

Grayson County Health Department

Financial Statements

Fiscal Year Ended June 30, 2014

ROSS & COMPANY, PLLC
Certified Public Accountants
1890 Star Shoot Parkway
Suite 170-147
Lexington, KY 40509

Grayson County Health Department

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June 30, 2014

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1890 Star Shoot Parkway
Suite 170-147
Lexington, KY 40509

Independent Auditor's Report

To the Board of Directors
Grayson County
Health Department

Report on the Financial Statements

We have audited the accompanying financial statements of Grayson County Health Department (the "Department") as of and for the year ended June 30, 2014, which comprise the statements of assets, liabilities and fund balance as of June 30, 2014 and the related statements of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with the financial reporting prescribed by the Kentucky Cabinet for Health and Family Services, Department for Public Health, Division of Administration and Financial Management, Administrative Reference. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Independent Auditor's Report (Continued)

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

As described in Note B, the financial statements are prepared by the Department, on the basis of the financial reporting provisions prescribed by the Kentucky Cabinet for Health and Family Services, Department for Public Health, Division of Administration and Financial Management, Administrative Reference, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of modified cash basis of accounting as prescribed by the Kentucky Cabinet for Health and Family Services (CHFS), Department for Public Health, Division of Administration and Financial Management, Administrative Reference.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note B 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 statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Department, as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balance of the Department, as of June 30, 2014, and the revenues, expenditures and change in fund balance for the year then ended, on the basis of the financial reporting provisions prescribed by the Kentucky Cabinet for Health and Family Services, Department for Public Health, Division of Administration and Financial Management, Administrative Reference as described in Note B.

Other Matters

Other Information

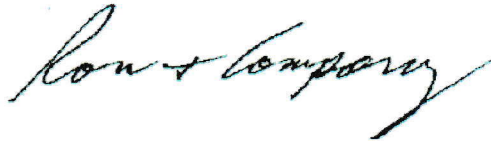
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The Schedule of Revenues and Expenditures by Cost Center and the Schedule of Revenues and Expenditures – Actual vs Budget are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues and Expenditures by Cost Center and Schedule of Revenues and Expenditures – Actual vs. Budget are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenue and Expenditures by Cost Center and Schedule of Revenues and Expenditures – Actual vs. Budget are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Independent Auditor's Report (Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014 on our consideration of the Department'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 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 the Department's internal control over financial reporting and compliance.



Lexington, Kentucky
October 30, 2014

Grayson County Health Department
Statement of Assets, Liabilities and Fund Balance
June 30, 2014

Assets

Cash and cash equivalents	\$ 49,799
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Total Assets	<u>\$ 49,799</u>
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Liabilities and Fund Balance

Liabilities

Administrative fee liability	\$ 270
Payroll withholdings	<u>8,547</u>

Total Liabilities	8,817
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Fund Balance

Unrestricted	32,594
Restricted	<u>8,388</u>

Total Fund Balance	<u>40,982</u>
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Total Liabilities and Fund Balance	<u>\$ 49,799</u>
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See accompanying notes.

Grayson County Health Department
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2014

Revenues	
State funds	\$ 198,022
Federal funds	330,198
Local funds	275,874
Service fees	276,472
Interest income	<u>65</u>
Total Revenues	1,080,631
Expenditures	
Compensation	523,682
Fringe benefits	307,846
Independent contracts	16,481
Travel	16,090
Occupancy	36,661
Office administration	67,532
Medical supplies	29,748
Automotive	6,161
Other	<u>36,292</u>
Total Expenditures	<u>1,040,493</u>
Excess of revenues over expenditures	40,138
Fund Balance, Beginning of Year	<u>844</u>
Fund Balance, End of Year	<u><u>\$ 40,982</u></u>

See accompanying notes.

Grayson County Health Department
Notes to Financial Statements
June 30, 2014

Note A – Nature of Organization and Operations

Grayson County Health Department (the Department) was established pursuant to Kentucky Revised Statute (KRS) 212.850 to provide health services through the county health department in Grayson County. The Department is governed by the Grayson County Board of Health (the Board) which consists of representatives of Grayson County as set forth in KRS 212.850. The Department is exempt from federal and state income taxes.

Prior to fiscal year 2014, the Department was part of the Lincoln Trail District Health Department (the District). On July 1, 2013, the Department exited the District and became a separate entity. As part of the settlement, the Department received \$844 from the District which represents the beginning fund balance.

Note B – Summary of Significant Accounting Policies

1. Basis of Accounting - The Department prepares its financial statements on the modified cash basis of accounting as prescribed by the Kentucky Cabinet for Health and Family Services (CHFS), Department for Public Health, Division of Administration and Financial Management, Administrative Reference, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, revenues are recorded when received and expenditures are recorded when paid (the cash basis), with certain exceptions identified in the Administrative Reference. The Department uses the indirect cost allocation plan developed by CHFS in accordance with the requirement of OMB Circular A-87. Fixed assets are recorded as expenses when paid and are not capitalized. Also, in accordance with policy established by CHFS, the Department has not adopted the financial reporting standards of GASB 34 and GASB 54.
2. Source of Funds - Revenue sources of the Department are divided into four groups as follows:
 - State - includes restricted and unrestricted state grant funds.
 - Federal - includes federal grant funds passed through from CHFS.
 - Local - includes funds from taxing districts, county and city appropriations, and donations from private sources.
 - Service fees - includes funds from school board contracts, Medicaid and Medicare payments for services, self-pay, insurance payments, other pay for service and sale of surplus assets.
3. Accounting Estimates - The preparation of financial statements in conformity with accounting principles consistent with the basis of accounting described above requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
4. Subsequent Events – Subsequent events for the Department have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

Grayson County Health Department
Notes to Financial Statements (Continued)
June 30, 2014

Note C – Cash and Cash Equivalents

The Department's cash and equivalents consist of amounts deposited in both interest and noninterest-bearing accounts. As of June 30, 2014, the carrying amount of the Department's deposits was \$49,799 and the combined banking institutions' balance was \$59,376. The difference of \$9,577 between the Department's deposit balance and the banking institutions' balance results from deposits in transit and outstanding checks. Of the banking institutions' balance, 100% of the balance was covered by Federal depository insurance.

Note D – Defined Benefit Pension Plan

All employees averaging 100 or more hours per month over a calendar or fiscal year participate in the Kentucky Employees Retirement System (KERS) of the Commonwealth of Kentucky, which is a cost-sharing multiple-employer defined benefit pension plan. The KERS provides retirement, as well as health care, disability, and death benefits to plan members. The KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature. Benefits are established by State statute.

Covered employees hired before September 1, 2008, who retire at or after age 65 with a minimum of 48 months of credited service, are entitled to a retirement benefit equal to 1.97% to 2.20% of their final-average salary multiplied by their years of service. Final-average salary is the employee's average of the five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest upon reaching five years of service. Vested employees may retire after 27 years of service and receive full retirement benefits at or after age 55 or 25 years of service and receive reduced retirement benefits.

Covered employees hired between September 1, 2008 and December 31, 2013, who retire at or after age 65 with a minimum of 60 months of credited service or when the employee's age (must be at least 57 years of age) plus their years of credited service equals at least 87 years, are entitled to a retirement benefit equal to 1.10% to 2.00% of their final-average salary multiplied by their years of service. Final-average salary is the employee's average of the last five full fiscal years. Employees may be eligible to receive reduced retirement benefits at age 60 with a minimum of 120 months of credited service.

The payroll for employees covered by the KERS for the year ended June 30, 2014 totals \$488,775. Covered employees are required by State statute to contribute 5.00% of their salary to the KERS (covered employees hired between September 1, 2008 and December 31, 2013 are required by State statute to contribute an additional 1.00% of their salary to fund the Kentucky Retirement Systems insurance fund). The Department is (for the year ended June 30, 2014) required by the same statute to contribute 26.79% of the covered employees' salaries.

Grayson County Health Department
Notes to Financial Statements (Continued)
June 30, 2014

Note D – Defined Benefit Pension Plan (Continued)

Covered employees hired on or after January 1, 2014, are also eligible to participate in a Cash Balance Plan which requires employees to contribute, on a pre-tax basis, 5.00% of creditable compensation. Employee accounts are also credited with a 4.00% employer pay credit. In addition to the 5.00% employee contribution, covered employees are required by State statute to contribute an additional 1.00% of their salary to fund the Kentucky Retirement Systems insurance fund. At the end of each fiscal year interest is paid into each employee's account. The account is guaranteed the 4.00% interest credit on the employee's account balance as of June 30 of the previous fiscal year-end. The employee's account may be credited with additional interest if the five-year average investment return exceeds 4.00%. If an employee terminates his/her employment, the employee, if fully vested (fully vested upon reaching five years of service), is eligible to either take a refund of his/her accumulated account balance or, if the employee is eligible for retirement benefits, he/she may annuitize the account balance. If an employee terminates his/her employment prior to being fully vested and requests a refund, the employee is only eligible to receive his/her contributions plus the interest thereon, forfeiting the employer pay credit and the associated interest.

Retired employees receive certain health care benefits depending on length of service. In accordance with State statutes, such benefits are provided and advanced-funded on an actuarially determined basis through the KERS. As indicated above, covered employees hired between September 1, 2008 and December 31, 2013 are required by State statute to contribute an additional 1.00% of their salary to fund the Kentucky Retirement Systems insurance fund. The related employer contribution is included in the required employer contribution rates indicated above.

The Department's contribution requirement for the year ended June 30, 2014 totals \$120,635.

The risks of participating in a multiple-employer plan are different from a single-employer plan in the following two respects: (1) assets contributed to a multiple-employer plan by one employer may be used to provide benefits to employees of other participating employers and (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due (as well as financial statements and other required supplementary information) is presented in the Kentucky Employees Retirement System's Annual Financial Report (which is a matter of public record). The most recent actuarial valuation is as of June 30, 2013. Such report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601. The Commonwealth's Comprehensive Annual Financial Report should also be referred to for additional disclosures related to the KERS.

In addition to the KERS, the Department's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Kentucky Public Employees Deferred Compensation Department issues a publicly available report that includes financial statements and other required supplementary information relative to the deferred compensation plans. Such report may be obtained by writing to the Kentucky Public Employees Deferred Compensation Department, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601. The Commonwealth's Comprehensive Annual Financial Report should also be referred to for additional disclosures related to the two deferred compensation plans.

Grayson County Health Department
Notes to Financial Statements (Continued)
June 30, 2014

Note E – Compensated Absences

Employees of the Department earn vacation, sick and compensated hours monthly depending on job classification, length of service and other factors. Under the Department's method of accounting as described in Note B, the liability for the value of the compensated absences earned as of June 30, 2014 is not recorded.

The vacation and compensated hours earned are subject to cash payment upon termination of employment. At June 30, 2014, the value of vacation and compensated hours was a \$40,567.

The sick hours earned are not subject to cash payment upon termination, but are subject to conversion into the employee's retirement account (see Note D) as creditable compensation. Upon such conversion, the Department is liable for the payment of the employer's share of the retirement contribution. At June 30, 2014, the value of sick hours earned was \$40,567. Based on the employer's contribution rate of 26.79%, the retirement contribution liability at June 30, 2014 was \$18,974.

Note F – Related Parties

The Grayson County Public Health Taxing District was created pursuant to Kentucky Revised Statute (KRS) 212.750 to levy a special ad valorem tax for the purpose of providing funding for the local Health Department. During the fiscal year under audit the Grayson County Public Health Taxing District assessed a tax rate of \$0.03 per \$100 on real property and \$0.03 per \$100 on tangible property. During the 2014 fiscal year the Grayson County Public Health Taxing District remitted \$275,000 to the Department; this amount is included as "Local funds" revenue on the Statement of Revenues, Expenditures and Changes in Fund Balance.

Supplementary Information

**Grayson County Health Department
Schedule of Revenues and Expenditures By Cost Center
Year Ended June 30, 2014**

	500	520	540	560	700	718	736	766	767
	Food	Public	General	Onsite	Preventive	Lab/ Testing/ Radiology	CHAT	MCH Coordinator	Competitive Home Visiting
	Service	Facilities	Sanitation	Sewage	Problems				
Revenues									
State funds	\$ 39,483	\$ 35,080	\$ 46,722	\$	\$	\$	\$	\$	\$
Federal funds							1,800	9,503	58,720
Local funds							152	8,137	
Service fees	600			68,534					
Interest income	65								
Total revenues	40,148	35,080	46,722	68,534			1,952	17,640	58,720
Expenditures									
Direct									
Compensation	9,432	8,747	11,763	15,957	105,945	8,975		6,783	24,402
Fringe benefits	4,884	4,530	6,092	8,265	53,088	4,712		4,495	10,353
Independent contracts					2,411	3,655			
Travel	63	263	393	1,109	3			53	2,080
Occupancy									
Office administration					12,844	1,895			
Medical supplies	1,846								
Automotive	112	112							2,049
Other									
Total direct	16,337	13,652	18,248	25,331	174,291	19,237		11,331	38,884
Indirect allocation	23,811	21,428	28,474	42,655	222,316	18,459	1,952	6,309	19,387
Resource based allocation					(396,607)	(37,696)			
Total expenditures	40,148	35,080	46,722	67,986			1,952	17,640	58,271
Excess of revenues over expenditures	\$	\$	\$	\$ 548	\$	\$	\$	\$	\$ 449

See accompanying Independent's Auditor's Report.

**Grayson County Health Department
Schedule of Revenues and Expenditures By Cost Center (Continued)
Year Ended June 30, 2014**

	768	800	802	803	804	805	806	807	810
	Comp HV	Pediatric/ Adolescent	Family Planning	Maternity Services & Activity	WIC	MCH Nutrition & Group	Tuberculosis Visits & Activity	Sexually Transmitted Disease	Adult Visits & Follow-up
Revenues									
State funds	\$	\$ 33,016	\$ 19,465	\$	\$ 2,483	\$	\$	\$	\$ 1,350
Federal funds	1,775	2,813	32,652		192,985	586	50		
Local funds	203	94	17,180	1,650	41,745	50	27,215	11,702	10,285
Service fees		6,571	11,084				2,486	2,000	13,351
Interest income									
Total revenues	1,978	42,494	80,381	1,650	237,213	636	29,751	13,702	24,986
Expenditures									
Direct									
Compensation		3,902	1,198	20	1,584		338	13	752
Fringe benefits		2,586	146	3	1,019		224	9	498
Independent contracts		12	508		32		12		
Travel	979				6				
Occupancy									
Office administration	(2,629)				2,348				
Medical supplies			5,798						
Automotive									
Other	3,215				29				
Total direct	1,565	6,500	7,650	23	5,018		574	22	1,250
Indirect allocation	413	3,751	916	16	2,562	636	445	10	523
Resource based allocation		32,243	71,815	1,611	229,633		28,732	13,670	23,213
Total expenditures	1,978	42,494	80,381	1,650	237,213	636	29,751	13,702	24,986
Excess of revenues over expenditures	\$	\$	\$	\$	\$	\$	\$	\$	\$

See accompanying Independent's Auditor's Report.

**Grayson County Health Department
Schedule of Revenues and Expenditures By Cost Center (Continued)
Year Ended June 30, 2014**

	813	818	821	823	826	836	842	853	883
	Breast & Cervical Cancer	Community Based Services 79	Bioterrorism Focus - A Preparedness	Bioterrorism (Focus Area 1)	Communicare Grant	Tobacco Cessation	HIV Counseling & Testing	HANDS	EPSDT
Revenues									
State funds	\$	\$	\$	\$	\$	\$	\$	\$	\$
Federal funds	5,584		14,217	4,397	5,116	8,681	141	7,250	
Local funds	37,585	26,432	3,753			1,935		50,894	1,025
Service fees	2,874							163,410	5,532
Interest income									
Total revenues	<u>46,043</u>	<u>26,432</u>	<u>17,970</u>	<u>4,397</u>	<u>5,116</u>	<u>10,616</u>	<u>141</u>	<u>221,554</u>	<u>6,557</u>
Expenditures									
Direct									
Compensation	820	10,785	6,096	307		2,354		85,592	2,780
Fringe benefits	545	7,115	1,823	178		1,560		50,939	1,842
Independent contracts	9,852								
Travel		127	757	204		228		8,302	
Occupancy									
Office administration			1,239	238		990		6,434	
Medical supplies									
Automotive									
Other		258		469	649	523		1,155	
Total direct	<u>11,217</u>	<u>18,285</u>	<u>9,915</u>	<u>1,396</u>	<u>649</u>	<u>5,655</u>		<u>152,422</u>	<u>4,622</u>
Indirect allocation	1,442	8,147	8,055	218		4,961		69,132	1,935
Resource based allocation	33,384								
Total expenditures	<u>46,043</u>	<u>26,432</u>	<u>17,970</u>	<u>1,614</u>	<u>649</u>	<u>10,616</u>		<u>221,554</u>	<u>6,557</u>
Excess of revenues over expenditures	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

See accompanying Independent's Auditor's Report.

**Grayson County Health Department
Schedule of Revenues and Expenditures By Cost Center (Continued)
Year Ended June 30, 2014**

	890	892	895	897	898	899	900	901	
	Core	Minor	Allocable	Space	Departmental	Clinic	Medical	Environmental	
	Assessment -	Restricted	Leave &	Indirect	Administration	Clerical	Indirect	Indirect	Totals
	Policy Dev.		Fringes						
Revenues									
State funds			\$ 4,351	\$	\$	\$	\$	\$	\$ 198,022
Federal funds									330,198
Local funds	1,474	818	33,545						275,874
Service fees	30								276,472
Interest income									65
Total revenues	1,504	818	37,896						1,080,631
Expenditures									
Direct									
Compensation	200		1	13,008	58,410	99,169	2,637	41,712	523,682
Fringe benefits	131		6,144	9,476	42,551	52,364	1,885	30,389	307,846
Independent contracts			(1)						16,481
Travel					915	259	238	111	16,090
Occupancy			1	36,660					36,661
Office administration					54,441	96	345	4,030	67,532
Medical supplies			(1)		9,212				29,748
Automotive					86			4,229	6,161
Other		818	(1)		23,019	2,000		1,885	36,292
Total direct	331	818	6,143	59,144	188,634	153,888	5,105	82,356	1,040,493
Indirect allocation	1,173		1	(59,144)	(188,634)	(153,888)	(5,105)	(82,356)	
Resource based allocation			2						
Total expenditures	1,504	818	6,146						1,040,493
Excess of revenues over expenditures	\$	\$	\$ 31,750	\$	\$	\$	\$	\$	\$ 40,138

See accompanying Independent's Auditor's Report.

Grayson County Health Department

Schedule of Revenues and Expenditures by Actual vs. Budget

Year Ended June 30, 2014

	Actual	(Unaudited) Budget	Positive (Negative) Variance
Revenues			
State funds	\$ 198,022	\$ 215,078	\$ (17,056)
Federal funds	330,198	346,018	(15,820)
Local funds	275,874	275,160	714
Service fees	276,472	284,000	(7,528)
Interest income	65	300	(235)
Total Revenues	1,080,631	1,120,556	(39,925)
Expenditures			
Compensation	523,682	498,691	(24,991)
Fringe benefits	307,846	290,870	(16,976)
Independent contracts	16,481	50,355	33,874
Travel	16,090	11,244	(4,846)
Occupancy	36,661	28,000	(8,661)
Office administration	67,532	39,450	(28,082)
Medical supplies	29,748	34,513	4,765
Automotive	6,161	4,300	(1,861)
Other	36,292	34,005	(2,287)
Total Expenditures	1,040,493	991,428	(49,065)
Excess of Revenues Over Expenditures	\$ 40,138	\$ 129,128	\$ (88,990)

See accompanying Independent Auditor's Report.

ROSS & COMPANY, PLLC
Certified Public Accountants
1890 Star Shoot Parkway
Suite 170-147
Lexington, KY 40509

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Members of the Board of the
Grayson County Health Department

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 financial statements of the Grayson County Health Department (Department), as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Department's basic financial statements, and have issued are report thereon dated October 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department'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 statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

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

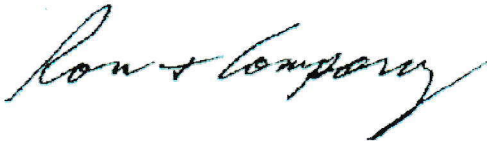
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (Continued)

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Ron + Company".

Lexington, Kentucky
October 30, 2014

Company Name: [Faint text]
Management Letter Comments: [Faint text]
Year Ended: [Faint text]

Management Letter Comments:

For the year ended [Faint text]

Management Letter Comments

**Grayson County Health Department
Management Letter Comments and Noncompliance
Year Ended June 30, 2014**

Management Letter Comments:

No current year management letter comment.