

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

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT OF THE BOYD COUNTY FISCAL COURT

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Boyd 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 Boyd County Fiscal Court.

Financial Condition:

The Boyd County Fiscal Court had total receipts of \$29,298,485 and disbursements of \$29,665,246 in fiscal year 2016. This resulted in a total ending fund balance of \$2,753,161, which is a decrease of \$111,099 from the prior year.

Findings:

- 2016-001 The Boyd County Fiscal Court Did Not Comply With Bid Procedures For Leased Vehicles
- 2016-002 The Boyd County Fiscal Court Did Not Report Employer-Provided Vehicles As A Taxable Fringe Benefit And Does Not Have Written Procedures In Place To Address The Use Of The Vehicles
- 2016-003 The Boyd County Fiscal Court's Fourth Quarter Report Reported A Negative Balance In The Jail Fund Of \$30,129 As Of June 30, 2016
- 2016-004 The Boyd County Fiscal Court Did Not Issue Purchase Orders On All Disbursements
- 2016-005 The Boyd County Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement
- 2016-006 The Boyd County Fiscal Court's Capital Assets Are Not Being Reported Properly
- 2016-007 The Boyd County Fiscal Court Did Not Adequately Segregate Duties Over Receipts And Reconciliations
- 2016-008 The Boyd County Jail Lacks Adequate Segregation Of Duties Over Jail Commissary Transactions

Deposits:

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

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MIKE HARMON
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To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Steve Towler, Boyd County Judge/Executive
Members of the Boyd 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 Boyd County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Boyd 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 Boyd 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 Boyd 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 Boyd 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 Boyd 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.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Steve Towler, Boyd County Judge/Executive

Members of the Boyd County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2018, on our consideration of the Boyd 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 Boyd 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 Boyd County Fiscal Court Did Not Comply With Bid Procedures For Leased Vehicles
- 2016-002 The Boyd County Fiscal Court Did Not Report Employer-Provided Vehicles As A Taxable Fringe Benefit And Does Not Have Written Procedures In Place To Address The Use Of The Vehicles
- 2016-003 The Boyd County Fiscal Court's Fourth Quarter Report Reported A Negative Balance In The Jail Fund Of \$30,129 As Of June 30, 2016
- 2016-004 The Boyd County Fiscal Court Did Not Issue Purchase Orders On All Disbursements
- 2016-005 The Boyd County Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement
- 2016-006 The Boyd County Fiscal Court's Capital Assets Are Not Being Reported Properly
- 2016-007 The Boyd County Fiscal Court Did Not Adequately Segregate Duties Over Receipts And Reconciliations
- 2016-008 The Boyd County Jail Lacks Adequate Segregation Of Duties Over Jail Commissary Transactions

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 13, 2018

BOYD COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Steve Towler	County Judge/Executive
Ed Radjunas	Deputy Judge/Executive
John Greer	Commissioner
Carl Tolliver	Commissioner
Tom Jackson	Commissioner

Other Elected Officials:

Phillip Hedrick	County Attorney
Joe Burchett	Jailer
Debbie Jones	County Clerk
Tracey Kelley	Circuit Court Clerk
Bobby Jack Woods	Sheriff
Charles Adkins	Property Valuation Administrator
Mark Hammond	Coroner

Appointed Personnel:

Patricia Ball	County Treasurer
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**BOYD COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 12,398,568	\$	\$
In Lieu Tax Payments	187,668		
Excess Fees	333,187		
Licenses and Permits	80,734		
Intergovernmental	3,174,113	1,171,061	834,777
Charges for Services	36,635	13,697	91,823
Miscellaneous	8,449,572	105,123	300,063
Interest	2,452	91	88
Total Receipts	<u>24,662,929</u>	<u>1,289,972</u>	<u>1,226,751</u>
DISBURSEMENTS			
General Government	4,725,213		
Protection to Persons and Property	1,682,277		2,438,205
General Health and Sanitation	321,188	140,279	
Social Services	188,584		
Recreation and Culture	892,855		
Roads		1,895,947	
Airports			
Debt Service	8,544,155	528,699	136,794
Administration	<u>3,404,411</u>	<u>524,510</u>	<u>666,194</u>
Total Disbursements	<u>19,758,683</u>	<u>3,089,435</u>	<u>3,241,193</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>4,904,246</u>	<u>(1,799,463)</u>	<u>(2,014,442)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds			
Bond Reoffering Premium			
Bond Underwriters Discount			
Payment to Refund Bond Escrow Agent			
Borrowed Money	345,666		
Governmental Lease Proceeds	388,197		
Transfers From Other Funds		1,805,021	2,048,409
Transfers To Other Funds	(5,174,977)	(157,575)	(278,933)
Total Other Adjustments to Cash (Uses)	<u>(4,441,114)</u>	<u>1,647,446</u>	<u>1,769,476</u>
Net Change in Fund Balance	463,132	(152,017)	(244,966)
Fund Balance - Beginning (Restated)	1,532,698	166,795	278,230
Fund Balance - Ending	<u>\$ 1,995,830</u>	<u>\$ 14,778</u>	<u>\$ 33,264</u>
Composition of Fund Balance			
Bank Balance	\$ 2,086,251	\$ 69,018	\$ 143,318
Less: Outstanding Checks	<u>(90,421)</u>	<u>(54,240)</u>	<u>(110,054)</u>
Fund Balance - Ending	<u>\$ 1,995,830</u>	<u>\$ 14,778</u>	<u>\$ 33,264</u>

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

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

Budgeted Funds				
Local				
Government	Economic	Economic	FEMA	Sewer
Assistance	Development	Fund	Fund	Projects
Fund	Fund			Fund
\$	\$	\$	\$	\$
222,793				
118	313		120	700
222,911	313		120	716
25,579				
570,820				
12,500				
				557,206
608,899				557,206
(385,988)	313		120	(556,490)
415,030				
415,030				557,206
29,042	313		197,988	716
64,808	388	1,000	940	158
\$ 93,850	\$ 701	\$ 1,000	\$ 198,928	\$ 874
\$ 184,100	\$ 701	\$ 1,000	\$ 198,928	\$ 874
(90,250)				
\$ 93,850	\$ 701	\$ 1,000	\$ 198,928	\$ 874

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

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

<u>Unbudgeted Funds</u>			
	Capital Projects Fund	Jail Commissary Fund	Total Funds
RECEIPTS			
Taxes	\$	\$	\$ 12,398,568
In Lieu Tax Payments			187,668
Excess Fees			333,187
Licenses and Permits			80,734
Intergovernmental	1,425,341		6,828,085
Charges for Services			142,155
Miscellaneous	360,914	107,492	9,324,177
Interest	965	61	3,911
Total Receipts	<u>1,787,220</u>	<u>107,553</u>	<u>29,298,485</u>
DISBURSEMENTS			
General Government			4,725,213
Protection to Persons and Property			4,120,482
General Health and Sanitation			461,467
Social Services			188,584
Recreation and Culture	94,073		1,012,507
Roads			2,466,767
Airports			12,500
Debt Service	2,163,867		11,930,721
Administration	151,890		4,747,005
Total Disbursements	<u>2,315,757</u>	<u>94,073</u>	<u>29,665,246</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(528,537)</u>	<u>13,480</u>	<u>(366,761)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds	11,040,000		11,040,000
Bond Reoffering Premium	602,285		602,285
Bond Underwriters Discount	(155,314)		(155,314)
Payment to Refund Bond Escrow Agent	(11,965,172)		(11,965,172)
Borrowed Money			345,666
Governmental Lease Proceeds			388,197
Transfers From Other Funds	587,951		5,611,485
Transfers To Other Funds			(5,611,485)
Total Other Adjustments to Cash (Uses)	<u>109,750</u>		<u>255,662</u>
Net Change in Fund Balance	(418,787)	13,480	(111,099)
Fund Balance - Beginning (Restated)	<u>779,295</u>	<u>39,948</u>	<u>2,864,260</u>
Fund Balance - Ending	<u>\$ 360,508</u>	<u>\$ 53,428</u>	<u>\$ 2,753,161</u>
Composition of Fund Balance			
Bank Balance	\$ 360,508	\$ 53,842	\$ 3,098,540
Less: Outstanding Checks		(414)	(345,379)
Fund Balance - Ending	<u>\$ 360,508</u>	<u>\$ 53,428</u>	<u>\$ 2,753,161</u>

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

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TO THE FINANCIAL STATEMENT**

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BOYD COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

Sanitation District No. 4 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 required components of the reporting entity. Audits of that entity can be obtained from the Boyd County Fiscal Court, P.O. Box 423, Catlettsburg, Kentucky 41129.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

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

Economic Development Fund - The primary purpose of this fund is to account for miscellaneous funds. The primary source of receipts for this fund is grants for the renovations to the Boyd County Community Center.

FEMA Fund - The primary purpose of this fund is to account for FEMA related projects. The primary sources of receipts for this fund are federal and state grants.

Emergency Fund - The primary purpose of this fund is to account for some emergency equipment expenses of the county. The primary sources of receipts for this fund are federal and state grants.

Sewer Projects Fund - The primary purpose of this fund is to account for construction grants received for the construction of additional sewer lines and the debt service payments on debt incurred for the construction of sewer lines. The primary sources of receipts for this fund are federal and state grants and transfers from the general fund.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Capital Projects Fund - The primary purpose of this fund is to account for the financing and construction of major capital facilities. The primary sources of receipts for this fund are federal and state grants, space rental, and transfers from the general fund. The Department for Local Government does not require the fiscal court to report or budget this fund.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

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

The State Local Finance Officer does not require the capital projects fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Boyd County Elected Officials

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

H. Jointly Governed Organization

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The Eastpark Industrial Park meets the criteria noted above and is disclosed as an organization jointly governed by the Kentucky counties of Boyd, Carter, Elliott, Greenup and Lawrence. The Greenup/Boyd Riverport Authority also meets the criteria noted above and is disclosed as an organization jointly governed by the Kentucky counties of Greenup and Boyd. In addition, the 911 Board (Regional Public Safety Communication Center) and the Airport Board meet the above criteria. The 911 Board is jointly governed by Boyd County and the cities of Ashland and Catlettsburg. The Ashland Regional Airport is jointly governed by Boyd County, Greenup County and the City of Ashland. Separately issued financial statements can be obtained from the respective authorities.

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.

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

Note 3. Transfers

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

	General Fund	Road Fund	Jail Fund	Total Transfers In
Road Fund	\$ 1,805,021			\$ 1,805,021
Jail Fund	2,048,409			2,048,409
LGEA Fund	415,030			415,030
Emergency Fund	186,021	11,847		197,868
Sewer Projects Fund	557,206			557,206
Capital Projects Fund	163,290	145,728	278,933	587,951
 Total Transfers Out	 \$ 5,174,977	 \$ 157,575	 \$ 278,933	 \$ 5,611,485

Reason for transfers:

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

Note 4. Agency Trust 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 \$14,224.

Note 5. Lease Agreement

On June 22, 2015, the Boyd County Fiscal Court entered into a lease agreement to lease several vehicles for use by the county. The vendor will, on or about the date of delivery of each vehicle to the county, include a schedule covering the vehicle, which will include a description of the vehicle, the lease term, and the monthly rental and other payments due with respect to the vehicle. The agreement is a lease with a buy option and the county will not have right, title, or interest in or to the vehicles except for the use of the vehicles as described in the agreement. The lease term commences on the delivery date of the vehicle and ends 60 months after the first full month rental payment date with an option to continue month-to-month for an unlimited period of time. This lease payment can change each year depending on additions and deletions of vehicles. During fiscal year 2016, the county leased 17 vehicles with total lease payments of \$68,804. The annual lease payments required under the leasing agreement at June 30, 2016 are as follows:

Fiscal Year Ending June 30	Amount
2017	\$ 108,254
2018	108,254
2019	108,254
2020	108,254
2021	44,654
 Totals	 \$ 477,670

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

Note 6. Short-term Debt

A. On July 1, 2015, the Boyd County Fiscal Court entered into a promissory note in the amount of \$345,766 to pay off a line-of-credit which was used to renovate baseball fields (see Note 7.E.). This note has an interest rate of 2.25 percent. One principal and interest payment was due on June 15, 2016. As of June 30, 2016, this note was paid in full.

B. Changes In Short-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligation	\$ 345,666	\$ 345,666	\$ 345,666	\$ 0	\$ 0
Total Short-term Debt	\$ 0	\$ 345,666	\$ 345,666	\$ 0	\$ 0

Note 7. Long-term Debt

A. Financing Obligation - Greenup/Boyd Riverport Authority

On January 12, 2006, the Boyd County Fiscal Court entered into a financing obligation agreement on behalf of the Greenup/Boyd Riverport Authority. The agreement was for \$500,000 with a variable interest rate. The agreement has a term of 28 years with a maturity date of July 20, 2033. Interest payments are due monthly with one principal payment due on July 20th of each year. The amount outstanding under this agreement was \$400,000 at June 30, 2016. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 15,000	\$ 16,613
2018	15,000	15,981
2019	15,000	15,341
2020	15,000	14,723
2021	15,000	14,084
2022-2026	95,000	58,898
2027-2031	135,000	34,169
2028-2034	95,000	5,033
Totals	\$ 400,000	\$ 174,842

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

Note 7. Long-term Debt (Continued)

B. Financing Obligation - Sewer Line Extension

On May 12, 2005, the Boyd County Fiscal Court entered into an agreement for additional financing of the county's sewer line extension project. The agreement was for \$5,000,000 at an average interest rate of 5.15 percent. The agreement has a term of 30 years with a maturity date of June 1, 2035. Annual principal payments are due on June 1st of each year and semi-annual interest payments are due on June 1st and December 1st of each year. On May 6, 2015, Sanitation District No. 4 of Boyd County entered into a revenue lease agreement to refinance this debt obligation. During fiscal year ending June 30, 2016, Sanitation District No. 4 used the proceeds of the revenue lease to pay off this financing obligation, and this is no longer a debt obligation of the Boyd County Fiscal Court.

C. General Obligation Public Improvement Bonds, Series 2006 - Improvements To Sewer System

On December 29, 2006, the Boyd County Capital Projects Corporation issued general obligation public improvement bonds, series 2006, in the amount of \$4,000,000. The proceeds of this issue were used to finance the costs of the acquisition, construction, installation and equipping of improvements to the county sewer system. The bonds were issued with an average interest rate of 4.5 percent with a retirement date of December 1, 2036. Annual principal payments are due on March 1st of each year and semi-annual interest payments are due on June 1st and December 1st of each year. On May 6, 2015, Sanitation District No. 4 of Boyd County entered into a revenue lease agreement to refinance this debt obligation. During fiscal year ending June 30, 2016, Sanitation District No. 4 used the proceeds of the revenue lease to defease the general obligation public improvement bonds, series 2006, and this is no longer a debt obligation of the Boyd County Capital Projects Corporation.

D. First Mortgage Revenue Bonds, Series 2007 - Judicial Center

On July 1, 2007, the Boyd County Capital Projects Corporation issued first mortgage revenue bonds, series 2007, to provide funding for the construction of the Boyd County Judicial Center. The total bond issue was in the amount of \$18,855,000, with interest rates varying between 4.125 percent and 4.625 percent, and a maturity date of August 1, 2027. Interest is payable on February 1 and August 1 of each year. Funding of the debt service is provided by a lease arrangement with the Commonwealth of Kentucky Administrative Office of the Courts. On February 25, 2016, these bonds were partially defeased with First Mortgage Refunding Revenue Bonds, Series 2016. The outstanding principal balance as of June 30, 2016, is \$1,745,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Scheduled	
	Principal	Interest
2017	\$ 855,000	\$ 55,994
2019	<u>890,000</u>	<u>18,913</u>
Totals	<u>\$ 1,745,000</u>	<u>\$ 74,907</u>

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

Note 7. Long-term Debt (Continued)

E. Financing Obligation – Baseball Field Renovations

On March 5, 2010, the Boyd County Fiscal Court entered into a financing obligation in the amount of \$350,000 as a line-of-credit. As of June 30, 2010, the county received \$340,768 which was used for baseball field renovations. During fiscal year 2014, the county drew an additional \$500 on this line-of-credit. The agreement has a variable interest rate, with a current rate of four percent. Annual interest payments began March 5, 2011, and all outstanding principal plus accrued unpaid interest is payable on August 5, 2015. On July 1, 2015, the county entered into a short-term promissory note (see Note 7) to pay this line-of-credit in full.

F. General Obligation Refunding Bonds, Series 2010 – Detention Center Improvements

On September 1, 2010, the Boyd County Fiscal Court issued general obligation refunding bonds, series 2010 in the amount of \$2,050,000. The proceeds of this issue were used to pay off a detention center project financing obligation. The bonds were issued with an average interest rate of 3.6 percent with a retirement date of June 1, 2033. Annual principal payments are due on December 1st of each year and semi-annual interest payments are due on June 1st and December 1st of each year. The outstanding bond principal at June 30, 2016, was \$1,745,000. Bond payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 80,000	\$ 60,288
2018	80,000	58,588
2019	80,000	56,738
2020	85,000	54,675
2021	90,000	52,263
2022-2026	480,000	216,357
2027-2031	580,000	114,200
2032-2033	270,000	11,000
Totals	\$ 1,745,000	\$ 624,109

G. General Obligation Refunding And Improvement Bonds, Series 2011 - Courthouse Renovation

On March 31, 2011, the Boyd County Fiscal Court issued general obligation public improvement bonds, series 2011, in the amount of \$2,700,000. The proceeds of this issue were used to pay a previous lease agreement in the amount of \$2,000,000 in full, with the remaining funds to be used to complete the repairs and renovation of the courthouse. The bonds were issued with an average interest rate of 2.7 percent with a retirement date of March 1, 2025. Annual principal payments are due on March 1st of each year and semi-annual interest payments are due on March 1st and September 1st of each year.

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

Note 7. Long-term Debt (Continued)

G. General Obligation Refunding And Improvement Bonds, Series 2011 - Courthouse Renovation (Continued)

The outstanding bond principal at June 30, 2016 was \$1,475,000. Bond payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 300,000	\$ 45,175
2018	300,000	36,925
2019	300,000	27,925
2020	305,000	18,925
2021	50,000	9,775
2022-2025	220,000	21,388
Totals	\$ 1,475,000	\$ 160,113

H. General Obligation Refunding And Improvement Bonds, Series 2011B - Paramount Arts Center

On November 1, 2011, the Boyd County Fiscal Court issued general obligation refunding and improvement bonds, series 2011B, in the amount of \$2,130,000 for the initial funding of the Paramount Arts Center. The agreement has a variable interest rate ranging from 1 percent to 4.25 percent and a maturity date of May 1, 2031. Annual principal payments are due on May 1st of each year and semi-annual interest payments are due on May 1st and November 1st of each year. The outstanding principal as of June 30, 2016, was \$1,710,000. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 90,000	\$ 61,500
2018	95,000	59,250
2019	95,000	56,875
2020	100,000	54,025
2021	100,000	51,025
2022-2026	555,000	202,425
2027-2031	675,000	86,215
Totals	\$ 1,710,000	\$ 571,315

I. General Obligation Refunding Bonds, Series 2012A - Sewer Line Extension

On October 20, 2012, the Boyd County Fiscal Court issued general obligation refunding bonds, series 2012A in the amount of \$7,910,000. The proceeds of this issue were used to pay off a sewer line extension project debt in the amount of \$7,555,000. The bonds were issued with a variable interest rate ranging from 4 percent to 5.7 percent. The agreement has a term of 22 years with a maturity date of April 20, 2033. Annual principal payments are due on April 20th of each year and semi-annual interest payments are due on October 20th and April 20th of each year.

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

Note 7. Long-term Debt (Continued)

I. General Obligation Refunding Bonds, Series 2012A - Sewer Line Extension (Continued)

The outstanding principal at June 30, 2016 was \$6,890,000. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 325,000	\$ 230,806
2018	325,000	224,306
2019	335,000	216,994
2020	345,000	206,444
2021	355,000	196,594
2022-2026	1,920,000	814,757
2027-2031	2,260,000	472,631
2032-2033	1,025,000	62,800
Totals	\$ 6,890,000	\$ 2,425,332

J. General Obligation Refunding Bonds, Series 2014

On April 1, 2014, the Boyd County Fiscal Court issued general obligation refunding bonds, series 2014, in the amount of \$4,055,000 for the refunding of general obligation public project refunding and improvement bonds, series 2004 and 2005, which were used to make improvements to the detention center and the road maintenance garage and to purchase a building adjacent to the courthouse for additional office space. The agreement has a variable interest rate ranging from 2 percent to 4 percent and a maturity date of March 1, 2035. Annual principal payments are due on March 1st of each year and semi-annual interest payments are due on March 1st and September 1st of each year. The outstanding principal as of June 30, 2016, was \$3,630,000. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 210,000	\$ 117,000
2018	215,000	112,800
2019	220,000	108,500
2020	220,000	104,100
2021	225,000	99,700
2022-2026	1,005,000	395,350
2027-2031	785,000	246,600
2032-2035	750,000	76,600
Totals	\$ 3,630,000	\$ 1,260,650

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

Note 7. Long-term Debt (Continued)

K. General Obligation Refunding Bonds, Series 2015 - Jail Pedway

On March 11, 2015, the Boyd County Fiscal Court issued general obligation refunding bonds, series 2015, in the amount of \$1,890,000. The proceeds of this issue were used to pay off jail pedway debt in the amount of \$1,645,000. The bonds were issued with a variable interest rate ranging from 2 percent to 3.5 percent. The agreement has a term of 21 years with a maturity date of May 1, 2036. Annual principal payments are due on May 1st of each year and semi-annual interest payments are due on November 1st and May 1st of each year. The outstanding principal at June 30, 2016 was \$1,755,000. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 70,000	\$ 53,658
2018	70,000	52,258
2019	70,000	50,858
2020	70,000	49,458
2021	75,000	47,358
2022-2026	400,000	202,140
2027-2031	460,000	137,542
2032-2036	540,000	57,494
Totals	\$ 1,755,000	\$ 650,766

L. First Mortgage Refunding Revenue Bonds, Series 2016 - Judicial Center

On February 25, 2016, the Boyd County Capital Projects Corporation issued first mortgage refunding revenue bonds, series 2016, in the amount of \$11,040,000. The proceeds of this issue were to pay off the first mortgage revenue bonds, series 2007, which was for the construction of the judicial center. The bonds have an interest rate of 3 percent with a retirement date of August 1, 2027. They require interest payments to be made February and August each year beginning on August 1, 2016. Annual principal payments begin August 1, 2019. The outstanding principal at June 30, 2016 was \$11,040,000. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$	\$ 288,493
2018		309,100
2019		309,100
2020	1,085,000	298,250
2021	1,125,000	276,150
2022-2026	6,120,000	876,000
2027-2028	2,710,000	81,900
Totals	\$ 11,040,000	\$ 2,438,993

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

Note 7. Long-term Debt (Continued)

M. General Obligation Lease, Series 2014 - Roads

On September 30, 2014, the Boyd County Fiscal Court entered into a general obligation lease, series 2014, in the amount of \$1,500,000. The proceeds of this issue were used for road projects. The lease obligation was issued at a fixed interest rate of 1.59 percent and a maturity date of September 1, 2017. On December 1, 2015, the Boyd County Fiscal Court entered into a first supplemental lease to refinance the original lease and delay the principal payments to December 1st each year. Semi-annual interest payments are due on December 1st and June 1st each year. The outstanding principal at June 30, 2016, was \$995,710. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 487,739	\$ 12,230
2018	507,971	4,106
Totals	<u>\$ 995,710</u>	<u>\$ 16,336</u>

N. Financing Obligation - Two Vehicles

On April 17, 2015, the Boyd County Fiscal Court entered into a lease agreement with Kentucky Farmers Bank in the amount of \$59,070 to purchase two vehicles. The agreement has an interest rate of 2 percent. Principal and interest payments are due monthly on the 28th day of each month with a maturity date of April 28, 2018. As of June 30, 2016, this lease agreement was paid in full.

O. Financing Obligation - Sheriff's Vehicles

On May 26, 2016, the Boyd County Fiscal Court entered into a promissory note in the amount of \$388,197 to purchase 12 vehicles for the sheriff's office. The agreement has an interest rate of 2.30 percent. Principal and interest payments are due each year on December 3rd and will mature on December 3, 2019. The outstanding principal at June 30, 2016, was \$388,197. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 96,606	\$ 5,159
2018	94,965	6,780
2019	97,180	4,585
2020	99,446	2,319
Totals	<u>\$ 388,197</u>	<u>\$ 18,843</u>

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

Note 7. Long-term Debt (Continued)

P. Changes In Long-term Debt

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

	Beginning Balance (Restated)*	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 21,730,000	\$	\$ 4,525,000	\$ 17,205,000	\$ 450,000
Revenue Bonds	13,890,000	11,040,000	12,145,000	12,785,000	855,000
Financing Obligations	6,393,800	388,197	4,998,090	1,783,907	612,335
Total Long-term Debt	\$ 42,013,800	\$ 11,428,197	\$ 21,668,090	\$ 31,773,907	\$ 1,917,335

*-The beginning balance for General Obligations Bonds has been increased by \$1,645,000 and the beginning balance for Financing Obligations has been decreased by \$1,645,000 due to an error in the prior year audit.

Note 8. 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 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 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

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

The county's contribution for FY 2014 was \$1,172,046, FY 2015 was \$1,008,216, and FY 2016 was \$1,069,705.

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

Note 8. Employee Retirement System (Continued)

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

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.

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

Note 9. Deferred Compensation

The Boyd 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.

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

Note 9. 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 10. Insurance

For the fiscal year ended June 30, 2016, the Boyd 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 11. Conduit Debt

From time to time the county has issued bonds to provide financial assistance 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 Boyd 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 12. Prior Period Adjustments

The beginning balance of the general fund was restated and increased by \$3,670 due to prior year voided checks. The beginning balance of the sewer projects fund was restated and increased by \$5 due to a misstatement in the prior year. The beginning balance of the capital projects fund was restated and increased by \$377,410 due to a misstatement in the prior year.

Note 13. Pending Litigation

The Boyd County Sheriff is involved in a lawsuit that arose from the normal course of doing business. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

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

For The Year Ended June 30, 2016

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BOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

GENERAL FUND					
	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget	
	Original	Final		Positive (Negative)	
RECEIPTS					
Taxes	\$ 11,941,463	\$ 12,468,985	\$ 12,398,568	\$ (70,417)	
In Lieu Tax Payments	175,000	175,000	187,668	12,668	
Excess Fees	320,000	333,000	333,187	187	
Licenses and Permits	102,300	102,300	80,734	(21,566)	
Intergovernmental	2,524,400	3,129,314	3,174,113	44,799	
Charges for Services	30,500	30,500	36,635	6,135	
Miscellaneous	376,676	8,187,216	8,449,572	262,356	
Interest	1,000	1,000	2,452	1,452	
Total Receipts	<u>15,471,339</u>	<u>24,427,315</u>	<u>24,662,929</u>	<u>235,614</u>	
DISBURSEMENTS					
General Government	4,248,421	4,994,061	4,725,213	268,848	
Protection to Persons and Property	1,476,010	1,821,173	1,682,277	138,896	
General Health and Sanitation	390,081	393,836	321,188	72,648	
Social Services	218,699	219,858	188,584	31,274	
Recreation and Culture	749,363	987,515	892,855	94,660	
Debt Service	569,984	8,766,863	8,544,155	222,708	
Administration	3,385,097	3,926,133	3,404,411	521,722	
Total Disbursements	<u>11,037,655</u>	<u>21,109,439</u>	<u>19,758,683</u>	<u>1,350,756</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>4,433,684</u>	<u>3,317,876</u>	<u>4,904,246</u>	<u>1,586,370</u>	
Other Adjustments to Cash (Uses)					
Transfers To Other Funds	(4,933,684)	(5,578,714)	(5,174,977)	403,737	
Borrowed Money	345,666	345,666			
Governmental Leasing Act Receipts	388,102	388,197	95		
Total Other Adjustments to Cash (Uses)	<u>(4,933,684)</u>	<u>(4,844,946)</u>	<u>(4,441,114)</u>	<u>403,737</u>	
Net Change in Fund Balance	(500,000)	(1,527,070)	463,132	1,990,202	
Fund Balance - Beginning	500,000	1,527,070	1,532,698	5,628	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,995,830</u>	<u>\$ 1,995,830</u>	

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

ROAD FUND

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget
				Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 2,163,488	\$ 2,486,088	\$ 1,171,061	\$ (1,315,027)
Charges for Services	3,000	11,229	13,697	2,468
Miscellaneous	41,000	96,465	105,123	8,658
Interest	200	200	91	(109)
Total Receipts	<u>2,207,688</u>	<u>2,593,982</u>	<u>1,289,972</u>	<u>(1,304,010)</u>
DISBURSEMENTS				
General Health and Sanitation		140,279	140,279	
Roads	2,633,952	2,562,509	1,895,947	666,562
Debt Service	661,984	674,427	528,699	145,728
Administration	495,212	966,626	524,510	442,116
Total Disbursements	<u>3,791,148</u>	<u>4,343,841</u>	<u>3,089,435</u>	<u>1,254,406</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,583,460)</u>	<u>(1,749,859)</u>	<u>(1,799,463)</u>	<u>(49,604)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,583,460	1,583,460	1,805,021	221,561
Transfers To Other Funds		(396)	(157,575)	(157,179)
Total Other Adjustments to Cash (Uses)	<u>1,583,460</u>	<u>1,583,064</u>	<u>1,647,446</u>	<u>64,382</u>
Net Change in Fund Balance		(166,795)	(152,017)	14,778
Fund Balance - Beginning		<u>166,795</u>	<u>166,795</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,778</u>	<u>\$ 14,778</u>

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

JAIL FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 828,407	\$ 839,291	\$ 834,777	\$ (4,514)
Charges for Services	116,400	116,400	91,823	(24,577)
Miscellaneous	204,500	328,784	300,063	(28,721)
Interest	250	250	88	(162)
Total Receipts	<u>1,149,557</u>	<u>1,284,725</u>	<u>1,226,751</u>	<u>(57,974)</u>
DISBURSEMENTS				
Protection to Persons and Property	2,747,352	2,784,559	2,438,205	346,354
Debt Service	410,143	417,540	136,794	280,746
Administration	614,080	981,634	666,194	315,440
Total Disbursements	<u>3,771,575</u>	<u>4,183,733</u>	<u>3,241,193</u>	<u>942,540</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,622,018)</u>	<u>(2,899,008)</u>	<u>(2,014,442)</u>	<u>884,566</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,622,018	2,622,018	2,048,409	(573,609)
Transfers To Other Funds		(1,240)	(278,933)	(277,693)
Total Other Adjustments to Cash (Uses)	<u>2,622,018</u>	<u>2,620,778</u>	<u>1,769,476</u>	<u>(851,302)</u>
Net Change in Fund Balance		(278,230)	(244,966)	33,264
Fund Balance - Beginning		<u>278,230</u>	<u>278,230</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 33,264</u>	<u>\$ 33,264</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
	RECEIPTS			
Intergovernmental Interest	\$ 347,038	\$ 347,038	\$ 222,793 118	\$ (124,245) 118
Total Receipts	<u>347,038</u>	<u>347,038</u>	<u>222,911</u>	<u>(124,127)</u>
DISBURSEMENTS				
Recreation and Culture	39,885	26,612	25,579	1,033
Roads	287,153	570,820	570,820	
Airports	20,000	20,000	12,500	7,500
Administration		209,444		209,444
Total Disbursements	<u>347,038</u>	<u>826,876</u>	<u>608,899</u>	<u>217,977</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(479,838)</u>	<u>(385,988)</u>	<u>93,850</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		415,030	415,030	
Total Other Adjustments to Cash (Uses)		<u>415,030</u>	<u>415,030</u>	
Net Change in Fund Balance		(64,808)	29,042	93,850
Fund Balance - Beginning		<u>64,808</u>	<u>64,808</u>	
Fund Balance - Ending	\$ 0	\$ 0	\$ 93,850	\$ 93,850

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

ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$		\$ 313	\$ 313
Total Receipts			313	313
DISBURSEMENTS				
Total Disbursements				
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			313	313
Net Change in Fund Balance			313	313
Fund Balance - Beginning			388	388
Fund Balance - Ending	\$ 0	\$ 0	\$ 701	\$ 701

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

FEMA FUND					
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)		Variance with Final Budget
	Original	Final	Original	Final	Positive (Negative)
RECEIPTS					
Total Receipts	\$	\$	\$	\$	
DISBURSEMENTS					
Total Disbursements	_____	_____	_____	_____	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	_____	_____	_____	_____	
Net Change in Fund Balance	_____	_____	1,000	1,000	
Fund Balance - Beginning	_____	_____	1,000	1,000	
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,000	\$ 1,000	

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

EMERGENCY FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Interest	\$	\$	\$ 120	\$ 120
Total Receipts			120	120
DISBURSEMENTS				
Total Disbursements				
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			120	120
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			197,868	197,868
Total Other Adjustments to Cash (Uses)			197,868	197,868
Net Change in Fund Balance			197,988	197,988
Fund Balance - Beginning			940	940
Fund Balance - Ending	\$ 0	\$ 0	\$ 198,928	\$ 198,928

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

SEWER PROJECTS FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
RECEIPTS				
Miscellaneous	\$	\$	\$ 700	\$ 700
Interest			16	16
Total Receipts			716	716
DISBURSEMENTS				
Debt Service	557,706	557,706	557,206	500
Total Disbursements	557,706	557,706	557,206	500
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(557,706)	(557,706)	(556,490)	1,216
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	557,706	557,706	557,206	(500)
Total Other Adjustments to Cash (Uses)	557,706	557,706	557,206	(500)
Net Change in Fund Balance			716	716
Fund Balance - Beginning			158	158
Fund Balance - Ending	\$ 0	\$ 0	\$ 874	\$ 874

BOYD 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.

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

For The Year Ended June 30, 2016

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BOYD COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Land	\$ 6,892,998	\$	\$	\$ 6,892,998
Buildings and Building Improvements	27,203,591			27,203,591
Vehicles and Equipment	5,049,252	929,028	54,966	5,923,314
Transmission Lines and Equipment	16,352,032		8,076,931	8,275,101
Infrastructure	13,681,750	611,838		14,293,588
 Total Capital Assets	 \$ 69,179,623	 \$ 1,540,866	 \$ 8,131,897	 \$ 62,588,592

BOYD 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	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Vehicles and Equipment	\$ 2,500	3-25
Transmission Lines and Equipment	\$ 20,000	10-50
Infrastructure (including Transmission Lines)	\$ 20,000	10-50

Note 2. Prior Period Adjustments

The beginning balance for Transmission Lines and Equipment has been restated and decreased by \$10,341,965 due to the transfer of sewer related assets to Sanitation District No. 4 in prior years.

**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 Steve Towler, Boyd County Judge/Executive
Members of the Boyd 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 Boyd County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Boyd County Fiscal Court's financial statement and have issued our report thereon dated February 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Boyd 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 Boyd County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Boyd 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.

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 2016-002, 2016-007, and 2016-008 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Boyd 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 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, and 2016-006.

Views of Responsible Officials and Planned Corrective Action

Boyd 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

February 13, 2018

**BOYD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2016

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BOYD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Boyd County Fiscal Court Did Not Comply With Bid Procedures For Leased Vehicles

The fiscal court did not comply with bid procedures for leased vehicles. The fiscal court entered into an agreement to lease 17 vehicles with a value of \$552,790 for county use. During the fiscal year ending June 30, 2016, the fiscal court paid \$68,204 towards these leased vehicles. According to the county judge/executive, the fiscal court was unaware that entering into the lease would require them to advertise for bids. As a result, the vehicle procurement process was not open to all vendors, which may have resulted in the fiscal court not receiving the best possible terms. Furthermore, a public bid process is more transparent. KRS 424.260(1) states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement of bids, no city, county or district, or board or commission of a city or county, or a sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.” We recommend the county comply with bid procedures as stated in KRS 424.260(1).

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Assumed [vendor] contract was a professional service not requiring the bid process. No local agency (Boyd County) was capable of providing this service. Will comply as directed by KRS 424.260(1) in future.

2016-002 The Boyd County Fiscal Court Did Not Report Employer-Provided Vehicles As A Taxable Fringe Benefit And Does Not Have Written Procedures In Place To Address The Use Of The Vehicles

As noted in the chart below, there are 15 county employees that drive an employer-provided vehicle. This benefit was not included as a taxable fringe benefit on these employees' IRS W-2 forms. Also, the county's administrative code does not address employee use of county-owned vehicles, and there are no mileage or gasoline logs maintained.

Animal Control Director	GMC 1500
Animal Control Officer	F-150
Animal Control Officer	F-150
Animal Control Officer	F-250
Road Foreman	F-250
Road Assistant Foreman	F-250
Road Assistant Foreman	F-250
Road Assistant Foreman	F-250
Jailer	F-150
Chief Deputy Jailer	F-350
Lt. Canine Advisor	Ford Explorer
Code Enforcement Officer	Ford Explorer
Code Enforcement Officer	Ford Explorer
Construction Manager	F-250
County Judge/Executive	Ford Explorer

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Boyd County Fiscal Court Did Not Report Employer-Provided Vehicles As A Taxable Fringe Benefit And Does Not Have Written Procedures In Place To Address The Use Of The Vehicles
 (Continued)

According to the county judge/executive, the fiscal court was informed of this IRS requirement, but they chose not to include it on the employee's W-2 forms. As a result, 15 county employees have been receiving an employer-provided benefit without paying the required taxes on the benefit. Also, without written procedures in place, it is unclear when it is appropriate for employees to use their county-provided vehicles outside of normal work hours. Without mileage and gasoline logs, there is no way for the fiscal court to determine if a vehicle is being used in excess of what is reasonable. Per IRS Publication 15-B, an employer-provided vehicle is to be included as a taxable fringe benefit for most employees. The exception would be any vehicle the employee isn't likely to use more than minimally for personal purposes because of its design. It appears that none of these vehicles meet that exception. Additionally, written procedures would allow the fiscal court to ensure the benefit of an employer-provided vehicle is not abused. We recommend the fiscal court review the IRS regulations and take appropriate action to ensure the taxable fringe benefit is included on the employee's W-2 form as long as the employee is provided a county vehicle to use for personal purposes. Furthermore, we recommend the county amend the current administrative code to include a policy on the authorization and use of county vehicles. The policy should address the tax implications of using a county vehicle for personal use or commuting travel, as well as establish procedures to require employees to maintain mileage and gasoline logs. The logs should be signed by the employee and reviewed and signed by a department head or designated employee. The fiscal court should periodically review the logs to determine if usage is acceptable.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Fiscal Court will be informed of the IRS requirement. Procedures will be put in place, along with a BCFC policy, to comply with the IRS Publication 15-B requirement.

2016-003 The Boyd County Fiscal Court's Fourth Quarter Report Reported A Negative Balance In The Jail Fund Of \$30,129 As Of June 30, 2016

A payroll check in the jail fund was written by mistake, never cleared the bank, and should have been voided. The county treasurer did not void a \$63,393 check that was issued in error in August 2015. The check continued to appear as an outstanding check of the jail fund as of the June 30, 2016, thus lowering the reconciled balance on the bank reconciliation. This appears to have been caused by an error that was not corrected prior to the audit. The fiscal court did not question why this check remained on the outstanding check list when they reviewed the monthly reports, nor did they question the negative jail fund balance as of June 30, 2016. As a result, the jail fund reported a negative balance of \$30,129 on the fourth quarter report at year-end. During the audit, auditors discussed the negative fund balance with the county treasurer and she voided the payroll check. Therefore, auditors proposed an adjustment to correct the disbursements ledger and negative fund balance.

The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, purchase orders should not be issued unless adequate funds are available to cover the expenditure. Also, under duties of county treasurer, the county treasurer should only countersign checks if there is sufficient fund balance and adequate cash in the bank to cover the check. Furthermore, good internal controls dictate monthly bank reconciliations are performed that

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Boyd County Fiscal Court's Fourth Quarter Report Reported A Negative Balance In The Jail Fund Of \$30,129 As Of June 30, 2016 (Continued)

provide an accurate and complete record of the county's fund balance. This includes resolution of stale outstanding checks. Any checks not clearing within a reasonable amount of time should be investigated, and reissued or voided if necessary.

We recommend the fiscal court monitor fund balances to ensure sufficient funds are available prior to authorizing and approving payments. We also recommend that monthly reports be reviewed, and outstanding checks that have not cleared timely be resolved.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Check has been properly recorded in the system and future transactions will be monitored closely to ensure there are no negative fund balances.

2016-004 The Boyd County Fiscal Court Did Not Issue Purchase Orders On All Disbursements

The fiscal court did not issue purchase orders on all disbursements. Out of 60 invoices tested on the test of disbursements, 34 invoices did not have a purchase order. Out of those 34 invoices, 17 were for utilities and the remainder consisted of sales tax, transporting morgue services, refunds, and cleaning supplies. The cause appears to be a lack of understanding of when a purchase order is needed. In addition, the county was not aware that although standing orders are allowed as payment approval for these types of disbursements, the Department for Local Government (DLG) strongly encourages all counties to use purchase orders for all county disbursements. As a result, appropriation line items may be depleted or have a negative balance due to not ensuring funds are available at the time of purchase. Failure to create purchase orders for all disbursements may not accurately reflect cash requirements and alert management to any possible cash flow issues. DLG, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe the minimum requirements for handling public funds. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling of public funds, including required purchasing procedures for counties. These requirements prescribe that “[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.” Additionally, DLG issued a memorandum on August 4, 2016, in which it “highly recommends” implementation of issuing purchase orders for payroll and utilities. We recommend the fiscal court implement procedures to ensure purchase orders are issued on all disbursements, including utilities and payroll claims.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Purchase order system had not been initiated. Correct procedures are now in place.

2016-005 The Boyd County Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement

This is a repeat finding and was included in the prior year audit report as finding 2015-006. The liabilities section of the fourth quarter financial statement (which also serves as the county's year-end financial statements) did not reconcile to the county's debt schedules, materially misstating debt obligations. This occurred due to lack of oversight of the quarterly financial statement preparation process. As a result, liabilities information is not accurately presented to management, regulatory agencies, and other users of the

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 The Boyd County Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement (Continued)

information. The principal balance of debt as of June 30, 2016 was understated by \$13,498,906, and the interest balance of debt as of June 30, 2016 was understated by \$2,236,506. The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires the debt section of the fourth quarter financial report to be utilized for reporting all current long-term debt, including public corporation bonds, general obligation bonds, government leasing act issues, and bond anticipation notes. The liabilities information reported needs to be accurate. We recommend the fiscal court ensure all debt payments are accounted for and reported accurately on the liabilities section of the quarterly financial statement.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Financial statements had never reflected debt that was being paid through escrow accounts, but still in the county name. Financial statements will list this debt going forward.

2016-006 The Boyd County Fiscal Court's Capital Assets Are Not Being Reported Properly

This is a repeat finding and was included in the prior year audit report as finding 2015-007. Auditors were not provided a complete and accurate capital asset schedule. During our audit, we noted the following:

- The capital asset list provided to the auditors did not include transmission line equipment, infrastructure, and buildings.
- Vehicles and equipment were included that do not meet the capitalization threshold.
- A vehicle on the capital asset list could not be traced to the county's insurance policy.
- There was no evidence that a physical inventory of the county's capital assets had been completed.

The fiscal court is not adequately monitoring and tracking capital assets. No individual has been directed to take responsibility for maintaining the capital asset schedule. By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset schedule. The fiscal court cannot properly determine insurance needs, which could result in financial losses. Furthermore, not performing physical inventories increases the risk of misappropriation of assets.

The Department for Local Government (DLG), under the authority of KRS 68.210, requires the state local finance officer to create a system of uniform accounts for all counties and county officials. *The County Budget Preparation and State Local Finance Officer Policy Manual* states, “[f]or purposes of internal control, an asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount, and have a useful life of greater than one year. The asset inventory listing should provide the following detail:

- Property tag number
- Asset description
- Serial number - if applicable
- Quantity - if applicable
- Cost (or FMV [fair market value] of donated asset at date of donation)
- Date of acquisition
- Date of disposal (track all disposals for entire fiscal year)

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 The Boyd County Fiscal Court's Capital Assets Are Not Being Reported Properly (Continued)

- Property location (by department, building & room number)
- Manager/individual responsible

The manual further explains that, “an annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained and documented. . .[t]he asset inventory listing should be updated for all additions, disposals, and property location changes, etc. Authorization must be given to appropriate accounting personnel for asset record and asset inventory listing modifications.”

We recommend the fiscal court designate an individual to maintain the capital assets schedule. This individual should provide a complete and accurate capital assets schedule to the fiscal court at least once a year. The capital assets schedule should also reconcile to the physical inventory of county assets at the end of each year and to the county’s list of inventoried assets and insurance policy.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Fiscal Court will designate a county employee to oversee each department assets and record properly.

2016-007 The Boyd County Fiscal Court Did Not Adequately Segregate Duties Over Receipts And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2015-004. During fiscal year 2016, the county treasurer prepared and deposited receipts, posted receipts and disbursements to the accounting system, maintained the purchase order listing, prepared checks for disbursement, prepared monthly reports for the 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. While some compensating controls are in place, including the preparation of a receipts log by the finance officer and the review of prepared checks by the county judge/executive or his designee, they are not sufficient. The county does not have procedures in place to adequately segregate these duties. As a result, too much control by one individual increases the risk of undetected misappropriation of assets and inaccurate financial reporting. A sufficient internal control structure requires adequate segregation of duties. Without proper segregation, the county cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system. Good internal controls dictate that the same employee should not handle, record, and reconcile cash receipts. We recommend the county segregate incompatible duties or implement strong compensating controls to mitigate the risks identified above. The county should determine which duties should be performed by the judge/executive, his designee, or the treasurer to mitigate the risks and address these weaknesses.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Accounts Payable employee assumes responsibility for preparation of check disbursements and purchase order system. Treasurer currently prepares deposits, transfers and bank recs.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

20016-008 The Boyd County Jail Lacks Adequate Segregation Of Duties Over Jail Commissary Transactions

This is a repeat finding and was included in the prior year audit report as finding 2015-005. The jail lacks adequate segregation of duties over jail commissary transactions. A control deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper for the jail commissary prepares deposits, prepares daily checkout sheets, and posts to the receipts ledger. In addition, the bookkeeper prepares monthly collection and disbursement reports, posts to the disbursements ledger, and prepares monthly bank reconciliations. The jailer has been informed of this issue and has failed to segregate duties or to implement and document compensating controls sufficient to offset the weakness noted. Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts and disbursements, which increases the risk of undetected misappropriation of assets and inaccurate financial reporting. A strong internal control system requires the duties of receiving, recording, disbursing, and reporting be segregated in order to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Although the jailer has implemented some compensating controls, such as dual signatures on checks and recounting the daily deposits, they do not eliminate the lack of segregation of duties. If these duties cannot be segregated, the jailer should implement additional compensating controls to help offset this weakness, such as:

- Recount the daily deposit and verify that it agrees to the daily checkout sheet.
- Agree daily checkout sheet to the receipts ledger and deposit slip.
- Review the monthly reports and agree them to the receipts ledger and disbursements ledger.
- Review the monthly bank reconciliation and trace transactions to source documents.

The jailer should initial these documents as proof of his review. We recommend the jailer either segregate duties adequately or implement and document these compensating controls.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: The monthly bank reconciliations are currently reviewed by Chief Deputy [name redacted]. Although there may be a need for a second bookkeeper at the jail the funding is not available to hire someone. Every attempt will be made to have a second person review the daily deposits and ledgers and have them initialed on a daily basis.

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

BOYD COUNTY FISCAL COURT

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

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
BOYD COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

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

Steve Towler

County Judge/Executive

Bethannie A. Ball

County Treasurer