washington County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017, on our consideration of the Washington 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 Washington County Fiscal Court's internal control over financial reporting and compliance.

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

June 27, 2017

WASHINGTON COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

John A. Settles	County Judge/Executive
Hal B. Goode	Magistrate
Billy Riney, Jr.	Magistrate
Benjamin Settles	Magistrate
Greg Simms	Magistrate
Morris Sweazy	Magistrate
Terry Tingle	Magistrate

Other Elected Officials:

Bill Robinson	County Attorney
Steve Hardin	Jailer
Glenn Black	County Clerk
JoAnne Mudd Miller	Circuit Court Clerk
Jerry Pinkston	Sheriff
Fran Carrico	Property Valuation Administrator
Freddie Carey	Coroner

Appointed Personnel:

Carla Hardin	County Treasurer
Carla Hardin	Occupational Tax Administrator
Sheila Smith	Finance Officer
Jim Smith	911 Administrator

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

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 2,394,433	\$	\$	\$
Excess Fees	82,368			
Licenses and Permits	32,904			
Intergovernmental	385,762	1,730,951	86,448	15,932
Charges for Services	494,107			
Miscellaneous	265,312	280,658		
Interest	1,197	104	5	
Total Receipts	<u>3,656,083</u>	<u>2,011,713</u>	<u>86,453</u>	<u>15,932</u>
DISBURSEMENTS				
General Government	1,135,601	7,132		
Protection to Persons and Property	1,121,683	1,338	235,607	
General Health and Sanitation	382,456			
Social Services	12,021			
Recreation and Culture	15,468			
Roads	25,997	1,663,098		21,642
Debt Service	26,176	139,319		
Capital Projects		145,977		
Administration	818,004	185,656	36,011	19
Total Disbursements	<u>3,537,406</u>	<u>2,142,520</u>	<u>271,618</u>	<u>21,661</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>118,677</u>	<u>(130,807)</u>	<u>(185,165)</u>	<u>(5,729)</u>
Other Adjustments to Cash (Uses)				
Change in Payroll Withholding Revolving Account	16,632			
Bond Proceeds				
Bond Reoffering Premium				
Bond Underwriters Discount				
Bond Proceeds to Escrow Agent				
Financing Obligation Proceeds	100,000	136,402		
Transfers From Other Funds			195,000	
Transfers To Other Funds	(195,000)			
Total Other Adjustments to Cash (Uses)	<u>(78,368)</u>	<u>136,402</u>	<u>195,000</u>	
Net Change in Fund Balance	40,309	5,595	9,835	(5,729)
Fund Balance - Beginning	975,963	451,208	13,613	10,857
Fund Balance - Ending	<u>\$ 1,016,272</u>	<u>\$ 456,803</u>	<u>\$ 23,448</u>	<u>\$ 5,128</u>
Composition of Fund Balance				
Bank Balance	\$ 793,496	\$ 457,622	\$ 23,448	\$ 5,128
Less: Outstanding Checks	(18,852)	(819)		
Certificates of Deposit	224,818			
Payroll Withholding Revolving Account Reconciled Balance	16,810			
Fund Balance - Ending	<u>\$ 1,016,272</u>	<u>\$ 456,803</u>	<u>\$ 23,448</u>	<u>\$ 5,128</u>

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

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

<u>Unbudgeted Fund</u> Justice Center Corporation Fund	<u>Total Funds</u>
\$	\$ 2,394,433
	82,368
	32,904
856,426	3,075,519
	494,107
	545,970
	1,306
<u>856,426</u>	<u>6,626,607</u>
	1,142,733
	1,358,628
	382,456
	12,021
	15,468
	1,710,737
947,467	1,112,962
	145,977
<u>2,200</u>	<u>1,041,890</u>
<u>949,667</u>	<u>6,922,872</u>
<u>(93,241)</u>	<u>(296,265)</u>
	16,632
6,905,000	6,905,000
370,953	370,953
(65,317)	(65,317)
(7,119,595)	(7,119,595)
	236,402
	195,000
	(195,000)
<u>91,041</u>	<u>344,075</u>
(2,200)	47,810
<u>316,121</u>	<u>1,767,762</u>
<u>\$ 313,921</u>	<u>\$ 1,815,572</u>
\$ 313,921	\$ 1,593,615
	(19,671)
	224,818
	16,810
<u>\$ 313,921</u>	<u>\$ 1,815,572</u>

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

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WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

Justice Center Corporation Fund - The primary purpose of this fund is to account for the activities of the Washington County, Kentucky Justice Center Corporation. The Washington County, Kentucky Justice Center Corporation issued debt to construct a judicial center. The Department for Local Government does not require the fiscal court to budget this account.

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 justice center corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Washington County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Washington 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 Washington County Fiscal Court.

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Washington County Elected Officials (Continued)

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

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

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

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

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

Note 3. Transfers

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

	General Fund	Total Transfers In
Jail Fund	\$ 195,000	\$ 195,000
Total Transfers Out	<u>\$ 195,000</u>	<u>\$ 195,000</u>

Reason for transfers:

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

Note 4. Long-term Debt

A. First Mortgage Revenue Bonds (Justice Center Project), Series 2007

On April 1, 2007, the Washington County Justice Center Corporation (Corporation) issued First Mortgage Revenue Bonds, Series 2007, in the amount of \$11,960,000 for the purpose of constructing a judicial center. Principal payments are due on October 1, beginning in 2008, and interest, which varies from 3.50 percent to 4.125 percent, is payable semiannually on October 1 and April 1, beginning October 1, 2007. In September 2015, these bonds were partially defeased with First Mortgage Refunding Revenue Bonds, Series 2015. As of June 30, 2016, the principal balance was \$1,195,000.

Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 585,000	\$ 46,338
2018	610,000	24,400
Totals	<u>\$ 1,195,000</u>	<u>\$ 70,738</u>

On April 1, 2007, the Corporation entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that the AOC agrees to pay 100 percent of the debt service requirements. The lease does not require the fiscal court or the Corporation to make any rental payments toward the project; however, the fiscal court is obligated to provide operation, maintenance, insurance, and repair of the project.

B. First Mortgage Refunding Revenue Bonds (Justice Center Project), Series 2015

On September 23, 2015, the Washington County Justice Center Corporation (Corporation) issued \$6,905,000 of First Mortgage Refunding Revenue Bonds. Proceeds from the bonds will be used for the purpose of financing (i) the partial advance refunding of certain maturities of the \$11,960,000 Washington County, Kentucky Justice Center Corporation First Mortgage Revenue Bonds (Justice Center Project), Series 2007, (ii) the payment of accrued interest, if any; and (iii) the payment of the cost of issuance incurred with respect to the issuance of the bonds. Principal payments are due annually on October 1, beginning October 1, 2018. Interest payments, at an interest rate of three percent, is payable semi-annually on April 1 and October 1, beginning April 1, 2016. The outstanding principal balance as of June 30, 2016 is \$6,905,000.

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

Note 4. Long-term Debt (Continued)

B. First Mortgage Refunding Revenue Bonds (Justice Center Project), Series 2015 (Continued)

Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$	\$ 207,150
2018		207,150
2019	520,000	199,350
2020	715,000	180,825
2021	740,000	159,000
2022-2026	4,045,000	443,625
2027	885,000	13,275
Totals	<u>\$ 6,905,000</u>	<u>\$ 1,410,375</u>

C. Road Department 2016 Mack Truck

On April 22, 2015, the fiscal court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$134,902 for the acquisition of a Mack GU715 tri-axle dump truck. The interest rate is fixed at 3.25 percent. The term is for 18 months with the balance to be paid on October 20, 2016. The balance was paid on April 11, 2016.

D. Mackville Fire Department Tanker Truck

On October 17, 2014, the fiscal court, on behalf of the Mackville Fire Department, entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$130,000 at an interest rate of 2.70 percent for the acquisition of a fire tanker truck. The term is for ten years with the balance to be paid in full on October 20, 2024. During the fiscal year, the fiscal court received \$15,802 in principal and interest payments from the Mackville Fire Department. The fiscal court then paid the debt service payments. As of June 30, 2016, the principal balance was \$110,818.

Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 12,021	\$ 3,687
2018	12,350	3,261
2019	12,687	2,823
2020	13,034	2,373
2021	13,390	1,912
2022-2025	47,336	2,872
Totals	<u>\$ 110,818</u>	<u>\$ 16,928</u>

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

Note 4. Long-term Debt (Continued)

E. Road Department 2017 Mack Truck

On April 29, 2016, the fiscal court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$136,402 for the acquisition of a Mack tri-axle dump truck. The interest rate is fixed at 3.25 percent. The term is for 18 months with the balance to be paid on October 20, 2017.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$	\$ 4,433
2018	136,402	1,478
Totals	<u>\$ 136,402</u>	<u>\$ 5,911</u>

F. Washington County Fire Department Pumper Truck

On September 9, 2015, the fiscal court, on behalf of the Washington County Fire Department, entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$100,000 at an interest rate of 3.75 percent for the acquisition of a fire pumper truck. The term is for 72 months with the balance to be paid in full on September 20, 2020. During the fiscal year, the fiscal court received \$10,374 in principal and interest payments from the Washington County Fire Department. The fiscal court then paid the debt service payments. As of June 30, 2016, the principal balance was \$92,500.

Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 10,000	\$ 3,343
2018	10,000	2,963
2019	10,000	2,583
2020	10,000	2,208
2021	52,500	495
Totals	<u>\$ 92,500</u>	<u>\$ 11,592</u>

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

Note 4. Long-term Debt (Continued)

G. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 8,515,000	\$	\$ 7,320,000	\$ 1,195,000	\$ 585,000
Refunding Revenue Bonds		6,905,000		6,905,000	
Financing Obligations	257,421	236,402	154,103	339,720	22,021
Total Long-term Debt	<u>\$ 8,772,421</u>	<u>\$ 7,141,402</u>	<u>\$ 7,474,103</u>	<u>\$ 8,439,720</u>	<u>\$ 607,021</u>

Note 5. Employee Retirement System

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

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

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.95 percent.

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

The county's contribution for FY 2014 was \$466,062, FY 2015 was \$444,217, and FY 2016 was \$374,967.

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

Note 5. Employee Retirement System (Continued)

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

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

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

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

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

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

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

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

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

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

Note 6. Deferred Compensation

On February 8, 1999, the Washington County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

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

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

Note 7. Flexible Spending Account

The Washington County Fiscal Court established a flexible spending account on June 14, 2010, to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$1,500 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 8. Insurance

For the fiscal year ended June 30, 2016, the Washington 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 9. Construction/Demolition Debris Landfill

The county has a less than one acre construction/demolition debris landfill that opened on July 7, 2003. Closure of that landfill is undetermined as of June 30, 2016. The county is not required to set up a fund for post-closure costs. The closure requirements are that the landfill be covered with a soil cap two feet thick within 30 days of ceasing to accept waste, and grass seed must be sown.

Note 10. Related Party Transactions

During the fiscal year ending June 30, 2016, funds totaling \$4,164 were expended for work release inmate meals and \$39 for miscellaneous food totaling \$4,203 to a local restaurant owned by a magistrate. In addition, funds were expended to a local grocery store for inmate work release meals in the amount of \$2,693 and \$314 for other miscellaneous items, totaling \$3,007. The grocery store is owned by a different magistrate.

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

Note 11. Withholding Tax Revolving Account

The reconciled balance of the withholding tax revolving account as of June 30, 2016, was added to the general fund cash balance for financing reporting purposes.

Note 12. Accounts Receivable

The Washington County Fiscal Court provides ambulance services for citizens in the county. The ambulance service bills Medicare, Medicaid, health insurance companies and individuals for services provided. Unpaid bills at June 30, 2016 totaled \$123,581.

**WASHINGTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2016

WASHINGTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,235,300	\$ 2,235,300	\$ 2,394,433	\$ 159,133
Excess Fees	7,300	7,300	82,368	75,068
Licenses and Permits	31,700	31,700	32,904	1,204
Intergovernmental	304,750	304,750	385,762	81,012
Charges for Services	475,000	475,000	494,107	19,107
Miscellaneous	113,435	113,435	265,312	151,877
Interest	1,290	1,290	1,197	(93)
Total Receipts	<u>3,168,775</u>	<u>3,168,775</u>	<u>3,656,083</u>	<u>487,308</u>
DISBURSEMENTS				
General Government	1,061,330	1,223,797	1,135,601	88,196
Protection to Persons and Property	1,135,895	1,281,419	1,121,683	159,736
General Health and Sanitation	396,458	426,622	382,456	44,166
Social Services	12,000	15,270	12,021	3,249
Recreation and Culture	7,500	17,100	15,468	1,632
Roads	26,000	26,000	25,997	3
Debt Service	15,835	26,635	26,176	459
Administration	909,457	870,425	818,004	52,421
Total Disbursements	<u>3,564,475</u>	<u>3,887,268</u>	<u>3,537,406</u>	<u>349,862</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(395,700)</u>	<u>(718,493)</u>	<u>118,677</u>	<u>837,170</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		100,000	100,000	
Transfers To Other Funds	(359,300)	(359,300)	(195,000)	164,300
Total Other Adjustments to Cash (Uses)	<u>(359,300)</u>	<u>(259,300)</u>	<u>(95,000)</u>	<u>164,300</u>
Net Change in Fund Balance	(755,000)	(977,793)	23,677	1,001,470
Fund Balance - Beginning	<u>755,000</u>	<u>977,793</u>	<u>975,785</u>	<u>(2,008)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 999,462</u>	<u>\$ 999,462</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,499,315	\$ 1,697,127	\$ 1,730,951	\$ 33,824
Miscellaneous	128,000	276,830	280,658	3,828
Interest	100	100	104	4
Total Receipts	<u>1,627,415</u>	<u>1,974,057</u>	<u>2,011,713</u>	<u>37,656</u>
DISBURSEMENTS				
General Health and Sanitation	15,550	8,110	7,132	978
Recreation and Culture	1,400	1,400	1,338	62
Roads	1,558,820	2,016,955	1,663,098	353,857
Debt Service	144,000	144,000	139,319	4,681
Capital projects	150,000	150,000	145,977	4,023
Administration	267,645	264,800	185,656	79,144
Total Disbursements	<u>2,137,415</u>	<u>2,585,265</u>	<u>2,142,520</u>	<u>442,745</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(510,000)</u>	<u>(611,208)</u>	<u>(130,807)</u>	<u>480,401</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	160,000	160,000		(160,000)
Financing Obligation Proceeds			136,402	136,402
Total Other Adjustments to Cash (Uses)	<u>160,000</u>	<u>160,000</u>	<u>136,402</u>	<u>(160,000)</u>
Net Change in Fund Balance	(350,000)	(451,208)	5,595	456,803
Fund Balance - Beginning	<u>350,000</u>	<u>451,208</u>	<u>451,208</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 456,803</u>	<u>\$ 456,803</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 83,500	\$ 83,500	\$ 86,448	\$ 2,948
Charges for Services	100	100		(100)
Miscellaneous	100	100	5	(95)
Total Receipts	<u>83,700</u>	<u>83,700</u>	<u>86,453</u>	<u>2,753</u>
DISBURSEMENTS				
Protection to Persons and Property	254,116	258,484	235,607	22,877
Administration	38,884	38,129	36,011	2,118
Total Disbursements	<u>293,000</u>	<u>296,613</u>	<u>271,618</u>	<u>24,995</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(209,300)</u>	<u>(212,913)</u>	<u>(185,165)</u>	<u>27,748</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>199,300</u>	<u>199,300</u>	<u>195,000</u>	<u>(4,300)</u>
Total Other Adjustments to Cash (Uses)	<u>199,300</u>	<u>199,300</u>	<u>195,000</u>	<u>(4,300)</u>
Net Change in Fund Balance	(10,000)	(13,613)	9,835	23,448
Fund Balance - Beginning	<u>10,000</u>	<u>13,613</u>	<u>13,613</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,448</u>	<u>\$ 23,448</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$	\$ 15,932	\$ 15,932	\$
Total Receipts		<u>15,932</u>	<u>15,932</u>	
DISBURSEMENTS				
Roads	1,900	26,689	21,642	5,047
Administration	100	100	19	81
Total Disbursements	<u>2,000</u>	<u>26,789</u>	<u>21,661</u>	<u>5,128</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,000)</u>	<u>(10,857)</u>	<u>(5,729)</u>	<u>5,128</u>
Net Change in Fund Balance	(2,000)	(10,857)	(5,729)	5,128
Fund Balance - Beginning	<u>2,000</u>	<u>10,857</u>	<u>10,857</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,128</u>	<u>\$ 5,128</u>

WASHINGTON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

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

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

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

Note 2. Reconciliation of the General Fund

Other Adjustments to Cash (Uses) Budgetary Basis	\$ (95,000)
To adjust for Change in Withholding Tax Revolving Account	<u>16,632</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (78,368)</u>
Fund Balance Beginning - Budgetary Basis	\$ 975,785
To adjust for Balance of the Withholding Tax Revolving Account	<u>178</u>
Total Fund Balance Beginning - Regulatory Basis	<u>\$ 975,963</u>
Fund Balance - Ending - Budgetary Basis	\$ 999,462
To adjust for Balance of the Withholding Tax Revolving Account	<u>16,810</u>
Total Fund Balance - Ending - Regulatory Basis	<u>\$ 1,016,272</u>

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**WASHINGTON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2016

WASHINGTON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 220,086	\$	\$	\$ 220,086
Historical Treasures	8,000			8,000
Buildings and Improvements	12,128,573	212,467		12,341,040
Machinery and Equipment	1,615,575	6,267	5,350	1,616,492
Office Furniture and Equipment*	40,707	124,037		164,744
Vehicles	1,371,657	525,684	269,804	1,627,537
Infrastructure	9,132,831	1,023,703		10,156,534
 Total Capital Assets	 \$ 24,517,429	 \$ 1,892,158	 \$ 275,154	 \$ 26,134,433

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

June 30, 2016

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 20,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Office Furniture and Equipment	\$ 2,500	2-10
Vehicles and Equipment	\$ 10,000	3-25
Infrastructure	\$ 15,000	10-50

Note 2. Prior Period Adjustment

The capital assets schedule for office furniture and equipment was increased by \$3,507 to include prior year additions not reported.

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Settles, Washington County Judge/Executive
Members of the Washington 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 Washington County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Washington County Fiscal Court's financial statement and have issued our report thereon dated June 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Washington County Fiscal Court's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Washington County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Washington County Fiscal Court's internal control.

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

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



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Washington County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

June 27, 2017

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

WASHINGTON COUNTY FISCAL COURT

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

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
WASHINGTON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

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



County Judge/Executive



County Treasurer

