

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

**For The Fiscal Year Ended
June 30, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Charles Hardin, Magoffin County Judge/Executive

Members of the Magoffin County Fiscal Court

The enclosed report prepared by Dean Dorton Allen Ford, PLLC, Certified Public Accountants, presents the financial statement of Magoffin County, Kentucky, for the year ended June 30, 2017.

We engaged Dean Dorton Allen Ford, PLLC, to perform the audit of this financial statement. We worked closely with the firm during our report review process; Dean Dorton Allen Ford, PLLC, evaluated the Magoffin County Fiscal Court's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Mike Harmon

Auditor of Public Accounts

Enclosure



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Report of Independent Auditors

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Magoffin County Fiscal Court for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Magoffin 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 Magoffin 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 Magoffin County Fiscal Court as of June 30, 2017, 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 Magoffin County Fiscal Court as of June 30, 2017, 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 Magoffin County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

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Members of the Magoffin County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2018, on our consideration of the Magoffin 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 Magoffin 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, which discusses the following report findings:

- 2017-001 The Fiscal Court Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements
- 2017-002 The Fiscal Court's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle
- 2017-003 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2017-004 The Fiscal Court Does Not Have Adequate Internal Controls Over Gravel Inventory
- 2017-005 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable
- 2017-006 The Fiscal Court Does Not Have Adequate Oversight Of Monthly Reconciliation Processes
- 2017-007 The Fiscal Court Did Not Consistently Utilize The Purchase Order System
- 2017-008 The Fiscal Court Did Not Have Adequate Controls Over Credit Card Disbursements

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
May 25, 2018

MAGOFFIN COUNTY OFFICIALS

For The Year Ended June 30, 2017

Fiscal Court Members:

Charles Hardin	County Judge/Executive
Gary Risner	Magistrate
Pernell Lemaster	Magistrate
Mathew Wireman	Magistrate

Other Elected Officials:

Gregory D. Allen	County Attorney
Bryan Montgomery	Jailer
Renee Arnett Shepherd	County Clerk
Tonya Ward	Circuit Court Clerk
Carson Montgomery	Sheriff
Jerry Swiney	Property Valuation Administrator
Anthony Jenkins	Coroner

Appointed Personnel:

Mike Wilson	Deputy Judge
Kila Keaton	County Treasurer
Susie Salyer	Finance Officer

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 2,025,686	\$	\$	\$
Excess Fees	18,333			
Licenses and Permits	200,575			
Intergovernmental	455,746	1,493,661	77,134	265,589
Charges for Services			121	100
Miscellaneous	40,875		3,029	11,043
Interest	212	483	10	30
Total Receipts	<u>2,741,427</u>	<u>1,494,144</u>	<u>80,294</u>	<u>276,762</u>
DISBURSEMENTS				
General Government	957,708			117,200
Protection to Persons and Property	85,680		332,948	77,757
General Health and Sanitation				10,736
Social Services				44,127
Recreation and Culture	194,609			130,392
Roads		976,051		11,513
Debt Service	366,169			
Administration	869,137	245,598	20,378	91,980
Total Disbursements	<u>2,473,303</u>	<u>1,221,649</u>	<u>353,326</u>	<u>483,705</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	268,124	272,495	(273,032)	(206,943)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			298,000	115,000
Transfers To Other Funds	(421,017)			
Total Other Adjustments to Cash (Uses)	<u>(421,017)</u>		<u>298,000</u>	<u>115,000</u>
Net Change in Fund Balance	(152,893)	272,495	24,968	(91,943)
Fund Balance - Beginning (Restated)	674,446	507,729	2,406	125,078
Fund Balance - Ending	<u>\$ 521,553</u>	<u>\$ 780,224</u>	<u>\$ 27,374</u>	<u>\$ 33,135</u>
Composition of Fund Balance				
Bank Balance	\$ 638,032	\$ 810,098	\$ 45,642	\$ 16,593
Plus: Deposits In Transit				25,000
Less: Outstanding Checks	<u>(116,479)</u>	<u>(29,874)</u>	<u>(18,268)</u>	<u>(8,458)</u>
Fund Balance - Ending	<u>\$ 521,553</u>	<u>\$ 780,224</u>	<u>\$ 27,374</u>	<u>\$ 33,135</u>

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

MAGOFFIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017
(Continued)

Budgeted Funds						
Forestry Fund	Solid Waste Fund	Community Center Sinking Fund	Right of Way Use Fund	Escrow for Clear River Fund	911 Fund	Reserve Fund
\$ 2,458	\$ 76,770	\$	\$	\$	\$ 196,562	\$
	195,782				23,832	
	19,023				300	
	72		9		161	
<u>2,458</u>	<u>291,647</u>		<u>9</u>		<u>220,855</u>	
2,957	166,186				211,961	
		9,135				
	51,654				78,585	
<u>2,957</u>	<u>217,840</u>	<u>9,135</u>			<u>290,546</u>	
(499)	73,807	(9,135)	9		(69,691)	
500		7,517				
<u>500</u>		<u>7,517</u>				
1	73,807	(1,618)	9		(69,691)	
35	127,013	1,622	17,857	67,100	346,408	222
<u>\$ 36</u>	<u>\$ 200,820</u>	<u>\$ 4</u>	<u>\$ 17,866</u>	<u>\$ 67,100</u>	<u>\$ 276,717</u>	<u>\$ 222</u>
\$ 36	\$ 206,452	\$ 4	\$ 17,866	\$ 67,100	\$ 278,733	\$ 222
	(5,632)				(2,016)	
<u>\$ 36</u>	<u>\$ 200,820</u>	<u>\$ 4</u>	<u>\$ 17,866</u>	<u>\$ 67,100</u>	<u>\$ 276,717</u>	<u>\$ 222</u>

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

MAGOFFIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017
(Continued)

	<u>Unbudgeted Fund</u>	
	Magoffin County Public Properties Corporation Justice Center Fund	Total Funds
RECEIPTS		
Taxes	\$	\$ 2,301,476
Excess Fees		18,333
Licenses and Permits		200,575
Intergovernmental	565,013	3,076,757
Charges for Services		221
Miscellaneous		74,270
Interest	4	981
Total Receipts	<u>565,017</u>	<u>5,672,613</u>
DISBURSEMENTS		
General Government		1,074,908
Protection to Persons and Property		711,303
General Health and Sanitation		176,922
Social Services		44,127
Recreation and Culture		325,001
Roads		987,564
Debt Service	563,513	938,817
Administration	1,500	1,358,832
Total Disbursements	<u>565,013</u>	<u>5,617,474</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other		
Adjustments to Cash (Uses)	4	55,139
Other Adjustments to Cash (Uses)		
Transfers From Other Funds		421,017
Transfers To Other Funds		(421,017)
Total Other Adjustments to Cash (Uses)		<u> </u>
Net Change in Fund Balance	4	55,139
Fund Balance - Beginning (Restated)	2,173	1,872,089
Fund Balance - Ending	<u>\$ 2,177</u>	<u>\$ 1,927,228</u>
Composition of Fund Balance		
Bank Balance	\$ 2,177	\$ 2,082,955
Plus: Deposits In Transit		25,000
Less: Outstanding Checks		(180,727)
Fund Balance - Ending	<u>\$ 2,177</u>	<u>\$ 1,927,228</u>

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

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MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of the Magoffin County Fiscal Court (the fiscal court) includes all budgeted and unbudgeted funds under the control of the fiscal court. Budgeted funds included within the reporting entity are those funds presented in the fiscal court'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 fiscal court's control. Unbudgeted funds may also include any corporation empowered to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the fiscal court. 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.

Forestry Fund - The primary purpose of this fund is to account for collections and disbursements of taxes relating to fire protection.

Solid Waste Fund - The primary purpose of this fund is to account for solid waste and recycling disbursements. The primary sources of receipts for this fund are franchise fees, state grants, and recycling receipts.

Community Center Sinking Fund - The primary purpose of this fund is to account for debt service requirements of the First Mortgage Revenue Bonds, Series 1995.

Right of Way Use Fund - The primary purpose of this fund is to account for funds collected from private corporations in accordance with terms of a signed contract for the purpose of repairing county right of ways in the event damage is caused by the private corporations.

Escrow for Clear River Fund - The primary purpose of this fund is to account for funds placed in escrow by a private corporation in the event damage is caused to certain county roads when transporting coal.

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

Reserve Fund - The primary purpose of this fund is to account for debt service requirements for bond issues.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Magoffin County Public Properties Corporation Justice Center Fund - The primary purpose of this fund is to account for debt service of revenue bonds that were issued to fund construction of public buildings.

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.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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 Magoffin County Public Properties Corporation Justice Center Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Magoffin County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Magoffin 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 Magoffin 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 fiscal court.

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

F. Deposits and Investments

The fiscal court'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 fiscal court's fund balance includes cash and cash equivalents and investments.

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

G. Long-term Obligations

The 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.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 2. Deposits

The fiscal court maintains 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.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court 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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2017.

	Jail Fund	Forestry Fund	Community Center Sinking Fund	LGEA Fund	Total Transfers Out
General Fund	\$ 298,000	\$ 500	\$ 7,517	\$ 115,000	\$ 421,017
Total Transfers In	\$ 298,000	\$ 500	\$ 7,517	\$ 115,000	\$ 421,017

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

Note 4. Note Receivable

In August 2008, the fiscal court loaned \$20,000 to the Magoffin County Water District. The funds were used to install a water line extension to a family that was still carrying water from other sources to the dwelling. No payments have been made as of June 30, 2017.

In September 2011, the fiscal court loaned \$50,000 to the Magoffin County Water District, who loaned the funds to the Salyersville Waterworks for water projects. No payments have been made as of June 30, 2017.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 5. Long-term Debt

A. First Mortgage Revenue Bond, Series 1995

In June 1995, the fiscal court entered into an agreement with Farmers Home Administration to borrow \$140,000 at 5 percent interest for the completion of the Magoffin County Community Center Project. The fiscal court pays semiannual installments due on July 1 and January 1 of each year in accordance with a schedule to complete the contract. The principal balance of the agreement was \$58,800 as of June 30, 2017. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 6,200	\$ 2,940
2019	6,500	2,630
2020	6,800	2,305
2021	7,100	1,965
2022	7,500	1,610
2023-2025	24,700	2,500
Totals	<u>\$ 58,800</u>	<u>\$ 13,950</u>

B. Magoffin County Public Properties Corporation - Justice Center First Mortgage Refunding Revenue Bonds

In March 2012, the Public Properties Corporation, a component unit of the fiscal court, issued \$5,070,000 in First Mortgage Refunding Revenue Bonds for the payment of debt for the construction of the Justice Center. Semiannual principal and interest payments at rates ranging from 1 percent to 3 percent are required in May and November of each year beginning May 2012.

The Public Properties Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Magoffin County Justice Center. The Public Properties Corporation expects rentals for use of the Magoffin County Justice Center to be in the full amount of the principal and interest requirement of the bonds.

Under the terms of a lease, AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds.

AOC, with the execution of the lease, expressed its intention to continue to pay the full allowance payment. However, the lease does not obligate AOC to do so.

As of June 30, 2017, the principal balance on these bonds was \$3,090,000. Future principal and interest requirements are as follows:

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 5. Long-term Debt (Continued)

B. Magoffin County Public Properties Corporation - Justice Center First Mortgage Refunding Revenue Bonds (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 485,000	\$ 79,013
2019	490,000	69,313
2020	505,000	58,287
2021	520,000	45,662
2022	535,000	31,363
2023	555,000	16,650
Totals	<u>\$ 3,090,000</u>	<u>\$ 300,288</u>

C. Kentucky Association of Counties Finance Corporation - Road Paving Lease

In October 2013, the fiscal court entered into a lease with the Kentucky Association of Counties Finance Corporation for the purpose of paving roads in Magoffin County. The total proceeds of the lease was \$3,000,000. The fiscal court is required to make monthly principle and interest payments at 2.75 percent. The final payment of the lease is due January 2024. The principal balance of the agreement was \$2,071,251 as of June 30, 2017. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 287,083	\$ 60,931
2019	294,167	54,585
2020	304,167	47,231
2021	314,167	38,981
2022	326,250	29,390
2023-2025	545,417	25,991
Totals	<u>\$ 2,071,251</u>	<u>\$ 257,109</u>

D. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 3,629,700	\$	\$ 480,900	\$ 3,148,800	\$ 491,200
Financing Obligations	2,350,417		279,166	2,071,251	287,083
Total Long-term Debt	<u>\$ 5,980,117</u>	<u>\$</u>	<u>\$ 760,066</u>	<u>\$ 5,220,051</u>	<u>\$ 778,283</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 6. Employee Retirement System

Plan Description

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. The fiscal court has no hazardous duty personnel. The Plan provides Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

The fiscal court's contribution for FY 2015 was \$291,329, FY 2016 was \$257,665, and FY 2017 was \$285,426.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

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. Nonhazardous covered employees contribute five percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors 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 employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The fiscal court's contribution rate for nonhazardous employees was 18.68 percent.

Health Insurance Coverage

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:

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 6. Employee Retirement System (Continued)

Health Insurance Coverage (Continued)

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 valuations as well as each participating employer'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 7. Insurance

For the fiscal year ended June 30, 2017, the 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 8. Health Reimbursement Account and Flexible Spending Account

- A. The fiscal court allows employees to participate in a health reimbursement account for employees who waive health insurance coverage provided by the fiscal court. The fiscal court contributes the value of a single health insurance plan and employees are required to submit adequate documentation for qualified medical expenses to receive reimbursement. Employees forfeit any remaining balance of funds not utilized during the year. During fiscal year 2017, five employees participated in the program, which is administered by the county treasurer.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 8. Health Reimbursement Account and Flexible Spending Account (Continued)

- B.** The fiscal court allows employees to participate in a flexible spending account to provide employees an additional health benefit. Employees contribute pre-tax funds through payroll deduction and are required to submit adequate documentation for qualified medical expenses to receive reimbursement. During fiscal year 2017, one employee participated in the program, which is administered by the county treasurer.

Note 9. Contingencies

The fiscal court has entered into an agreement with a private corporation to grant the corporation the right and authority to transport, haul, and transfer coal from its coal mine sites upon and across a particular Magoffin County roadway. In exchange for the use of the roadway and to help defer any additional maintenance costs that may arise as a consequence of the expected heavier traffic flow from this anticipated transport of coal, the corporation agrees to pay into an escrow account maintained by the fiscal court an amount of 50 cents per ton of coal hauled not to exceed \$250,000 per year. From each 50 cents per ton of coal hauled across the roadway, the fiscal court shall receive five cents per ton to help defray any additional costs of upkeep, repair, or maintenance caused by heavier use of such coal transportation. The balance of any and all monies held in the account not otherwise used by the fiscal court to repair, maintain, or for upkeep of the roadway shall revert back to the corporation.

Note 10. Prior Period Adjustments

The county treasurer voided certain prior year outstanding checks. The voided prior year checks resulted in an increase to the beginning balance of the general fund of \$6,255, road fund of \$526, solid waste fund of \$1,360, and the 911 fund of \$25,421.

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

For The Year Ended June 30, 2017

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MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,873,750	\$ 2,141,801	\$ 2,025,686	\$ (116,115)
Excess Fees		18,333	18,333	
Licenses and Permits	84,700	220,676	200,575	(20,101)
Intergovernmental	563,287	680,618	455,746	(224,872)
Miscellaneous	45,000	66,161	40,875	(25,286)
Interest	200	200	212	12
Total Receipts	<u>2,566,937</u>	<u>3,127,789</u>	<u>2,741,427</u>	<u>(386,362)</u>
DISBURSEMENTS				
General Government	1,231,523	1,380,443	957,708	422,735
Protection to Persons and Property	68,777	88,835	85,680	3,155
Recreation and Culture	116,667	116,667	194,609	(77,942)
Debt Service	366,169	366,169	366,169	
Administration	844,224	1,236,098	869,137	366,961
Total Disbursements	<u>2,627,360</u>	<u>3,188,212</u>	<u>2,473,303</u>	<u>714,909</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(60,423)	(60,423)	268,124	328,547
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(738,519)	(738,519)	(421,017)	317,502
Total Other Adjustments to Cash (Uses)	<u>(738,519)</u>	<u>(738,519)</u>	<u>(421,017)</u>	<u>317,502</u>
Net Change in Fund Balance	(798,942)	(798,942)	(152,893)	646,049
Fund Balance - Beginning (Restated)	798,942	798,942	674,446	(124,496)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 521,553</u>	<u>\$ 521,553</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,177,521	\$ 1,522,716	\$ 1,493,661	\$ (29,055)
Interest	150	150	483	333
Total Receipts	<u>1,177,671</u>	<u>1,522,866</u>	<u>1,494,144</u>	<u>(28,722)</u>
DISBURSEMENTS				
Roads	1,104,800	1,549,995	976,051	573,944
Administration	296,773	460,931	245,598	215,333
Total Disbursements	<u>1,401,573</u>	<u>2,010,926</u>	<u>1,221,649</u>	<u>789,277</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(223,902)</u>	<u>(488,060)</u>	<u>272,495</u>	<u>760,555</u>
Net Change in Fund Balance	(223,902)	(488,060)	272,495	760,555
Fund Balance - Beginning (Restated)	<u>223,902</u>	<u>488,060</u>	<u>507,729</u>	<u>19,669</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 780,224</u>	<u>\$ 780,224</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 68,200	\$ 74,612	\$ 77,134	\$ 2,522
Charges for Services		121	121	
Miscellaneous		16	3,029	3,013
Interest	10	10	10	
Total Receipts	<u>68,210</u>	<u>74,759</u>	<u>80,294</u>	<u>5,535</u>
DISBURSEMENTS				
Protection to Persons and Property	394,472	400,496	332,948	67,548
Administration	19,808	22,739	20,378	2,361
Total Disbursements	<u>414,280</u>	<u>423,235</u>	<u>353,326</u>	<u>69,909</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(346,070)	(348,476)	(273,032)	75,444
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	346,070	346,070	298,000	(48,070)
Total Other Adjustments to Cash (Uses)	<u>346,070</u>	<u>346,070</u>	<u>298,000</u>	<u>(48,070)</u>
Net Change in Fund Balance		(2,406)	24,968	27,374
Fund Balance - Beginning		2,406	2,406	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,374</u>	<u>\$ 27,374</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 214,000	\$ 291,100	\$ 265,589	\$ (25,511)
Charges for Services	200	200	100	(100)
Miscellaneous	10,000	10,000	11,043	1,043
Interest	20	20	30	10
Total Receipts	<u>224,220</u>	<u>301,320</u>	<u>276,762</u>	<u>(24,558)</u>
DISBURSEMENTS				
General Government	109,219	119,669	117,200	2,469
Protection to Persons and Property	83,757	83,757	77,757	6,000
General Health and Sanitation	12,625	12,726	10,736	1,990
Social Services	46,000	47,500	44,127	3,373
Recreation and Culture	150,600	286,177	130,392	155,785
Roads	34,200	34,200	11,513	22,687
Administration	92,084	146,633	91,980	54,653
Total Disbursements	<u>528,485</u>	<u>730,662</u>	<u>483,705</u>	<u>246,957</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(304,265)	(429,342)	(206,943)	222,399
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>304,265</u>	<u>304,265</u>	<u>115,000</u>	<u>(189,265)</u>
Total Other Adjustments to Cash (Uses)	<u>304,265</u>	<u>304,265</u>	<u>115,000</u>	<u>(189,265)</u>
Net Change in Fund Balance		(125,077)	(91,943)	33,134
Fund Balance - Beginning		<u>125,077</u>	<u>125,078</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 33,135</u>	<u>\$ 33,135</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

FORESTRY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
	RECEIPTS			
Taxes	\$ 2,500	\$ 2,500	\$ 2,458	\$ (42)
Total Receipts	<u>2,500</u>	<u>2,500</u>	<u>2,458</u>	<u>(42)</u>
DISBURSEMENTS				
Protection to Persons and Property	3,000	3,000	2,957	43
Total Disbursements	<u>3,000</u>	<u>3,000</u>	<u>2,957</u>	<u>43</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(500)	(500)	(499)	1
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	500	500	500	
Total Other Adjustments to Cash (Uses)	<u>500</u>	<u>500</u>	<u>500</u>	
Net Change in Fund Balance			1	1
Fund Balance - Beginning			<u>35</u>	<u>35</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 36</u>	<u>\$ 36</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 80,000	\$ 80,000	\$ 76,770	\$ (3,230)
Intergovernmental	4,000	191,782	195,782	4,000
Miscellaneous	13,000	16,356	19,023	2,667
Interest	50	54	72	18
Total Receipts	<u>97,050</u>	<u>288,192</u>	<u>291,647</u>	<u>3,455</u>
DISBURSEMENTS				
General Health and Sanitation	205,673	422,469	166,186	256,283
Administration	69,926	69,926	51,654	18,272
Total Disbursements	<u>275,599</u>	<u>492,395</u>	<u>217,840</u>	<u>274,555</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(178,549)	(204,203)	73,807	278,010
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	78,549	78,549		(78,549)
Total Other Adjustments to Cash (Uses)	<u>78,549</u>	<u>78,549</u>		<u>(78,549)</u>
Net Change in Fund Balance	(100,000)	(125,654)	73,807	199,461
Fund Balance - Beginning (Restated)	<u>100,000</u>	<u>125,654</u>	<u>127,013</u>	<u>1,359</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 200,820</u>	<u>\$ 200,820</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

COMMUNITY CENTER SINKING FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Debt Service	\$ 9,135	\$ 9,135	\$ 9,135	\$
Total Disbursements	<u>9,135</u>	<u>9,135</u>	<u>9,135</u>	<u>\$</u>
Deficiency of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(9,135)	(9,135)	(9,135)	
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>9,135</u>	<u>9,135</u>	<u>7,517</u>	<u>(1,618)</u>
Total Other Adjustments to Cash (Uses)	<u>9,135</u>	<u>9,135</u>	<u>7,517</u>	<u>(1,618)</u>
Net Change in Fund Balance			(1,618)	(1,618)
Fund Balance - Beginning			<u>1,622</u>	<u>1,622</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4</u>	<u>\$ 4</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	RIGHT OF WAY USE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	\$	\$ 9	\$ 9
Total Receipts			9	9
DISBURSEMENTS				
Roads	5,000	5,000		5,000
Total Disbursements	5,000	5,000		5,000
Net Change in Fund Balance	(5,000)	(5,000)	9	5,009
Fund Balance - Beginning	5,000	5,000	17,857	12,857
Fund Balance - Ending	\$ 0	\$ 0	\$ 17,866	\$ 17,866

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

ESCROW FOR CLEAR RIVER FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Administration	\$ 67,100	\$ 67,100	\$	\$ 67,100
Total Disbursements	<u>67,100</u>	<u>67,100</u>	<u></u>	<u>67,100</u>
Net Change in Fund Balance	(67,100)	(67,100)		67,100
Fund Balance - Beginning	<u>67,100</u>	<u>67,100</u>	<u>67,100</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 67,100</u>	<u>\$ 67,100</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 209,060	\$ 209,060	\$ 196,562	\$ (12,498)
Intergovernmental		23,832	23,832	
Miscellaneous		300	300	
Interest	10	137	161	24
Total Receipts	<u>209,070</u>	<u>233,329</u>	<u>220,855</u>	<u>(12,474)</u>
DISBURSEMENTS				
Protection to Persons and Property	153,098	423,608	211,961	211,647
Administration	72,603	130,709	78,585	52,124
Total Disbursements	<u>225,701</u>	<u>554,317</u>	<u>290,546</u>	<u>263,771</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(16,631)	(320,988)	(69,691)	251,297
Net Change in Fund Balance	(16,631)	(320,988)	(69,691)	251,297
Fund Balance - Beginning (Restated)	<u>16,631</u>	<u>320,988</u>	<u>346,408</u>	<u>25,420</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 276,717</u>	<u>\$ 276,717</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	RESERVE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Debt Service	\$ 221	\$ 221	\$	\$ 221
Total Disbursements	<u>221</u>	<u>221</u>	<u></u>	<u>221</u>
Net Change in Fund Balance	(221)	(221)		221
Fund Balance - Beginning	<u>221</u>	<u>221</u>	<u>222</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 222</u>	<u>\$ 222</u>

MAGOFFIN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2017

Note 1. Budgetary Information

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

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements over Appropriations

The general fund recreation and culture disbursements exceeded budgeted appropriations by \$77,942.

MAGOFFIN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017

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MAGOFFIN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 1,479,003	\$	\$	\$ 1,479,003
Buildings and Building Improvements	12,604,539	144,324		12,748,863
Vehicles and Equipment	1,613,403	10,467		1,623,870
Infrastructure	9,018,802	77,587		9,096,389
 Total Capital Assets	 <u>\$ 24,715,747</u>	 <u>\$ 232,378</u>	 <u>\$ 0</u>	 <u>\$ 24,948,125</u>

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

June 30, 2017

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land (not depreciated)	\$ 5,000	
Buildings and Building Improvements	\$ 5,000	10-50
Vehicles and Equipment	\$ 5,000	5-25
Infrastructure	\$ 5,000	20

**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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The Honorable Charles Hardin, Magoffin County Judge/Executive
Members of the Magoffin 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*

Report of Independent Auditors

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 Magoffin County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement and have issued our report thereon dated May 25, 2018.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-003 and 2017-004 to be material weaknesses.

Report On Internal Control over Financial Reporting
And On Compliance and Other Matters Based On an Audit of Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-005, 2017-006, 2017-007, and 2017-008 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Magoffin 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 2017-001 and 2017-002.

Views of Responsible Official and Planned Corrective Action

Magoffin County's views and planned corrective action for the findings identified in our audit are described 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.

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
May 25, 2018

**MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended June 30, 2017

STATE LAWS AND REGULATIONS:

2017-001 The Fiscal Court Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The Department for Local Government (DLG) requires fiscal courts to track capital assets (i.e. land, buildings, equipment, vehicles, infrastructure, etc.) and maintain a listing of capital assets to be provided to auditors for inclusion in the audit report. This list should include all current year additions/purchases, retirements, disposals/sale of assets, etc. Any related documentation for capital asset additions, retirements, and disposals in the form of invoices, deeds, purchase orders, sales records, titles, liens, etc. should be maintained in a manner that facilitates easy access, retrieval, and verification of capital asset amounts recorded.

The fiscal court did not maintain a complete and accurate capital asset schedule for the fiscal year ending June 30, 2017. The fiscal court has historically not maintained a fixed asset register and has relied upon the auditor to update fixed asset information within the financial statement based upon information related to additions, retirements, and disposals provided by the fiscal court. As a result, the fiscal court is not in compliance with DLG requirements and fixed asset information in the financial statement may be misstated.

We recommend the fiscal court implement procedures to identify and track capital asset additions, retirements, and disposals in order for capital asset schedules to be complete and accurate. Additionally, we recommend the fiscal court perform physical inventories periodically to further ensure the accuracy and completeness of capital asset schedules.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Recommendation accepted and working to improve compliance.

2017-002 The Fiscal Court's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle

This is a repeat finding and was included in the prior year audit report as finding 2016-002. Internal Revenue Service (IRS) Code Section 61(a) states that the commuting value of a vehicle owned or leased by a public entity represents taxable income to the employee. The fiscal court's administrative code should address the use of vehicles and other assets owned by the fiscal court.

Fiscal court employees' personal use (e.g. commuting mileage) of a vehicle, or other asset, owned by the fiscal court is not being reported as compensation to the employees.

The fiscal court's administrative code does not address the use of vehicles and other assets owned by the fiscal court; therefore, it is unclear as to whether personal use of the vehicles and other assets is authorized by the fiscal court.

Personal use of public resources is permitted if the fiscal court has approved such use and should be reported as compensation to employees. Historically, the fiscal court has not maintained the appropriate documentation or complied with IRS Code Section 61(a).

The fiscal court understands the recommendation, but as of June 30, 2017, has not been able to implement the recommendation.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-002 The Fiscal Court's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle (Continued)

We recommend the fiscal court establish internal controls over vehicles by implementing the following:

- Report personal use and commuting mileage for vehicles as compensation/employee benefit on W-2 wage and tax statements in accordance with IRS regulations. Several methods can be used to determine the vehicle use that is taxable income to the employees, including the cents-per-mile rule, the lease value rule, and the commuting rule.
- Every employee and every department that has vehicles should maintain vehicle logs. The logs should include, at a minimum, the date, destination, purpose, and mileage for all use of the vehicle.
- The fiscal court should amend the current administrative code to include a policy on the authorization and use of vehicles (and other assets) owned by the fiscal court. In addition, it should address the tax implications of using a vehicle for personal use or commuting travel.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: No fiscal court offices use vehicles for personal matters.

Auditor's Reply: As noted in the finding, the county's administrative code does not address the personal use of county vehicles nor does it address the potential tax implications.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2017-003 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2016-004. Segregation of duties is an essential element of sustainable risk management and internal controls. The principle of segregation of duties is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. A strong internal control system does not allow one person to perform processing, documentation, and reporting functions.

We noted inadequate segregation of duties for payroll. The county treasurer is responsible for maintaining timesheets, entering payroll information into the computer system for processing, posting to the payroll ledgers, transferring funds to the revolving payroll account, administering health reimbursement and flex spending programs, preparing pay checks, preparing state and local withholding reports, and reconciling the payroll account. By delegating all these duties to the same individual, the risk of undetected fraud and errors increases.

According to the fiscal court, they have a small accounting/payroll department and segregation of duties has been challenging to achieve.

We recommend the fiscal court find ways to segregate key duties related to payroll or implement other controls to compensate for these weaknesses (for example, designating an individual to review the payroll ledgers, reconciliations, and reports, and requiring the individual to document their review by initialing the documents that were reviewed).

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2017-003 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Changes were made after the FY2015 audit. The E.M. director reviews and signs the timesheets. The finance officer posts checks to the ledger and the secretary reviews and distributes the checks.

Auditor's Reply: The controls noted in the county's response do not sufficiently address the risk of inadequately segregated duties.

2017-004 The Fiscal Court Does Not Have Adequate Internal Controls Over Gravel Inventory

This is a repeat finding and was included in the prior year audit report as finding 2016-005. The fiscal court does not have adequate internal controls over gravel purchased and stored at the Road Department. The fiscal court should have appropriate controls over gravel inventory in order to protect the fiscal court against theft of gravel inventory.

Review of the controls over gravel revealed the fiscal court maintains a log for gravel transported out to county roads; however, the log is not updated consistently. In addition, the log does not track the gravel hauled to the Road Department from the rock quarry. During our procedures relating to expenditures, we noted gravel purchases for fiscal year 2017 were \$52,542.

The fiscal court's lack of internal controls has created an opportunity for misappropriation of the assets to occur and for undetected errors in the value of the gravel inventory.

The fiscal court understands the recommendation, but as of June 30, 2017, has not been able to implement the recommendation.

We recommend the fiscal court maintain a log that tracks the gravel being hauled to and from the Road Department. This would allow an estimate of the gravel on hand to be calculated and costed. The gravel inventory should be periodically assessed to determine if a shortage exists.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Gravel logs are kept including incoming and outgoing loads of gravel.

Auditor's Reply: As noted in the finding, the gravel logs are not updated consistently and do not track the gravel hauled to the Road Department from the rock quarry.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2017-005 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable

This is a repeat finding and was included in the prior year audit report as finding 2016-007. The fiscal court does not have proper oversight and controls over notes receivable. To ensure that the fiscal court's assets are properly safeguarded and the fiscal court has the appropriate remedies available for lack of payment of receivables, the fiscal court should ensure that internal controls and agreements related to receivables are properly maintained.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2017-005 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable (Continued)

In August 2008, the fiscal court loaned the Magoffin County Water District \$20,000 for a water project. The water district has not made any payments to date and the entire amount is still outstanding.

In September 2011, the fiscal court loaned \$50,000 to the Magoffin County Water District, who then loaned the money to the Salyersville Waterworks for water projects. The fiscal court minutes indicate this was a loan, but it has not been repaid.

Failure to follow up on notes receivable, a lack of payment plans, and having notes receivable outstanding for significant time periods deprives the fiscal court of needed funds. The fiscal court understands the recommendation, but as of June 30, 2017, has not been able to implement the recommendation.

We recommend the fiscal court review the terms of all notes receivable to determine how the fiscal court will pursue collection and document those decisions in the fiscal court minutes.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The fiscal court directed the county attorney in the April 26, 2018 meeting to collect on the \$50,000 loan. Magoffin County Water District will collect the payments from Salyersville Waterworks to repay the county as stated in the fiscal court minutes.

2017-006 The Fiscal Court Does Not Have Adequate Oversight of Monthly Reconciliation Processes

This is a repeat finding and was included in the prior year audit report as finding 2016-008. The finance officer's appropriation ledger is not reconciled monthly with the county treasurer's information. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires that the finance officer's appropriation ledger is reconciled monthly with the county treasurer's information. Historically, this reconciliation has not been performed. As a result, errors that would be identified by performing this reconciliation may remain undetected in the financial statements.

According to the fiscal court, they have a small accounting department and performing all required reconciliations on a timely basis has been challenging to achieve.

We recommend the county treasurer and finance officer's appropriation ledgers are reconciled monthly.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Reconciliations have been done on a monthly basis since August 2017. The treasurer and finance officer sign off on the bank reconciliation statement.

2017-007 The Fiscal Court Did Not Consistently Utilize The Purchase Order System

This is a repeat finding and was included in the prior year audit report as finding 2016-009. The fiscal court is not consistently utilizing the purchase order system in accordance with the Department for Local Government's (DLG) guidelines. Purchases for certain services, such as election expenses, pest control, landscaping and routine maintenance did not have purchase orders. Failure to maintain appropriate records for purchase orders could result in incorrect amounts being paid or not having adequate funds or sufficient budget appropriation available.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2017-007 The Fiscal Court Did Not Consistently Utilize The Purchase Order System (Continued)

The DLG *County Budget Preparation and State Local Finance Officer Policy Manual* states, “purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head.” The DLG guidelines require that the fiscal court issue purchase orders for all purchases.

According to the fiscal court, they have a small accounting department and preparing purchase orders for all purchases is challenging to achieve.

We recommend the fiscal court require purchase orders be obtained prior to items being ordered or services received to determine adequate funds and budget appropriations are available for the purchase. Purchase orders should be completely filled out at the time of issuance. Additionally, we recommend that the fiscal court properly utilize the purchase order system in order to comply with DLG requirements.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The Judge Executive approves all purchase orders prior to purchases or services in real time by utilizing the Ring Central App.

Auditor’s Reply: The new control was operational for only a portion of the period under audit. The control was not in place long enough during the period to alleviate the significant deficiency in the purchase order system.

2017-008 The Fiscal Court Did Not Have Adequate Controls Over Credit Card Disbursements

The fiscal court is not consistently maintaining receipts for approved credit card transactions. During our testing of credit card disbursements, it was noted that the fiscal court did not maintain a proper receipt for four of the transactions tested. The Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires that all expenditures are substantiated by a receipt. By failing to maintain adequate documentation, the fiscal court is increasing the risk of paying for goods or services that were not provided to the county or for items that are not allowable. According to the fiscal court, they have a small accounting department and maintaining receipts for all purchases is challenging to achieve. We recommend the county further develop internal control procedures to ensure that credit card transactions are properly supported.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Utilization of an app sends receipts in real time with the Ring Central App.

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

MAGOFFIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2017**

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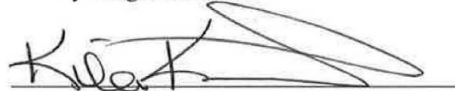
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MAGOFFIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

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



County Judge/Executive



County Treasurer