

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

**For The Fiscal Year Ended
June 30, 2015**



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

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Perry County Fiscal Court for fiscal year ended June 30, 2015.

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

Financial Condition:

The Perry County Fiscal Court had total receipts of \$10,553,794 and disbursements of \$11,323,922 in fiscal year 2015. This resulted in a total ending fund balance of \$116,637, which is an increase of \$5,613 from the prior year.

Report Comments:

- 2015-001 The Fiscal Court Lacks Adequate Oversight Over Financial Management Practices
- 2015-002 The Fiscal Court Did Not Comply With Competitive Bidding Requirements
- 2015-003 The Fiscal Court Did Not Pay Invoices Timely
- 2015-004 The Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement
- 2015-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements
- 2015-006 The Fiscal Court Did Not Use Coal And Mineral Severance Monies As Required By KRS 42.455
- 2015-007 The Fiscal Court Did Not Distribute Coal Severance Grants As Directed By The Grant
- 2015-008 The Fiscal Court Encumbered Expenses Beyond Their Current Resources
- 2015-009 The Fiscal Court Does Not Have Adequate Controls Over Payroll Procedures
- 2015-010 The Fiscal Court Has Not Established Adequate Controls Over The Public Properties Corporation Bond Fund And Justice Center Corporation Fund
- 2015-011 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented
- 2015-012 The County Judge/Executive Failed To Report Related Party Transactions

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

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

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Perry County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Perry County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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



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

As described more fully in Note 1 of the financial statement, the financial statement is prepared by the Perry County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Perry County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Perry County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matter

Deficit Fund Balance

As discussed in Note 4 to the financial statement, the Perry County Fiscal Court has an actual deficit fund balance in its general fund totaling \$303,426. The deficit balance is the cumulative result of interfund payables created when restricted funds were transferred and used for general expenditures of the county. Management does not have a plan to ensure the restricted funds are transferred back to the appropriate funds. The financial statement does not include any adjustments for this interfund payable. This matter does not affect our opinion on the financial statement.

Related Party Transactions

As discussed in Note 11 to the financial statement, the Perry County Fiscal Court had numerous significant transactions with businesses controlled by a business partner of the Perry County Judge/Executive. Our opinion is not modified with respect to this matter.

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

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Perry County Fiscal Court. The Budgetary Comparison Schedules 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2018, on our consideration of the Perry County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Perry County Fiscal Court's internal control over financial reporting and compliance.

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

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

Based on the results of our audit, we present the accompanying Comments and Recommendations included herein, which discuss the following report comments:

- 2015-001 The Fiscal Court Lacks Adequate Oversight Over Financial Management Practices
- 2015-002 The Fiscal Court Did Not Comply With Competitive Bidding Requirements
- 2015-003 The Fiscal Court Did Not Pay Invoices Timely
- 2015-004 The Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement
- 2015-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements
- 2015-006 The Fiscal Court Did Not Use Coal And Mineral Severance Monies As Required By KRS 42.455
- 2015-007 The Fiscal Court Did Not Distribute Coal Severance Grants As Directed By The Grant
- 2015-008 The Fiscal Court Encumbered Expenses Beyond Their Current Resources
- 2015-009 The Fiscal Court Does Not Have Adequate Controls Over Payroll Procedures
- 2015-010 The Fiscal Court Has Not Established Adequate Controls Over The Public Properties Corporation Bond Fund And Justice Center Corporation Fund
- 2015-011 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented
- 2015-012 The County Judge/Executive Failed To Report Related Party Transactions

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 5, 2018

PERRY COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

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

Other Elected Officials:

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

Appointed Personnel:

Tonya McQueen	County Treasurer
Joyce Napier	Chief Financial Officer

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 1,650,532	\$	\$	\$
In Lieu Tax Payments		3,467		
Excess Fees	50,392			
Licenses and Permits	426,489			
Intergovernmental	423,609	1,844,181	184,171	2,571,081
Charges for Services	72,685			15,075
Miscellaneous	125,106	56,924	101,674	98,466
Interest	335	666	87	467
Total Receipts	2,749,148	1,905,238	285,932	2,685,089
DISBURSEMENTS				
General Government	1,488,685			
Protection to Persons and Property	13,979		1,770,509	132,279
General Health and Sanitation	88,641			119,856
Social Services				199,119
Recreation and Culture	72,417			87,788
Roads		2,201,333		301,494
Debt Service	1,167	27,212		
Capital Projects				7,500
Administration	1,449,544	159,993	18,129	640,303
Total Disbursements	3,114,433	2,388,538	1,788,638	1,488,339
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(365,285)	(483,300)	(1,502,706)	1,196,750
Other Adjustments to Cash (Uses)				
Short-Term Borrowed Money	350,000			
Financing Obligation Proceeds		425,741		
Transfers From Other Funds	871,000	312,000	1,909,754	216,000
Transfers To Other Funds	(854,000)	(252,725)	(406,695)	(1,389,000)
Total Other Adjustments to Cash (Uses)	367,000	485,016	1,503,059	(1,173,000)
Net Change in Fund Balance	1,715	1,716	353	23,750
Fund Balance - Beginning	5,598	2,709	2,085	18,268
Fund Balance - Ending	\$ 7,313	\$ 4,425	\$ 2,438	\$ 42,018
Composition of Fund Balance				
Bank Balance	\$ 56,652	\$ 220	\$ 283	\$ 99,290
Plus: Deposits In Transit	54,554	121,288	5,039	
Less: Outstanding Checks	(103,893)	(117,083)	(2,884)	(57,272)
Fund Balance - Ending	\$ 7,313	\$ 4,425	\$ 2,438	\$ 42,018

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

PERRY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

Budgeted Funds				
Community Development Block Grant Fund	Emergency Planning Fund	Water And Sewer Fund	Coal Severance Fund	E-911 Fund
\$	\$	\$	\$	\$ 246,140
	1,664		1,579,246	137,609
		145,676		
		22	176	42
	<u>1,664</u>	<u>145,698</u>	<u>1,579,422</u>	<u>383,791</u>
			191,784	
				371,719
		144,557	102,579	
			181,530	
				75,769
		<u>144,557</u>	<u>475,893</u>	<u>447,488</u>
	<u>1,664</u>	<u>1,141</u>	<u>1,103,529</u>	<u>(63,697)</u>
			5,000	79,000
			(1,145,195)	
			(1,140,195)	79,000
	1,664	1,141	(36,666)	15,303
93	2,901		51,284	2,163
<u>\$ 93</u>	<u>\$ 4,565</u>	<u>\$ 1,141</u>	<u>\$ 14,618</u>	<u>\$ 17,466</u>
\$ 93	\$ 4,565	\$ 770	\$ 26,574	\$ 19,215
		1,869	76,251	64
		(1,498)	(88,207)	(1,813)
<u>\$ 93</u>	<u>\$ 4,565</u>	<u>\$ 1,141</u>	<u>\$ 14,618</u>	<u>\$ 17,466</u>

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

PERRY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

	Unbudgeted Funds			Total Funds
	Public Properties Corporation Fund	Public Properties Corporation Bond Fund	Justice Center Corporation Fund	
RECEIPTS				
Taxes	\$	\$	\$	\$ 1,896,672
In Lieu Tax Payments				3,467
Excess Fees				50,392
Licenses and Permits				426,489
Intergovernmental		187,760	473,975	7,403,296
Charges for Services				233,436
Miscellaneous	156,000			538,170
Interest	76	1		1,872
Total Receipts	<u>156,076</u>	<u>187,761</u>	<u>473,975</u>	<u>10,553,794</u>
DISBURSEMENTS				
General Government				1,680,469
Protection to Persons and Property				2,288,486
General Health and Sanitation				455,633
Social Services				199,119
Recreation and Culture				341,735
Roads				2,502,827
Debt Service		1,002,061	473,975	1,504,415
Capital Projects				7,500
Administration				2,343,738
Total Disbursements		<u>1,002,061</u>	<u>473,975</u>	<u>11,323,922</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>156,076</u>	<u>(814,300)</u>		<u>(770,128)</u>
Other Adjustments to Cash (Uses)				
Short-Term Borrowed Money				350,000
Financing Obligation Proceeds				425,741
Transfers From Other Funds	88,441	814,302		4,295,497
Transfers To Other Funds	(247,882)			(4,295,497)
Total Other Adjustments to Cash (Uses)	<u>(159,441)</u>	<u>814,302</u>		<u>775,741</u>
Net Change in Fund Balance	(3,365)	2		5,613
Fund Balance - Beginning	3,872	18,697	3,354	111,024
Fund Balance - Ending	<u>\$ 507</u>	<u>\$ 18,699</u>	<u>\$ 3,354</u>	<u>\$ 116,637</u>
Composition of Fund Balance				
Bank Balance	\$ 507	\$ 21,814	\$ 3,354	\$ 233,337
Plus: Deposits In Transit				259,065
Less: Outstanding Checks		(3,115)		(375,765)
Fund Balance - Ending	<u>\$ 507</u>	<u>\$ 18,699</u>	<u>\$ 3,354</u>	<u>\$ 116,637</u>

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

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PERRY COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

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

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

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

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

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund road construction. The Department for Local Government does not require the fiscal court to report or budget this fund; however, the Perry County Fiscal Court prepares a budget annually for the public properties corporation fund.

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

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

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(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 disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

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

The State Local Finance Officer does not require the Public Properties Corporation bond fund or the Justice Center Corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Perry County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Perry County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Perry County Fiscal Court.

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

F. Deposits and Investments

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

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

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

H. Joint Ventures

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

Kentucky River Regional Jail

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

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

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county 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, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	Jail Fund	LGEA Fund	Coal Severance Fund	Public Properties Corporation Fund	Total Transfers In
General Fund	\$	\$	\$	\$ 670,000	\$ 175,000	\$ 26,000	\$ 871,000
Road Fund	55,000			21,000	211,000	25,000	312,000
Jail Fund	683,000			678,000	506,754	42,000	1,909,754
LGEA Fund	78,000				138,000		216,000
Coal Severance Fund				5,000			5,000
E-911 Fund	38,000			15,000	26,000		79,000
Public Properties Corporation Fund					88,441		88,441
Public Properties Corporation Bond Fund		252,725	406,695			154,882	814,302
Total Transfers Out	<u>\$ 854,000</u>	<u>\$ 252,725</u>	<u>\$ 406,695</u>	<u>\$ 1,389,000</u>	<u>\$ 1,145,195</u>	<u>\$ 247,882</u>	<u>\$ 4,295,497</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. Interfund Receivables and Liabilities

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

	General Fund	LGEA Fund
Fund Balance - Ending	\$ 7,313	\$ 42,018
Interfund Receivables (Liabilities)	<u>(310,739)</u>	<u>310,739</u>
Total	<u>\$ (303,426)</u>	<u>\$ 352,757</u>

Note 5. Short-term Debt

- A. On April 6, 2015, the fiscal court entered into a short term loan for \$350,000 to operate the county for the remainder of the fiscal year. The note had an interest rate of 4 percent and was due to mature on June 30, 2015. The fiscal court made the interest payments accordingly and rolled the loan over into a new loan with the same terms and agreements on July 1, 2015.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Short-term Debt (Continued)

B. Changes In Short-term Debt

Short-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Short-Term Note	\$	\$ 350,000	\$	\$ 350,000	\$
Total Short-term Debt	\$ 0	\$ 350,000	\$ 0	\$ 350,000	\$ 0

Note 6. Long-term Debt

A. General Obligation Refunding Bonds, Series 2010

On June 1, 2010, the Perry County Fiscal Court issued \$1,125,000 in General Obligation Refunding Bonds to purchase a building. The bonds are scheduled to mature in June 2018 and have a variable interest of 2 percent to 3.625 percent. Semiannual interest payments are required in June and December with the principal amount due each June. As of June 30, 2015, the principal balance outstanding was \$330,000. Debt service requirements for the remaining years are as follows:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2016	\$ 145,000	\$ 10,681
2017	150,000	6,331
2018	35,000	1,269
Totals	\$ 330,000	\$ 18,281

B. General Obligation Refunding Bonds, Series 2007

In November 2007, the Perry County Fiscal Court issued \$4,975,000 in General Obligation Refunding Bonds to refund the Perry County Detention Center Bond from December 2001. The bonds are scheduled to mature in December 2026 and have an interest rate of 3.85 percent. Semiannual interest payments are required in June and December with principal amount due each December. As of June 30, 2015, the principal balance outstanding was \$3,945,000. Debt service requirements for the remaining years are as follows:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2016	265,000	146,781
2017	275,000	136,386
2018	285,000	125,606
2019	295,000	114,441
2020	310,000	102,796
2021-2025	1,730,000	323,013
2026-27	785,000	30,511
Totals	\$ 3,945,000	\$ 979,534

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Long-term Debt (Continued)

C. Revenue Refunding Bonds, Series 2012

On July 17, 2012, the Perry County Fiscal Court issued \$3,875,000 of revenue refunding bonds for the refinancing of the Judicial Center. The bonds require semiannual interest and principal payments to be made on October 1 and April 1 of each year, commencing on October 1, 2012. The agreement has a variable interest rate of 1 percent to 2.5 percent. The bonds will mature June 30, 2023. As of June 30, 2015, the principal amount outstanding was \$3,445,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2016	\$ 400,000	\$ 66,475
2017	410,000	60,400
2018	420,000	53,650
2019	425,000	45,725
2020	435,000	37,125
2021-2023	1,355,000	50,888
Totals	<u>\$ 3,445,000</u>	<u>\$ 314,263</u>

D. Financing Obligation - Land Purchase And Demolition Refinancing

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

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

This lease requires semiannual interest and principal payments be made on October 20 and September 20 of each year, commencing on November 20, 2009. The agreement has a variable interest rate of 1.25 percent to 4 percent. As of June 30, 2015, the principal amount outstanding was \$1,115,000. Debt service requirements for the remaining years are as follows:

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Long-term Debt (Continued)

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

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2016	\$ 145,000	\$ 43,645
2017	150,000	39,163
2018	150,000	34,150
2019	160,000	28,905
2020	165,000	22,990
2021-2022	345,000	26,147
Totals	\$ 1,115,000	\$ 195,000

E. Financing Obligation - Road Improvement

On November 12, 2010, the Perry County Fiscal Court entered into a \$2,000,000 lease agreement with KADD for the purpose of road improvements. This lease requires semiannual interest and principal payments be made on October 20 and May 20 of each year, commencing on May 20, 2011. The agreement has a variable interest rate of 2 percent to 4 percent. As of June 30, 2015, the principal amount outstanding was \$1,355,000. Debt service requirements for the remaining years are as follows:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2016	\$ 210,000	\$ 43,050
2017	215,000	37,469
2018	220,000	30,938
2019	230,000	23,338
2020	235,000	14,906
2021	245,000	5,250
Totals	\$ 1,355,000	\$ 154,951

F. Financing Obligation - Dump Truck

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

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2016	\$	\$ 12,481
2017	269,804	5,218
Totals	\$ 269,804	\$ 17,699

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Long-term Debt (Continued)

G. Financing Obligation - Mowers

On August 5, 2014, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$155,937 for the purchase of two mowers. The agreement requires variable monthly payments with an interest rate of 3.11 percent. As of June 30, 2015, the principal amount outstanding was \$133,900. Debt service requirements for the remaining year are as follows:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2016	\$ 30,335	\$ 3,734
2017	31,043	2,780
2018	31,768	1,804
2019	32,509	806
2020	8,245	43
Totals	<u>\$ 133,900</u>	<u>\$ 9,167</u>

H. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 4,665,000	\$	\$ 390,000	\$ 4,275,000	\$ 410,000
Revenue Bonds	3,845,000		400,000	3,445,000	400,000
Financing Obligations	2,815,000	425,741	367,037	2,873,704	655,139
Total Long-term Debt	<u>\$ 11,325,000</u>	<u>\$ 425,741</u>	<u>\$ 1,157,037</u>	<u>\$ 10,593,704</u>	<u>\$ 1,465,139</u>

Note 7. Employee Retirement System

A. Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple-employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous 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 17.67 percent.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Employee Retirement System (Continued)

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

The county's contribution for FY 2013 was \$733,843, FY 2014 was \$631,151, and FY 2015 was \$559,312.

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 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

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

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

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

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

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

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Employee Retirement System (Continued)

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Perry County's proportionate share of the net pension liability as of June 30, 2015, is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	<u>5,252,000</u>	<u>4,642,000</u>
Totals	<u>\$ 5,252,000</u>	<u>\$ 4,642,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 8. Deferred Compensation

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

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

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

Note 9. Insurance

For the fiscal year ended June 30, 2015, Perry County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 10. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to others for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Perry County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. Conduit debt has been issued but the amount currently outstanding is not reasonably determinable as of June 30, 2015.

Note 11. Related Party Transactions

For the fiscal year ended June 30, 2015, the Perry County Fiscal Court purchased auto parts and auto supplies from a company that is owned by a business partner of the Perry County Judge/Executive. The Perry County Fiscal Court paid \$13,938 to the business.

For the fiscal year ended June 30, 2015, the Perry County Fiscal Court purchased tires, tire services, and contract labor from another company that is owned by a business partner of the Perry County Judge/Executive. The Perry County Fiscal Court paid \$21,999 to the business.

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PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

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PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,515,000	\$ 1,927,098	\$ 1,650,532	\$ (276,566)
Excess Fees	8,000	50,391	50,392	1
Licenses and Permits	437,500	449,077	426,489	(22,588)
Intergovernmental	608,200	614,322	423,609	(190,713)
Charges for Services	35,000	47,747	72,685	24,938
Miscellaneous	117,500	186,700	125,106	(61,594)
Interest	500	500	335	(165)
Total Receipts	<u>2,721,700</u>	<u>3,275,835</u>	<u>2,749,148</u>	<u>(526,687)</u>
DISBURSEMENTS				
General Government	1,315,891	1,613,444	1,488,685	124,759
Protection to Persons and Property	14,300	14,479	13,979	500
General Health and Sanitation		88,641	88,641	
Recreation and Culture	46,500	83,527	72,417	11,110
Debt Service		1,167	1,167	
Administration	1,655,009	1,784,577	1,449,544	335,033
Total Disbursements	<u>3,031,700</u>	<u>3,585,835</u>	<u>3,114,433</u>	<u>471,402</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(310,000)</u>	<u>(310,000)</u>	<u>(365,285)</u>	<u>(55,285)</u>
Other Adjustments to Cash (Uses)				
Short-Term Borrowed Money			350,000	350,000
Transfers From Other Funds	230,000	230,000	871,000	641,000
Transfers To Other Funds			(854,000)	(854,000)
Total Other Adjustments to Cash (Uses)	<u>230,000</u>	<u>230,000</u>	<u>367,000</u>	<u>137,000</u>
Net Change in Fund Balance	(80,000)	(80,000)	1,715	81,715
Fund Balance - Beginning	80,000	80,000	5,598	(74,402)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,313</u>	<u>\$ 7,313</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 4,500	\$ 4,500	\$ 3,467	\$ (1,033)
Intergovernmental	1,706,494	2,024,669	1,844,181	(180,488)
Miscellaneous	26,200	71,200	56,924	(14,276)
Interest	1,000	1,000	666	(334)
Total Receipts	<u>1,738,194</u>	<u>2,101,369</u>	<u>1,905,238</u>	<u>(196,131)</u>
DISBURSEMENTS				
Roads	1,351,758	1,775,594	2,201,333	(425,739)
Debt Service	252,725	280,460	27,212	253,248
Administration	458,711	370,315	159,993	210,322
Total Disbursements	<u>2,063,194</u>	<u>2,426,369</u>	<u>2,388,538</u>	<u>37,831</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(325,000)</u>	<u>(325,000)</u>	<u>(483,300)</u>	<u>(158,300)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			425,741	425,741
Transfers From Other Funds	250,000	250,000	312,000	62,000
Transfers To Other Funds			(252,725)	(252,725)
Total Other Adjustments to Cash (Uses)	<u>250,000</u>	<u>250,000</u>	<u>485,016</u>	<u>235,016</u>
Net Change in Fund Balance	(75,000)	(75,000)	1,716	76,716
Fund Balance - Beginning	<u>75,000</u>	<u>75,000</u>	<u>2,709</u>	<u>(72,291)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,425</u>	<u>\$ 4,425</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 227,000	\$ 227,000	\$ 184,171	\$ (42,829)
Miscellaneous	75,000	101,673	101,674	1
Interest	200	200	87	(113)
Total Receipts	<u>302,200</u>	<u>328,873</u>	<u>285,932</u>	<u>(42,941)</u>
DISBURSEMENTS				
Protection to Persons and Property	1,999,546	2,005,480	1,770,509	234,971
Debt Service	406,695	406,695		406,695
Administration	19,097	39,836	18,129	21,707
Total Disbursements	<u>2,425,338</u>	<u>2,452,011</u>	<u>1,788,638</u>	<u>663,373</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,123,138)</u>	<u>(2,123,138)</u>	<u>(1,502,706)</u>	<u>620,432</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,111,138	2,111,138	1,909,754	(201,384)
Transfers From Other Funds			(406,695)	(406,695)
Total Other Adjustments to Cash (Uses)	<u>2,111,138</u>	<u>2,111,138</u>	<u>1,503,059</u>	<u>(608,079)</u>
Net Change in Fund Balance	(12,000)	(12,000)	353	12,353
Fund Balance - Beginning	<u>12,000</u>	<u>12,000</u>	<u>2,085</u>	<u>(9,915)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,438</u>	<u>\$ 2,438</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,382,700	\$ 2,799,229	\$ 2,571,081	\$ (228,148)
Charges for Services	10,000	10,000	15,075	5,075
Miscellaneous	112,200	112,200	98,466	(13,734)
Interest	2,500	2,500	467	(2,033)
Total Receipts	<u>2,507,400</u>	<u>2,923,929</u>	<u>2,685,089</u>	<u>(238,840)</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property	209,570	207,420	132,279	75,141
General Health and Sanitation	108,806	127,062	119,856	7,206
Social Services	219,500	226,376	199,119	27,257
Recreation and Culture	114,200	155,393	87,788	67,605
Roads	441,310	451,246	301,494	149,752
Capital Projects		7,500	7,500	
Administration	540,600	693,988	640,303	53,685
Total Disbursements	<u>1,633,986</u>	<u>1,868,985</u>	<u>1,488,339</u>	<u>380,646</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>873,414</u>	<u>1,054,944</u>	<u>1,196,750</u>	<u>141,806</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,377,724	1,377,724	216,000	(1,161,724)
Transfers To Other Funds	(2,341,138)	(2,341,138)	(1,389,000)	952,138
Total Other Adjustments to Cash (Uses)	<u>(963,414)</u>	<u>(963,414)</u>	<u>(1,173,000)</u>	<u>(209,586)</u>
Net Change in Fund Balance	(90,000)	91,530	23,750	(67,780)
Fund Balance - Beginning	90,000	90,000	18,268	(71,732)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 181,530</u>	<u>\$ 42,018</u>	<u>\$ (139,512)</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Protection to Persons and Property	\$ 93	\$ 93	\$	\$ 93
Total Disbursements	93	93		93
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(93)	(93)		93
Net Change in Fund Balance	(93)	(93)		93
Fund Balance - Beginning	93	93	93	
Fund Balance - Ending	\$ 0	\$ 0	\$ 93	\$ 93

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

EMERGENCY PLANNING FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$	\$ 1,664	\$ 1,664
Total Receipts			1,664	1,664
DISBURSEMENTS				
General Government		3,026		3,026
Total Disbursements		3,026		3,026
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(3,026)	1,664	4,690
Net Change in Fund Balance		(3,026)	1,664	4,690
Fund Balance - Beginning		3,026	2,901	(125)
Fund Balance - Ending	\$	0	\$ 4,565	\$ 4,565

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

WATER AND SEWER FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$	\$ 194,000	\$ 145,676	\$ (48,324)
Interest			22	22
Total Receipts		194,000	145,698	(48,302)
DISBURSEMENTS				
General Health and Sanitation		194,000	144,557	49,443
Total Disbursements		194,000	144,557	49,443
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			1,141	1,141
Net Change in Fund Balance			1,141	1,141
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,141	\$ 1,141

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

COAL SEVERANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,000,000	\$ 2,000,000	\$ 1,579,246	\$ (420,754)
Interest	1,000	1,000	176	(824)
Total Receipts	<u>2,001,000</u>	<u>2,001,000</u>	<u>1,579,422</u>	<u>(421,578)</u>
DISBURSEMENTS				
General Government	293,276	173,276	191,784	(18,508)
General Health and Sanitation		120,000	102,579	17,421
Recreation and Culture		181,530	181,530	
Total Disbursements	<u>293,276</u>	<u>474,806</u>	<u>475,893</u>	<u>(1,087)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,707,724</u>	<u>1,526,194</u>	<u>1,103,529</u>	<u>(422,665)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			5,000	5,000
Transfers To Other Funds	<u>(1,782,724)</u>	<u>(1,782,724)</u>	<u>(1,145,195)</u>	<u>637,529</u>
Total Other Adjustments to Cash (Uses)	<u>(1,782,724)</u>	<u>(1,782,724)</u>	<u>(1,140,195)</u>	<u>642,529</u>
Net Change in Fund Balance	(75,000)	(256,530)	(36,666)	219,864
Fund Balance - Beginning	<u>75,000</u>	<u>75,000</u>	<u>51,284</u>	<u>(23,716)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (181,530)</u>	<u>\$ 14,618</u>	<u>\$ 196,148</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	E-911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 270,000	\$ 270,000	\$ 246,140	\$ (23,860)
Intergovernmental	165,000	165,000	137,609	(27,391)
Interest	500	500	42	(458)
Total Receipts	<u>435,500</u>	<u>435,500</u>	<u>383,791</u>	<u>(51,709)</u>
DISBURSEMENTS				
Protection to Persons and Property	432,500	438,367	371,719	66,648
Administration	193,000	187,133	75,769	111,364
Total Disbursements	<u>625,500</u>	<u>625,500</u>	<u>447,488</u>	<u>178,012</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(190,000)</u>	<u>(190,000)</u>	<u>(63,697)</u>	<u>126,303</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>155,000</u>	<u>155,000</u>	<u>79,000</u>	<u>(76,000)</u>
Total Other Adjustments to Cash (Uses)	<u>155,000</u>	<u>155,000</u>	<u>79,000</u>	<u>(76,000)</u>
Net Change in Fund Balance	(35,000)	(35,000)	15,303	50,303
Fund Balance - Beginning	<u>35,000</u>	<u>35,000</u>	<u>2,163</u>	<u>(32,837)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 17,466</u>	<u>\$ 17,466</u>

PERRY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements over Appropriations

- A. Road fund roads exceeded budgeted appropriations by \$425,739. The county did not budget for and record the proceeds of \$425,741 in financing obligation agreements with the Kentucky Association of Counties Finance Corporation to purchase vehicles and mowers.
- B. Coal severance fund general government exceeded budgeted appropriations by \$18,508. The county did not budget for the expenditures associated with this fund. As a result of this, the county overspent total coal severance fund appropriations by \$1,087.

PERRY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

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PERRY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 2,862,802	\$	\$	\$ 2,862,802
Buildings and Building Improvements	16,341,683			\$ 16,341,683
Machinery, Vehicles, and Equipment	3,994,559	155,937	818,322	3,332,174
Infrastructure	16,594,566	568,489		17,163,055
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 39,793,610</u>	<u>\$ 724,426</u>	<u>\$ 818,322</u>	<u>\$ 39,699,714</u>

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

June 30, 2015

Note 1. Capital Assets

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

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

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Perry County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Perry County Fiscal Court's financial statement and have issued our report thereon dated June 5, 2018.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Comments and Recommendation as items 2015-001, 2015-002, 2015-003, 2015-006, and 2015-007 to be material weaknesses.



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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations items 2015-008, 2015-009, 2015-010, 2015-011, and 2015-012 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Perry County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Comments and Recommendations as items 2015-002, 2015-003, 2015-004, 2015-005, 2015-006, 2015-007, 2015-008, 2015-009, 2015-011, and 2015-012.

County Judge/Executive's Responses to Findings

The Perry County Judge/Executive's responses to the findings identified in our audit are described in the accompanying Comments and Recommendations. The Perry County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 5, 2018

**PERRY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

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PERRY COUNTY
COMMENTS AND RECOMMENDATIONS

For The Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Fiscal Court Lacks Adequate Oversight Over Financial Management Practices

Numerous deficiencies were noted in the county's internal control structure over their financial management practices which resulted in numerous and pervasive audit comments, listed below:

- The Fiscal Court Did Not Comply With Competitive Bidding Requirements (2015-002)
- The Fiscal Court Did Not Pay Invoices Timely (2015-003)
- The Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement (2015-004)
- The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements (2015-005)
- The Fiscal Court Did Not Use Coal and Mineral Severance Monies as Required by KRS 42.455 (2015-006)
- The Fiscal Court Did Not Distribute Coal Severance Grants As Directed By The Grant (2015-007)
- The Fiscal Court Encumbered Expenses Beyond Their Current Resources (2015-008)
- The Fiscal Court Does Not Have Adequate Controls Over Payroll Procedures (2015-009)
- The Fiscal Court Has Not Established Adequate Controls Over The Public Properties Corporation Bond Fund And Justice Center Corporation Fund (2015-010)
- Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented (2015-011)

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

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

Adherence to internal control procedures, including strong oversight, and statutes give the fiscal court the ability to provide financial information that is complete, accurate, and free of misstatements.

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

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

2015-002 The Fiscal Court Did Not Comply With Competitive Bidding Requirements

The Perry County Fiscal Court did not comply with competitive bidding requirements. One vendor was paid \$26,030 for the purchase and installation of window air conditioning units in the courthouse. These invoices split the project by separating the purchase of air conditioning units totaling \$13,445, installation of the units totaling \$10,055, and additional units and work in courthouse offices that totaled \$2,530. These three transactions individually fell under the \$20,000 bidding threshold, but exceeded the threshold in the aggregate. In addition to this project, the following purchases were noted:

- \$29,013 paid for cleaning supplies
- \$20,585 paid for auto supplies
- \$165,955 paid for diesel fuel

PERRY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-002 The Fiscal Court Did Not Comply With Competitive Bidding Requirements (Continued)

- \$21,999 paid for tires and auto repairs. The vendor paid for these transactions also constitutes a related party transaction.
- \$77,741 paid for contract labor and miscellaneous supplies
- \$44,338 paid for heavy machinery parts, repairs, and maintenance

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

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

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

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

County Judge/Executive’s Response: The Fiscal Court understands the bidding requirements set forth in KRS Chapter 424 and will comply with those provisions. The Fiscal court will make every attempt to obtain the best price possible for the goods and services purchased.

2015-003 The Fiscal Court Did Not Pay Invoices Timely

Twenty-four invoices totaling \$656,218, and two health insurance invoices totaling \$227,053, were not paid within 30 days. Due to cash flow issues and lack of adequate oversight by management, the fiscal court did not pay invoices within 30 days. Funds could be misused or invoices could go unaccounted for resulting in late payments and accrued interest. KRS 65.140(2) states, “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.” KRS 65.140(3) allows, “[a]n interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor’s invoice by the purchaser.” We recommend the fiscal court comply with KRS 65.140 by paying invoices within 30 working days and implement proper controls to ensure all invoices are paid timely.

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

**PERRY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-004 The Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement

The debt schedule presented with the fourth quarter report (which also serves as the year-end financial statement) inaccurately reported debt obligations. The fourth quarter report did not include the Perry County Justice Center Bonds (with an outstanding principal balance of \$3,445,000), a financing obligation for the purchase of dump trucks (with an outstanding principal balance of \$269,804), a financing obligation for land purchase and demolition (with an outstanding principal balance of \$1,115,000), or a financing obligation for the purchase of mowers (with an outstanding principal balance of \$133,901). In addition, the principal balance is incorrectly reported on two other debt issues listed on the fourth quarter report.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is outlined 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. The treasurer knew these requirements but failed to include all county debt. Due to these errors and omissions, long-term debt was understated by \$5,027,500.

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

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

2015-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements

The Perry County Fiscal Court did not budget or record lease purchases in the amounts of \$269,804 for the purchase of dump trucks and \$155,937 for the purchase of mowers used by the road department.

The county treasurer was not aware that these transactions should be reflected on the county's financial statements. These transactions did not run through the fiscal court's bank account and were not included in the fiscal court's budget process or reflected on the fiscal court's fourth quarter financial report. As a result, the fiscal court failed to properly budget and record \$425,741 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, it was not in compliance with state 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.

PERRY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-005 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements
 (Continued)

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

2015-006 The Fiscal Court Did Not Use Coal And Mineral Severance Monies As Required By KRS 42.455

The Perry County Fiscal Court did not use 30 percent of the annual coal severance receipts for coal haul roads or the remaining 70 percent of coal severance and 100 percent of mineral producing funds in priority categories as designated by KRS 42.455. In addition, the fiscal court transferred \$592,000 from the LGEA fund to the general fund to be used in priority categories; however, only \$281,261 in transferred funds was spent in allowable categories. The fiscal court spent \$310,739 in excess of the allowable amount; therefore, that amount is due back from the general fund to the LGEA fund.

The fiscal court did not monitor coal severance or mineral severance receipts to determine what should be used on coal haul roads or in priority categories as outline in the applicable statute.

The Perry County Fiscal Court did not use LGEA funds properly and is in violation of KRS 42.455. The fiscal court did not sign the certification of compliance for LGEA funds due to these issues. Furthermore, this created a \$310,739 liability due back to the LGEA fund for expenditures in unallowable categories spent from the general fund.

According to KRS 42.455, money received for coal producing counties for coal severance should be spent 30 percent on coal haul road maintenance and 70 percent on priority categories such as protection to persons and property, welfare of the community, and environmental accounts. Also, 100 percent of mineral severance should be spent in these priority accounts in the same manner. No funds received from coal severance should be used for expenses related to the administration of government. Also, KRS 42.460 states, "(t)he audit report shall include a certification of compliance that the funds were expended for the purpose intended."

We recommend the Perry County Fiscal Court follow guidelines set forth by KRS 42.455 to ensure that coal severance funds are used in accordance with statute. Furthermore, we recommend the general fund reimburse the LGEA fund \$310,739 for the transfer in excess of the allowable amount.

County Judge/Executive's Response: The Fiscal Court will comply with all guidelines set forth in KRS in the amount of \$310,739 to be taken from the General Fund.

2015-007 The Fiscal Court Did Not Distribute Coal Severance Grants As Directed By The Grant

The Perry County Fiscal Court did not pass through coal severance grant funds in the amount of \$181,523 to the subrecipient in a timely manner. The fiscal court deposited the funds into the coal severance fund on July 21, 2014, and transferred \$182,000 to other county funds, to be spent by these funds, on July 25, 2014, instead of distributing the funds to the subrecipient. The county subsequently distributed the amount to the subrecipient on January 20, 2015.

The treasurer knew the requirements of the grant but decided to use the funds for county operations and pay the subrecipient at a later date. The transfer and use of these grant funds for county expenditures kept the distribution from being made to the subrecipient as was intended.

PERRY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-007 The Fiscal Court Did Not Distribute Coal Severance Grants As Directed By The Grant
 (Continued)

As set forth in the Memorandum of Agreement for the grant, performance of each of the terms and conditions of the agreement shall be carried out in a timely manner.

We recommend the fiscal court disburse coal severance grant funds as intended according to the Memorandum of Agreement.

County Judge/Executive's Response: The Fiscal Court will disburse all Coal Severance Grants as required by KRS 42.455.

2015-008 The Fiscal Court Encumbered Expenses Beyond Their Current Resources

The fiscal court had negative unencumbered fund balances in the general fund and the road fund at year-end. On June 30, 2015, the unencumbered fund balance of the general fund was (\$5,997) and the unencumbered fund balance of the road fund was (\$60,208).

The fiscal court does not monitor purchase orders and encumbers expenses that are in excess of current financial resources. As a result, the fiscal court will not have available funds for county operations and will have negative fund balances.

The state local finance officer under the authority of KRS 68.210 requires that purchase orders be utilized in order to maintain adequate accounting controls. A properly implemented purchase order system allows the fiscal court the ability to know fund balances available at all times and ensures that the budget is not overspent.

We recommend the fiscal court monitor purchase orders to ensure that encumbrances do not cause negative fund balances.

County Judge/Executive's Response: The Fiscal Court will monitor purchase orders to ensure that encumbrances do not cause negative fund balances.

2015-009 The Fiscal Court Does Not Have Adequate Controls Over Payroll Procedures

The fiscal court has deficiencies in internal controls over payroll. The deficiencies listed below occurred because the fiscal court lacked proper oversight over the payroll function. During our review of payroll, we noted that timecards were not being properly completed. Of the 15 timesheets tested, we noted the following:

- Timecards tested did not indicate the amount of time taken for lunch and/or breaks.
- Timecards for two employees were not signed by a supervisor.
- Timecards for five employees were not signed by the employee.

The fiscal court did not monitor or review functions over payroll adequately. As a result, the fiscal court may pay employees for time not worked or may not be in compliance with statutes and the administrative code.

Good internal controls dictate that all employees, except those statutorily exempt from this requirement, maintain and submit timesheets for payroll processing. Timesheets should be signed by both the employee and the supervisor to document agreement with hours listed.

PERRY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-009 The Fiscal Court Does Not Have Adequate Controls Over Payroll Procedures (Continued)

We recommend the fiscal court reevaluate their controls over payroll to determine the controls that would best address the findings listed above.

County Judge/Executive's Response: The Fiscal Court has reevaluated its controls over payroll process to ensure that time cards are completely fully and accurately and that all time cards are signed by the employee and a supervisor.

2015-010 The Fiscal Court Has Not Established Adequate Controls Over The Public Properties Corporation Bond Fund And Justice Center Corporation Fund

The treasurer did not maintain adequate controls over the Public Properties Corporation bond fund or the Justice Center Corporation fund.

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

The fiscal court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted funds.

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

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

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

2015-011 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented

The fiscal court has credit card expenditures that could not be properly validated and were not properly documented. This credit card was for the use of the county judge/executive. Auditors chose five credit card statements totaling \$4,975 to test. The statements reflected \$60 in finance and late charges, \$71 in unsupported gas charges and \$143 for two meals not supported by a sufficiently detailed invoice. Auditors asked the treasurer to see if travel vouchers existed to support expenditures related to meals and travel; we were told there are no such files.

The lack of oversight by the fiscal court over the use of credit cards allowed the county judge/executive to make charges that did not qualify as a public purpose for the county.

The fiscal court was not in compliance with the county's administrative code. Additionally, due to lack of proper support, taxpayer funds could have been used for purposes other than for the benefit of the public.

PERRY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-011 Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented (Continued)

Strong internal controls dictate that there be procedures in place that reconcile monthly credit card receipts submitted by the county judge/executive to the credit card statement. All receipts for credit card transactions should be attached to the statement and filed for preparation of the claims list. Once the statement is received and all receipts related to that statement are attached to the credit card statement, a detailed list of transactions should be included on the claims list presented to the fiscal court for approval. A travel voucher/mileage log should be maintained to support gas expenses if a personal vehicle is used for county business. Also, travel vouchers should be maintained to support meals, hotel use, and other travel-related expenditures. All receipts for such expenses should be attached to the vouchers with the signature of the county judge/executive to substantiate and provide adequate documentation. In addition, Section 554(A) of the county's administrative code states that, subject to budgetary limitations, any officer or employee of the county incurring expenses for approved travel on behalf of the county shall be reimbursed for allowable out-of-county travel expenses. Subsection 2 of this section state a per diem will be paid at a rate of \$25.00 per day, unless staying out of town overnight or after 7:00 p.m., in which case the rate shall be \$50.00 per day for those days when the employee is required to be out of town overnight or after 7:00 p.m. Meal costs in excess of allowed per diem may be paid under special circumstances provided receipts are provided. Furthermore, Section 5.54(C) requires the Request for Reimbursement Form to be completed (including required receipts) and submitted to the county judge/executive within thirty (30) days after returning from travel.

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

County Judge/Executive's Response: The Fiscal Court will ensure that all credit card expenditures are properly validated and documented. The Fiscal Court will ensure that all employees act in compliance with the County's Administrative Code.

2015-012 The County Judge/Executive Failed To Report Related Party Transactions

In an initial related party questionnaire given to the county judge/executive (signed by him on October 18, 2016), the county judge/executive did not disclose any related party transactions between the Perry County Fiscal Court and himself or any related parties.

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

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

Governmental Accounting Standards Board (GASB) Statement No. 56 establishes specific accounting and disclosure requirements for related-party relationships, transactions, and balances to ensure users of the financial statement understand their nature and actual and potential effects on the financial statement. Related

**PERRY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-012 The County Judge/Executive Failed To Report Related Party Transactions (Continued)

party transactions involving family, personal, financial, or business relationships are not necessarily illegal; however, they must be disclosed in the notes to the financial statements.

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

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