

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

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



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

**June 30, 2016**

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

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

**Financial Condition:**

The LaRue County Fiscal Court had total receipts of \$6,247,875 and disbursements of \$6,234,626 in fiscal year 2016. This resulted in a total ending fund balance of \$2,824,450, which is an increase of \$13,249 from the prior year.

**Findings:**

- 2016-001 The LaRue County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash And Receipts
- 2016-002 The LaRue County Fiscal Court Lacks Adequate Controls Over Reconciliation Of The Payroll Revolving Bank Account
- 2016-003 The LaRue County Fiscal Court Did Not Follow The Department For Local Government's Guidance For Reporting General Obligation Bond Proceeds
- 2016-004 The LaRue County Fiscal Court Lacks Strong Internal Controls Over Disbursements
- 2016-005 The LaRue County Fiscal Court Lacks Adequate Controls Over Capital Assets
- 2016-006 The LaRue County Jail Commissary Fund Lacks Adequate Segregation Of Duties
- 2016-007 The LaRue County Jailer Did Not Properly Oversee The Jail Commissary Fund

**Deposits:**

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

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

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

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the LaRue County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the LaRue County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

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

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



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

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

### **Opinion on Regulatory Basis of Accounting**

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

### **Other Matters**

#### *Supplementary Information*

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

To the People of Kentucky  
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William M. Landrum III, Secretary  
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Honorable Tommy Turner, LaRue County Judge/Executive  
Members of the LaRue County Fiscal Court

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2017, on our consideration of the LaRue 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 LaRue County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2016-001 The LaRue County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash And Receipts
- 2016-002 The LaRue County Fiscal Court Lacks Adequate Controls Over Reconciliation Of The Payroll Revolving Bank Account
- 2016-003 The LaRue County Fiscal Court Did Not Follow The Department For Local Government's Guidance For Reporting General Obligation Bond Proceeds
- 2016-004 The LaRue County Fiscal Court Lacks Strong Internal Controls Over Disbursements
- 2016-005 The LaRue County Fiscal Court Lacks Adequate Controls Over Capital Assets
- 2016-006 The LaRue County Jail Commissary Fund Lacks Adequate Segregation Of Duties
- 2016-007 The LaRue County Jailer Did Not Properly Oversee The Jail Commissary Fund

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

June 8, 2017

LARUE COUNTY OFFICIALS

For The Year Ended June 30, 2016

**Fiscal Court Members:**

Tommy Turner	County Judge/Executive
Ricky Whitlock	Magistrate
Gary T. Stewart	Magistrate
Ronald Dale Nunn	Magistrate
Glenn Larry Howell, Jr.	Magistrate

**Other Elected Officials:**

Kyle Williamson	County Attorney
Johnny Cottrill	Jailer
Linda Carter	County Clerk
Larry Bell	Circuit Court Clerk
Russell McCoy	Sheriff
Scotty Lee	Property Valuation Administrator
Todd Skaggs	Coroner

**Appointed Personnel:**

Lauralene Reed	County Treasurer
Renee Strock	Chief Financial Officer
Clyde Veirs	Road Supervisor
Craig Dunn	911 Administrator

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

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

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

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

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 1,879,065	\$	\$
In Lieu Tax Payments	3,534		
Excess Fees	154,648		
Licenses and Permits	85,579		
Intergovernmental	409,358	1,095,638	1,427,178
Charges for Services	729,243		25,129
Miscellaneous	183,318	16,572	55,637
Interest	13,118	3,830	213
Total Receipts	<u>3,457,863</u>	<u>1,116,040</u>	<u>1,508,157</u>
<b>DISBURSEMENTS</b>			
General Government	875,646		
Protection to Persons and Property	942,347		1,347,288
General Health and Sanitation	246,805		
Social Services	10,967		
Recreation and Culture	60,327		
Roads		826,464	
Debt Service			130,469
Capital Projects			
Administration	897,672	229,610	389,881
Total Disbursements	<u>3,033,764</u>	<u>1,056,074</u>	<u>1,867,638</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>424,099</u>	<u>59,966</u>	<u>(359,481)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds	75,000		408,425
Transfers To Other Funds	(408,425)		(75,000)
Total Other Adjustments to Cash (Uses)	<u>(333,425)</u>		<u>333,425</u>
Net Change in Fund Balance	90,674	59,966	(26,056)
Fund Balance - Beginning (Restated)	2,265,090	5,321	123,428
Fund Balance - Ending	<u>\$ 2,355,764</u>	<u>\$ 65,287</u>	<u>\$ 97,372</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 1,455,236	\$ 67,100	\$ 115,198
Plus: Deposits In Transit			
Less: Outstanding Checks	(151,932)	(1,813)	(17,826)
Certificates of Deposit	1,052,460		
Fund Balance - Ending	<u>\$ 2,355,764</u>	<u>\$ 65,287</u>	<u>\$ 97,372</u>

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

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

<u>Unbudgeted Funds</u>		
<u>General Obligation Bond Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
\$	\$	\$ 1,879,065
		3,534
		154,648
		85,579
	5,395	2,937,569
	160,365	914,737
		255,527
24	31	17,216
<u>24</u>	<u>165,791</u>	<u>6,247,875</u>
		875,646
		2,289,635
		246,805
		10,967
	142,112	202,439
		826,464
		130,469
135,038		135,038
		1,517,163
<u>135,038</u>	<u>142,112</u>	<u>6,234,626</u>
<u>(135,014)</u>	<u>23,679</u>	<u>13,249</u>
		483,425
		(483,425)
<u>(135,014)</u>	<u>23,679</u>	<u>13,249</u>
<u>399,269</u>	<u>18,093</u>	<u>2,811,201</u>
<u>\$ 264,255</u>	<u>\$ 41,772</u>	<u>\$ 2,824,450</u>
\$ 264,255	\$ 36,644	\$ 1,938,433
	17,777	17,777
	(12,649)	(184,220)
		1,052,460
<u>\$ 264,255</u>	<u>\$ 41,772</u>	<u>\$ 2,824,450</u>

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

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**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2016**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

**B. Basis of Accounting**

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

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

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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

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

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

**Budgeted Funds (Continued)**

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 government, 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.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

General Obligation Bond Fund - The LaRue County Fiscal Court has funds totaling \$264,255 from a financing lease obligation for improvements to the courthouse. The general obligation bond fund was reported as an unbudgeted fund on the financial statement. According to the Department for Local Government (DLG), this fund should be budgeted in the county's annual budget before they are expended and included in the financial statement. The LaRue County Fiscal Court did not budget this fund.

**D. Budgetary Information**

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

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

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

The State Local Finance Officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

**E. LaRue County Elected Officials**

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

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. LaRue County Elected Officials (Continued)**

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 LaRue County Fiscal Court.

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

**F. Deposits and Investments**

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

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

**G. Long-term Obligations**

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

**Note 2. Deposits**

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

**Custodial Credit Risk - Deposits**

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

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

**Note 3. Transfers**

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

	General Fund	Jail Fund	Total Transfers In
General Fund	\$	\$ 75,000	\$ 75,000
Jail Fund	408,425		408,425
Total Transfers Out	<u>\$ 408,425</u>	<u>\$ 75,000</u>	<u>\$ 483,425</u>

Reason for transfers:

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

**Note 4. Long-term Debt**

**A. Financing Obligation - Golf Course Renovations**

On October 1, 2007, the LaRue County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$1,072,000 for the renovation of the golf course of the LaRue County Golf Association, Inc. (Golf Association). Principal is payable annually on January 20 and interest is payable monthly on the 20<sup>th</sup> of each month. The interest rate is variable. The maturity date of the lease is January 20, 2034. The Golf Association makes lease payments directly to the trustee for principal and interest of the obligation. During fiscal year 2016, total debt service of \$69,652 was due. The Golf Association paid debt service of \$62,998 on behalf of the LaRue County Fiscal Court and the fiscal court paid the remaining \$6,654. As of June 30, 2016, the principal balance was \$867,000. The Golf Association has agreed to make the payments due below on behalf of the fiscal court. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2017	\$ 35,000	\$ 43,102
2018	35,000	41,360
2019	35,000	39,616
2020	35,000	37,962
2021	40,000	36,032
2022-2026	210,000	149,939
2027-2031	280,000	89,796
2032-2034	197,000	17,974
Totals	<u>\$ 867,000</u>	<u>\$ 455,781</u>

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

**Note 4. Long-term Debt (Continued)**

**B. Financing Obligation - Refunding Lease and Courthouse Improvements**

On March 1, 2011, the LaRue County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purpose of refunding the General Obligation Improvement Bonds, Series of 1999 and additional courthouse facility improvements. The original principal was \$1,545,000 at 3.75 percent interest for a period of 20 years, with interest and principal paid monthly. Total principal outstanding June 30, 2016, totaled \$1,265,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2017	\$ 60,000	\$ 68,068
2018	65,000	65,519
2019	70,000	62,669
2020	70,000	59,431
2021	72,500	56,063
2022-2026	432,500	218,475
2027-2031	495,000	84,803
Totals	<u>\$ 1,265,000</u>	<u>\$ 615,028</u>

**C. Financing Obligation - Sheriff Police Cruisers**

On September 30, 2009, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of three vehicles for the sheriff's department. The original principal balance was \$89,060 at 2.73 percent interest for a period of six years, with interest and principal paid monthly. The LaRue County Sheriff makes lease payments directly to the trustee for principal and interest of the obligation. During fiscal year 2016, total debt service of \$16,273 was due. The LaRue County Sheriff paid debt service of \$16,273 on behalf of the fiscal court. Total principal outstanding June 30, 2016, totaled \$26,259. The LaRue County Sheriff has agreed to make the payments due below on behalf of the fiscal court. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2017	\$ 15,612	\$ 599
2018	10,647	125
Totals	<u>\$ 26,259</u>	<u>\$ 724</u>

**D. Changes In Long-term Debt**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	<u>\$ 2,258,451</u>	<u>\$</u>	<u>\$ 100,192</u>	<u>\$ 2,158,259</u>	<u>\$ 110,612</u>
Total Long-term Debt	<u>\$ 2,258,451</u>	<u>\$</u>	<u>\$ 100,192</u>	<u>\$ 2,158,259</u>	<u>\$ 110,612</u>

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

**Note 5. Employee Retirement System**

**Plan Description**

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

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

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

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

The county's contribution for FY 2014 was \$417,934, FY 2015 was \$412,586, and FY 2016 was \$396,483.

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

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

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

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

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

**Note 5. Employee Retirement System (Continued)**

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

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

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

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

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

**Note 6. Deferred Compensation**

On February 24, 2000, the LaRue 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.

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

**Note 6. Deferred Compensation (Continued)**

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

**Note 7. Health Reimbursement Account**

The LaRue County Fiscal Court participates in a health reimbursement account to provide employees with an additional health benefit. The LaRue County Fiscal Court is the administrator of the plan. The plan provides reimbursement of up to \$10 for Tier 2, and \$35 for Tier 3, for eligible employees to pay for qualified prescription drug copays. The county treasurer reimburses employees out of the health insurance budget appropriation accounts through the general, road, and jail funds. Employees are required to submit pharmacy receipts along with a claim form with a signature of a pharmacy representative to the county treasurer for reimbursement.

**Note 8. Insurance**

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

**Note 9. Conduit Debt**

From time to time the county has issued bonds to provide financial assistance for industrial facilities and economic development 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 LaRue County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2016, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

**Note 10. Prior Period Adjustments**

The prior period ending balance for the general fund was increased by \$88 to include prior year voided checks. The prior period ending balance for the jail commissary fund was decreased by \$10,379 for refunds due inmates and balances for inmates that are not included in jail commissary account balances.

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

**Note 11. Agency Fund**

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

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2016, was \$6,362.

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

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

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

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

	<b>GENERAL FUND</b>			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,640,175	\$ 1,640,175	\$ 1,879,065	\$ 238,890
In Lieu Tax Payments	3,500	3,500	3,534	34
Excess Fees	119,820	119,820	154,648	34,828
Licenses and Permits	95,000	95,000	85,579	(9,421)
Intergovernmental	459,000	459,000	409,358	(49,642)
Charges for Services	720,000	720,000	729,243	9,243
Miscellaneous	22,400	22,400	183,318	160,918
Interest	20,500	20,500	13,118	(7,382)
Total Receipts	<u>3,080,395</u>	<u>3,080,395</u>	<u>3,457,863</u>	<u>377,468</u>
<b>DISBURSEMENTS</b>				
General Government	1,459,025	1,494,063	875,646	618,417
Protection to Persons and Property	999,500	1,045,819	942,347	103,472
General Health and Sanitation	241,650	293,784	246,805	46,979
Social Services	21,400	21,400	10,967	10,433
Recreation and Culture	80,300	89,209	60,327	28,882
Administration	1,200,100	1,042,700	897,672	145,028
Total Disbursements	<u>4,001,975</u>	<u>3,986,975</u>	<u>3,033,764</u>	<u>953,211</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(921,580)</u>	<u>(906,580)</u>	<u>424,099</u>	<u>1,330,679</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			75,000	75,000
Transfers To Other Funds	<u>(333,425)</u>	<u>(333,425)</u>	<u>(408,425)</u>	<u>(75,000)</u>
Total Other Adjustments to Cash (Uses)	<u>(333,425)</u>	<u>(333,425)</u>	<u>(333,425)</u>	
Net Change in Fund Balance	(1,255,005)	(1,240,005)	90,674	1,330,679
Fund Balance - Beginning (Restated)	<u>1,255,005</u>	<u>1,255,005</u>	<u>2,265,090</u>	<u>1,010,085</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 15,000</u>	<u>\$ 2,355,764</u>	<u>\$ 2,340,764</u>

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

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,931,957	\$ 1,931,957	\$ 1,095,638	\$ (836,319)
Charges for Services	1,500	1,500		(1,500)
Miscellaneous	14,000	14,000	16,572	2,572
Interest	6,000	6,000	3,830	(2,170)
Total Receipts	<u>1,953,457</u>	<u>1,953,457</u>	<u>1,116,040</u>	<u>(837,417)</u>
<b>DISBURSEMENTS</b>				
Roads	1,641,657	1,667,302	826,464	840,838
Administration	321,800	296,155	229,610	66,545
Total Disbursements	<u>1,963,457</u>	<u>1,963,457</u>	<u>1,056,074</u>	<u>907,383</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>59,966</u>	<u>69,966</u>
Net Change in Fund Balance	(10,000)	(10,000)	59,966	69,966
Fund Balance - Beginning	<u>10,000</u>	<u>10,000</u>	<u>5,321</u>	<u>(4,679)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 65,287</u>	<u>\$ 65,287</u>

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

	<b>JAIL FUND</b>			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,694,500	\$ 1,694,500	\$ 1,427,178	\$ (267,322)
Charges for Services	47,250	47,250	25,129	(22,121)
Miscellaneous	55,000	55,000	55,637	637
Interest	500	500	213	(287)
Total Receipts	<u>1,797,250</u>	<u>1,797,250</u>	<u>1,508,157</u>	<u>(289,093)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	1,514,375	1,549,158	1,347,288	201,870
Debt Service	134,000	134,000	130,469	3,531
Administration	482,300	462,517	389,881	72,636
Total Disbursements	<u>2,130,675</u>	<u>2,145,675</u>	<u>1,867,638</u>	<u>278,037</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(333,425)</u>	<u>(348,425)</u>	<u>(359,481)</u>	<u>(11,056)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	333,425	333,425	408,425	75,000
Transfers to Other Funds			<u>(75,000)</u>	<u>(75,000)</u>
Total Other Adjustments to Cash (Uses)	<u>333,425</u>	<u>333,425</u>	<u>333,425</u>	
Net Change in Fund Balance		(15,000)	(26,056)	(11,056)
Fund Balance - Beginning			<u>123,428</u>	<u>123,428</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (15,000)</u>	<u>\$ 97,372</u>	<u>\$ 112,372</u>

**LARUE COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2016**

**Note 1. Budgetary Information**

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

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

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

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

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

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

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

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 1,107,499	\$ 7,141	\$	\$ 1,114,640
Construction In Progress		335,541		335,541
Building and Land Improvements	8,673,331			8,673,331
Vehicles and Equipment	1,491,084	117,518	6,000	1,602,602
Other Equipment	1,534,722	6,381		1,541,103
Infrastructure	8,341,151	145,287		8,486,438
Total Capital Assets	<u>\$ 21,147,787</u>	<u>\$ 611,868</u>	<u>\$ 6,000</u>	<u>\$21,753,655</u>

**LARUE COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2016**

**Note 1. Capital Assets**

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-15
Infrastructure	\$ 20,000	10-50

**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 Tommy Turner, LaRue County Judge/Executive  
Members of the LaRue 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 LaRue County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the LaRue County Fiscal Court's financial statement and have issued our report thereon dated June 8, 2017.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-005, 2016-006, and 2016-007 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 deficiency described in the accompanying Schedule of Findings and Responses as item 2016-004 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the LaRue County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-003, 2016-004, and 2016-007.

**Views of Responsible Officials and Planned Corrective Action**

LaRue County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

**Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

June 8, 2017

**LARUE COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

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

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**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**

**Fiscal Year Ended June 30, 2016**

FINANCIAL STATEMENT FINDINGS:

2016-001 The LaRue County Fiscal Court Lacks Adequate Segregation Of Duties Over Cash And Receipts

This is a repeat finding which was included in the prior year audit report as finding 2015-001. The LaRue County Treasurer prepared and deposited receipts, posted receipts to the accounting system, prepared monthly reports for fiscal court and quarterly reports for the Department for Local Government, made cash transfers between funds and bank accounts, and performed bank reconciliations for all bank accounts. The fiscal court has not implemented a policy to ensure segregated duties or sufficient compensating controls. The lack of adequate segregation of duties and too much control by one individual could result in undetected misappropriation of assets, errors, and inaccurate financial reporting.

Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the county cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system.

We recommend the fiscal court strengthen internal controls by segregating the duties involved in receiving, recording, reconciling, and reporting receipts. If segregation is not possible, we recommend further compensating controls, such as a receipt listing prepared by another person to compare to deposit tickets and ledger posting and implementing reconciliation of ambulance receipts with other personnel and the county treasurer.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: This comment is found in most small county audit reports. In fact, it is so common that former Auditor Ed Hatchett would never include it in his audit reports. Additional segregation often means additional staffing resulting in additional costs. We will save the county money and receive the write up.*

Auditor's Reply: The lack of adequate segregation of duties is a material weakness in the internal control system of the LaRue County Fiscal Court. If the county cannot properly segregate duties due to a limited budget, they can help offset the material weakness with compensating controls as recommended. Many of these compensating controls would not require hiring additional personnel and can be completed by existing personnel, including local officials.

2016-002 The LaRue County Fiscal Court Lacks Adequate Controls Over Reconciliation Of The Payroll Revolving Bank Account

This is a repeat finding which was included in the prior year audit report as finding 2015-004. The county has not completed regular, accurate reconciliations for the payroll revolving bank account. Insufficient records and management oversight resulted in a control weakness over this bank account. Not reconciling the payroll revolving bank account monthly could result in misappropriation of funds and inaccurate financial reporting. Good internal controls require timely, accurate reconciliations to ensure all funds are properly accounted for.

We recommend the county complete monthly reconciliations of the payroll revolving bank account and reconcile the account to zero every month. A listing of outstanding checks and liabilities should be attached to each monthly report.

**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Fiscal Year Ended June 30, 2016**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The LaRue County Fiscal Court Lacks Adequate Controls Over Reconciliation Of The Payroll Revolving Bank Account (Continued)

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Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: When the Larue County Sheriff resigned from office there had not been an application made to the state for funds advancement to pay salaries. When the new Sheriff took office the time had expired and no advancement could be received. As a result, county funds had to be placed in the payroll revolving account to pay the Sheriff's payroll. This caused the audit comment received above. While this matter involved the Sheriff's office, due to the county having a unified payroll system the comment is placed in the Fiscal Court Audit rather than the Sheriff's audit. This comment will no longer appear in the Audit Report after this year.*

Auditor's Reply: This finding is due to LaRue County Fiscal Court personnel not performing reconciliations of the county's payroll account, which is not addressed in the explanation provided in the county's response. To clear this finding for future audits, LaRue County Fiscal Court personnel should complete accurate monthly reconciliations of the payroll account.

2016-003 The LaRue County Fiscal Court Did Not Follow The Department For Local Government's Guidance For Reporting General Obligation Bond Proceeds

---

The county did not include all funds on the Fourth Quarter Financial Report, resulting in unreported General Obligation Bond proceeds of \$264,255 at June 30, 2016. The county was not ready to expend the funds, so the fiscal court did not budget or include them on the county's financial statement. When the fiscal court does not include all county money on the financial statement, taxpayers may not be aware of all funds available for expenditure. Furthermore, if the fiscal court does not budget the funds before expending them, they are in danger of overspending their budget and violating KRS 68.220.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Guidance in the *County Budget Preparation and State Local Finance Officer Policy Manual* provides that "[a]ll county money is to be reported on the financial statement whether it is included in the budget or not."

KRS 68.220 requires all funds to be budgeted and states "[t]he fiscal affairs of each county, except those pertaining to education, shall be administered by the fiscal court under a uniform budget system. The county budget shall provide for all the funds to be expended by the county from current revenue for each fiscal year. The state local finance officer shall classify the counties for budget purposes upon the basis of their populations and expenditures, or upon some other proper basis, and may classify them in the same manner for the purpose of prescribing accounts."

The LaRue County Fiscal Court has funds totaling \$264,255 in a bank from a financing lease obligation for future improvements to the courthouse. According to the Department for Local Government (DLG), these funds should be budgeted in the county's annual budget before they are expended and included in the financial statement. By not including this information, the financial statement and notes are not providing a complete overview of the county's available funds. We recommend the fiscal court include all funds in the county's annual financial statement and budget.

**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Fiscal Year Ended June 30, 2016**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The LaRue County Fiscal Court Did Not Follow The Department For Local Government's Guidance For Reporting General Obligation Bond Proceeds (Continued)

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Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: I challenge this audit comment as being incorrect. General Obligation (GO) proceeds are exactly that, a general obligation of the county. All funds were budgeted under the "Carryover" category on the budget. GO funds are a general receipt and obligation of the county and can be placed directly in the general fund. These funds have been carried forward from year to year until they were expended. The auditor refers to statutes 68.210 and 68.220. These statutes were written in 1984 and 1978 respectively and the GO Constitutional Amendment was adopted in November 1994. The Auditor has failed to show that the funds placed in the carryover account does not include the GO proceeds mentioned in this comment.*

Auditor's Reply: As stated, the General Obligation Bond was not budgeted in the county's fiscal year 2016 budget or included on the fourth quarter report. The receipts and expenditures are included as an unbudgeted fund on the county's financial statement. The county is required by DLG to budget the activity of this fund as a separate budgeted fund of the county or budget it in an existing fund.

2016-004 The LaRue County Fiscal Court Lacks Strong Internal Controls Over Disbursements

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This is a repeat finding which was included in the prior year audit report as finding 2015-002. The LaRue County Fiscal Court had a deficiency in internal controls over disbursements which caused the county not to be in compliance with state budget law. The LaRue County Fiscal Court approved claims and made appropriations in excess of budgeted appropriations 31 times during the fiscal year without approval of budget transfers prior to overspending. These claims were approved and paid even though the budget line item did not have sufficient budgeted free balance. The fiscal court does not have sufficient internal controls in place to ensure compliance with state budget laws. Strong internal controls over disbursements are important to ensure the budget is not overspent.

The lack of internal controls increases the risk of material misstatement due to fraud or error. KRS 68.275(1), states "[c]laims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the county judge/executive by a warrant drawn on the county and co-signed by the county treasurer." Strong internal controls dictate that the fiscal court approve budget transfers prior to disbursing funds to prevent overspending budget line items.

We recommend the fiscal court implement strong internal controls over disbursements to ensure that budget transfers are obtained prior to disbursing funds to prevent overspending budget line items.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: As indicated by the Auditor, this is a comment carried forward from a prior audit. The accounting program used by the county can cause the disbursements, on paper, to show it's made prior to the transfer to the account to make the account whole. The problem has been isolated and was reduced from 200 entries in the prior fiscal year to 31 entries in the audited fiscal year. Adjustment has been made in the accounting program and this comment will "tail off" for future audit periods.*

**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Fiscal Year Ended June 30, 2016**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 The LaRue County Fiscal Court Lacks Adequate Controls Over Capital Assets

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This is a repeat finding which was included in the prior year audit report as Finding 2015-003. The capital asset schedule prepared by the county did not include all additions or disposals to accurately reflect the prior year ending balances. There is no annual inventory count review or reconciliation of the inventories to the capital asset schedule to ensure accuracy. Insufficient records and management oversight resulted in noncompliance with the Department for Local Government's policy documented in the *County Budget Preparation and State Local Finance Officer Policy Manual*. Not implementing an annual inventory count, or maintaining an accurate list of capital assets could result in new assets not being insured and retired assets not being removed from the insurance policy. Furthermore, the capital asset schedule included in the financial statements could be materially incorrect. According to the Department for Local Government's policy, the asset inventory listing should provide the following detail: property tag number, asset description, serial number-if applicable, quantity-if applicable, cost, date of acquisition, date of disposal, property location, and manager/individual responsible. Good internal controls over compliance dictate adequate supporting documentation is maintained for assets and the capital asset schedule updated regularly throughout the year to ensure accurate information is recorded.

In order to strengthen controls over capital assets and infrastructure, we recommend the fiscal court conduct annual inventories and require departments to submit completed inventory sheets to the county judge/executive's office. The submitted inventory should then be reconciled to the capital asset schedule. We recommend the county's capital asset schedule include the date of acquisition and additions, disposals, and retirements be documented accordingly.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Capital Assets threshold levels have been lowered from preceding years. Also, a capital asset was found to not be removed from the asset list once it was taken out of service. The asset inventory has been updated to reflect this.*

2016-006 The LaRue County Jail Commissary Fund Lacks Adequate Segregation Of Duties

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This is a prior year finding which was included in the prior year audit report as finding 2015-006. A lack of segregation of duties exists over all jail commissary fund accounting functions with no management supervision or oversight. The bookkeeper receives the mail, prepares and deposits receipts, posts to computer accounting software, receives invoices, and writes checks without management review. Jailer and jail personnel lack understanding of the financial information provided from new accounting system. If one employee is solely responsible for the receipt, disbursement, reconciliation process, and reporting, the risk of misappropriation of assets and inaccurate financial reporting increases. Adequate segregation of duties would prevent the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements.

The jailer should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the jailer cannot ensure all receipts and disbursements are properly recorded and accounted for.

**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Fiscal Year Ended June 30, 2016**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 The LaRue County Jail Commissary Fund Lacks Adequate Segregation Of Duties (Continued)

We recommend the jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible for these duties. Any compensating controls performed should be documented.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Jail Commissary Funds are under the control and responsibility of the Jailer, not the Fiscal Court. However, the Jail Audit appears in the Fiscal Court audit as a branch of county government. The Jailer will have to respond as to how he will address this comment.*

*Jailer's Response: The jailer did not provide a response.*

2016-007 The LaRue County Jailer Did Not Properly Oversee The Jail Commissary Fund

The LaRue County Jailer did not properly oversee the jail commissary fund. Throughout the year, there were less than five deposits made monthly, resulting in funds on hand for long periods of time. In addition, computer reports for checkouts were not detailed by source. Disbursements were not paid timely, with invoices submitted for payments to the county over 30 days past due. Accounting records were not up to date and jail personnel were not knowledgeable about the new accounting software. The bank accounts had not been reconciled and the jailer entered into contracts without fiscal court approval.

The lack of management oversight, supervision, and review caused deficiencies in accounting and reporting for the jail commissary fund. Failing to maintain accurate records can result in inaccurate information as to funds available for use for benefit of the inmates. Good internal controls dictate that adequate reporting be maintained for all receipts and disbursements.

KRS 441.135 requires the jailer to maintain records of receipts and disbursements of the jail commissary fund. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* provides guidelines to maintaining records for the jail commissary fund.

In accordance with these guidelines, the jailer should maintain the following records:

- Daily checkout sheets should include a category for all funds collected to be posted to the jail commissary receipts journal.
- Jail commissary receipts journal should agree to the daily checkout sheets and include a category for all funds collected.
- Jail commissary disbursements journal should include every check written. Each check written should be posted to the proper category.

We recommend the jailer properly oversee the jail commissary fund to ensure compliance with applicable statutes. Furthermore, we recommend the jailer implement internal controls to ensure deposits are made timely, invoices are paid within 30 days, and bank accounts are properly reconciled to promote accurate financial reporting.

**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Fiscal Year Ended June 30, 2016**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-007 The LaRue County Jailer Did Not Properly Oversee The Jail Commissary Fund (Continued)

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Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Jail Commissary Funds are under the control and responsibility of the Jailer, not the Fiscal Court. However, the Jail Audit appears in the Fiscal Court audit as a branch of county government. The Jailer will have to respond as to how he will address this comment.*

*Jailer's Response: The jailer did not provide a response.*