

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

**For The Year Ended
June 30, 2018**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
MARTIN COUNTY OFFICIALS.....	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT.....	10
BUDGETARY COMPARISON SCHEDULES.....	23
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	37
SCHEDULE OF CAPITAL ASSETS.....	41
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS.....	42
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 <i>GOVERNMENT AUDITING STANDARDS</i>	45
SCHEDULE OF FINDINGS AND RESPONSES.....	49
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM	

THIS PAGE LEFT BLANK INTENTIONALLY



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary, Finance and Administration Cabinet
The Honorable Victor Slone, Martin County Judge/Executive
The Honorable William Davis, Former Martin County Judge/Executive
The Honorable Kelly E. Callaham, Former Martin County Judge/Executive
Members of the Martin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Martin County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Martin 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.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912

WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary, Finance and Administration Cabinet

The Honorable Victor Slone, Martin County Judge/Executive

The Honorable William Davis, Former Martin County Judge/Executive

The Honorable Kelly E. Callaham, Former Martin County Judge/Executive

Members of the Martin County Fiscal Court

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 Martin 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 Martin County Fiscal Court as of June 30, 2018, 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 Martin County Fiscal Court as of June 30, 2018, 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 Martin County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary, Finance and Administration Cabinet

The Honorable Victor Slone, Martin County Judge/Executive

The Honorable William Davis, Former Martin County Judge/Executive

The Honorable Kelly E. Callaham, Former Martin County Judge/Executive

Members of the Martin County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2021, on our consideration of the Martin 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 Martin County Fiscal Court's internal control over financial reporting and compliance.

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

- 2018-001 The Martin County Fiscal Court's Overall Design And Operation Of The Control Environment Needs Improvement
- 2018-002 The Martin County Fiscal Court Did Not Adequately Identify Federal Grants
- 2018-003 The Martin County Fiscal Court Has \$58,000 Of Questioned HUD Funds
- 2018-004 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements
- 2018-005 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Receipts
- 2018-006 The Martin County Fiscal Court Did Not Properly Approve Transfers
- 2018-007 The Martin County Fiscal Court Did Not Have A Policy To Address Reimbursements To The Coroner's Office For Transports
- 2018-008 The Martin County Fiscal Court Does Not Have An Accurate Capital Asset Schedule Or Insurance Listing

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 2, 2021

MARTIN COUNTY OFFICIALS**For The Year Ended June 30, 2018****Fiscal Court Members:**

Kelly E. Callaham	County Judge/Executive
Joshua Muncy	Magistrate
Kenny McCoy, Jr.	Magistrate
Darrell Mills	Magistrate
Victor Slone	Magistrate
B. J. Slone	Magistrate

Other Elected Officials:

Kennis Maynard	County Attorney
Boone Mahon	Jailer
Karen S. Skyles	County Clerk
Steven Goble	Circuit Court Clerk
John H. Kirk	Sheriff
Bobby Hale	Property Valuation Administrator
John Dye	Coroner

Appointed Personnel:

Linda Sumpter	County Treasurer
Donna Callaham	Chief Financial Officer

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 483,883	\$	\$	\$
Excess Fees	60,000			
Licenses and Permits				
Intergovernmental	152,239	1,005,230	82,713	342,417
Charges for Services	2,421			
Miscellaneous	289,667	732		3
Interest	55	270	18	44
Total Receipts	<u>988,265</u>	<u>1,006,232</u>	<u>82,731</u>	<u>342,464</u>
DISBURSEMENTS				
General Government	1,020,070	23,391		25,499
Protection to Persons and Property		470	289,738	36,030
General Health and Sanitation				29,119
Social Services	4,200			
Recreation and Culture				
Roads		666,622		31,963
Debt Service		20,657		
Administration	282,914	202,105	28,045	40,035
Total Disbursements	<u>1,307,184</u>	<u>913,245</u>	<u>317,783</u>	<u>162,646</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(318,919)</u>	<u>92,987</u>	<u>(235,052)</u>	<u>179,818</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	182,111		225,500	
Transfers To Other Funds	(10,100)	(120,000)		(175,600)
Total Other Adjustments to Cash (Uses)	<u>172,011</u>	<u>(120,000)</u>	<u>225,500</u>	<u>(175,600)</u>
Net Change in Fund Balance	(146,908)	(27,013)	(9,552)	4,218
Fund Balance - Beginning	208,911	117,847	20,246	15,309
Fund Balance - Ending	<u>\$ 62,003</u>	<u>\$ 90,834</u>	<u>\$ 10,694</u>	<u>\$ 19,527</u>
Composition of Fund Balance				
Bank Balance	\$ 75,928	\$ 117,110	\$ 11,112	\$ 23,392
Less: Outstanding Checks	(13,925)	(26,276)	(418)	(3,865)
Fund Balance - Ending	<u>\$ 62,003</u>	<u>\$ 90,834</u>	<u>\$ 10,694</u>	<u>\$ 19,527</u>

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

MARTIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Budgeted Funds						
State Grant Fund	Federal Grant Fund	Fire Protection Fund	Solid Waste Fund	Occupational Tax Fund	Local Government Economic Development Fund	HUD Fund
\$	\$	\$	\$	\$ 817,309	\$	\$
			40,947			
926,319	63,049					
2						7,351
11						104
<u>926,332</u>	<u>63,049</u>		<u>40,947</u>	<u>817,309</u>		<u>7,455</u>
45	106,385			70,811		
18,318	18,596	3,408		17,500		
41,063	63,050		22,007	40,098		
				43,750		
				151,807		
667,409						
60,000	750		5,813	314,054		
<u>786,835</u>	<u>188,781</u>	<u>3,408</u>	<u>27,820</u>	<u>638,020</u>		
<u>139,497</u>	<u>(125,732)</u>	<u>(3,408)</u>	<u>13,127</u>	<u>179,289</u>		<u>7,455</u>
	95,193	2,123				18,596
(18,596)	(18,596)			(230,635)		(76,596)
<u>(18,596)</u>	<u>76,597</u>	<u>2,123</u>		<u>(230,635)</u>		<u>(58,000)</u>
120,901	(49,135)	(1,285)	13,127	(51,346)		(50,545)
168,845	52,439	1,285	32,972	109,923	6,610	225,327
<u>\$ 289,746</u>	<u>\$ 3,304</u>	<u>\$ 0</u>	<u>\$ 46,099</u>	<u>\$ 58,577</u>	<u>\$ 6,610</u>	<u>\$ 174,782</u>
\$ 289,796	\$ 66,354	\$ 3,408	\$ 46,725	\$ 240,630	\$ 6,610	\$ 174,782
(50)	(63,050)	(3,408)	(626)	(182,053)		
<u>\$ 289,746</u>	<u>\$ 3,304</u>	<u>\$ 0</u>	<u>\$ 46,099</u>	<u>\$ 58,577</u>	<u>\$ 6,610</u>	<u>\$ 174,782</u>

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

MARTIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

	Budgeted Funds			Unbudgeted	Total
	Sheriff's Office Fund	Emergency Dispatch 911 Fund	Volunteer Fire Departments Fund	Fund Public Properties Corporation Bond Fund	
RECEIPTS					
Taxes	\$	\$	\$	\$	\$ 1,301,192
Excess Fees					60,000
Licenses and Permits					40,947
Intergovernmental	356,054				2,928,021
Charges for Services		265,236			267,657
Miscellaneous	5,210				302,965
Interest					502
Total Receipts	<u>361,264</u>	<u>265,236</u>			<u>4,901,284</u>
DISBURSEMENTS					
General Government	389,170				1,635,371
Protection to Persons and Property		216,117			600,177
General Health and Sanitation					195,337
Social Services					47,950
Recreation and Culture					151,807
Roads					698,585
Debt Service					688,066
Administration	91,164	39,060			1,063,940
Total Disbursements	<u>480,334</u>	<u>255,177</u>			<u>5,081,233</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(119,070)</u>	<u>10,059</u>			<u>(179,949)</u>
Other Adjustments to Cash (Uses)					
Transfers From Other Funds	114,000	12,600			650,123
Transfers To Other Funds					(650,123)
Total Other Adjustments to Cash (Uses)	<u>114,000</u>	<u>12,600</u>			
Net Change in Fund Balance	(5,070)	22,659			(179,949)
Fund Balance - Beginning	15,823	89,669	15	25	1,065,246
Fund Balance - Ending	<u>\$ 10,753</u>	<u>\$ 112,328</u>	<u>\$ 15</u>	<u>\$ 25</u>	<u>\$ 885,297</u>
Composition of Fund Balance					
Bank Balance	\$ 32,030	\$ 114,315	\$ 15	\$ 25	\$ 1,202,232
Less: Outstanding Checks	(21,277)	(1,987)			(316,935)
Fund Balance - Ending	<u>\$ 10,753</u>	<u>\$ 112,328</u>	<u>\$ 15</u>	<u>\$ 25</u>	<u>\$ 885,297</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
NOTE 2.	DEPOSITS	13
NOTE 3.	TRANSFERS.....	14
NOTE 4.	RECEIVABLES	14
NOTE 5.	LONG-TERM DEBT	14
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	17
NOTE 7.	DEFERRED COMPENSATION.....	19
NOTE 8.	INSURANCE.....	19
NOTE 9.	AGENCY TRUST FUNDS	19
NOTE 10.	RELATED PARTY TRANSACTION.....	20
NOTE 11.	INTERFUND RECEIVABLE AND LIABILITY	20
NOTE 12.	SETTLEMENT AGREEMENTS	20

**MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The Martin County Economic Development Authority would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis they are no longer are required components of the reporting entity.

Basis of Accounting

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

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

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

B. 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.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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

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

State Grant Fund - The primary purpose of this fund is to account for state grant expenses of the county. The primary source of receipts for this fund is from the state.

Federal Grant Fund - The primary purpose of this fund is to account for federal grant expenses of the county. The primary sources of receipts for this fund are federal grants.

Fire Protection Fund - The primary purpose of this fund is to account for taxes collected for protection of forest lands.

Solid Waste Fund - The primary purpose of this fund is to account for fees collected for solid waste haulers providing services to customers in the county. The primary source of receipts for this fund is from the collection of solid waste license and permits.

Occupational Tax Fund - The primary purpose of this fund is to account for additional expenses of the county. The primary source of receipts for this fund is from the collection of occupational taxes.

Local Government Economic Development Fund - The primary purpose of this fund is to account for state grants received for economic development and related expenses. The primary source of receipts for this fund is state grants.

HUD Fund - The primary purpose of this fund is to account for a federal housing program in Martin County. The county received federal funds and payments from citizens that participated in the program.

Sheriff's Office Fund - The primary purpose of this fund is to account for the receipts and expenses of the sheriff's office. This account is funded by the sheriff's monthly excess fees payments.

Emergency Dispatch 911 Fund - The primary purpose of this fund is to account for the receipts and expenses of the 911 system. The primary source of receipts for this fund is from the collection of 911 fees.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Volunteer Fire Departments Fund - The primary purpose of this fund is to account for the receipts and expenses of the Warfield Volunteer Fire Department. The primary source of receipts for this fund is from fire services fees.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Public Properties Corporation Bond Fund - The primary purpose of this fund is to account for the proceeds and 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.

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 public properties corporation bond fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Martin County Elected Officials

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

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

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

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

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

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2018.

	General Fund	Road Fund	LGEA Fund	State Grant Fund	Federal Grant Fund	Occupational Tax Fund	HUD Fund	Total Transfers In
General Fund	\$	\$ 120,000	\$	\$	\$	\$ 62,111		\$ 182,111
Jail Fund			175,000			50,500		225,500
Federal Grant Fund				18,596			76,596	95,192
Fire Tax Fund			600			1,524		2,124
HUD Fund					18,596			18,596
Sheriff Fund	3,500					110,500		114,000
911 Fund	6,600					6,000		12,600
Total Transfers Out	<u>\$ 10,100</u>	<u>\$ 120,000</u>	<u>\$ 175,600</u>	<u>\$ 18,596</u>	<u>\$ 18,596</u>	<u>\$ 230,635</u>	<u>\$ 76,596</u>	<u>\$ 650,123</u>

Reason for transfers:

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

Note 4. Receivables

A. Martin County Water District

In July, 2005, the Martin County Fiscal Court issued financing obligations of \$200,000 to the Martin County Water District. The financing proceeds were paid directly to the water district. The water district makes the lease payments directly to the trustee of the lease to pay the principal and interest. The receivable reflects the principal amount due from the Martin County Water District of \$96,222 outstanding as of June 30, 2018. (See Note 5.A)

B. Inez Fire District

In February, 2007, the Martin County fiscal Court issued financing obligations of \$152,000 to the Martin County Inez Fire District. The financing proceeds were paid directly to the fire district. The fire district makes the lease payments directly to the trustee of the lease to pay the principal and interest. The debt balance was \$11,199 and due to the timing of payments the amount due by the fire district was \$8,438 as of June 30, 2018. (See Note 5.B)

Note 5. Long-term Debt

A. Martin County Water District - Financing Obligation

In July, 2005, the Martin County Fiscal court entered into a lease agreement with Kentucky Association of counties (KACO) and then issued financing obligations of \$200,000 to the Martin County Water District. (See Note 4.A) The financing proceeds were paid directly to the water company. The water company makes the lease payments directly to the trustee of the lease to pay principal and interest. The note requires an annual interest and principal payment due March 20th of each year with a final payment due in March 2025. As of June 30, 2018, the principal amount outstanding was \$96,222. The principal amount outstanding corresponds to the receivable due to the county (as outlined in Note 4.A). Principal of \$10,000 and interest of \$4,625 were paid as of June 30, 2018. Payments for the remaining years are as follows:

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

A. Martin County Water District - Financing Obligation (Continued)

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2019	\$ 10,000	\$ 5,375
2020	15,000	4,761
2021	15,000	3,934
2022	15,000	3,109
2023	15,000	2,283
2024-2025	26,222	1,523
Totals	\$ 96,222	\$ 20,985

B. Martin County Inez Fire District - Financing Obligation

In February 2007, the Martin County Fiscal Court entered into a lease agreement with KACO and then issued financing obligations of \$152,000 to the Martin County Inez Fire District (See Note 4.B). The financing proceeds were paid directly to the fire district. The fire district makes the lease payments directly to the trustee of the lease to pay principal and interest. The note requires variable monthly payments with a final payment due in December 2018. As of June 30, 2018, the principal amount outstanding was \$11,199. The debt balance was \$11,199 and due to timing of payments the amount due by the fire district was \$8,438. The principal amount outstanding corresponds to the payment due to the trustee (as outlined in Note 4.B). Principal of \$16,247 and interest of \$982 were paid as of June 30, 2018. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2019	\$ 11,199	\$ 223
Totals	\$ 11,199	\$ 223

C. Government Center Building and Refinancing of KACO Leases - Revenue Bonds 2014 First Series A

On March, 2014, the Martin County Fiscal Court issued revenue bonds through KACO for the construction of their new Government Center Building and the refinancing of existing KACO leases. The principal amount of the bonds was \$10,000,000. The agreement requires variable monthly payments for 24 years to be paid in full December 20, 2038. As of June 30, 2018, the principal amount outstanding was \$9,017,500. Principal of \$290,000 and interest of \$351,744 were paid as of June 30, 2018. Payments for the remaining years are as follows:

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

C. Government Center Building and Refinancing of KACO Leases - Revenue Bonds 2014 First Series A (Continued)

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2019	\$ 300,000	\$ 343,044
2020	310,000	334,044
2021	320,000	324,744
2022	330,000	315,144
2023	340,000	305,244
2024-2028	1,897,500	1,348,619
2029-2033	2,327,500	943,944
2034-2038	2,872,500	431,153
2039	320,000	13,200
Totals	<u>\$ 9,017,500</u>	<u>\$ 4,359,136</u>

D. Caterpillar - Financing Obligations

On November 24, 2014, the Martin County Fiscal Court entered into a lease agreement to finance the purchase of a track type tractor. The principal amount of the lease was \$128,190. The agreement requires variable monthly payments for five years to be paid in full December 14, 2019. As of June 30, 2018, the principal amount outstanding was \$42,121. Principal of \$25,907 and interest of \$1,642 were paid as of June 30, 2018. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2019	26,432	658
2020	15,689	115
Totals	<u>\$ 42,121</u>	<u>\$ 773</u>

E. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 9,307,500	\$	\$ 290,000	\$ 9,017,500	\$ 300,000
Financing Obligations	195,100		45,558	149,542	47,631
Total Long-term Debt	<u>\$ 9,502,600</u>	<u>\$ 0</u>	<u>\$ 335,558</u>	<u>\$ 9,167,042</u>	<u>\$ 347,631</u>

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System

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. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was \$280,606, FY 2017 was \$311,090, and FY 2018 was \$316,110.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 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 accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the 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 4 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 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 19.18 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%.

The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System (Continued)

KRS Annual Financial Report and Proportionate Share Audit Report

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 proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. 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. Deferred Compensation

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

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

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2018, the Martin County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Agency Trust Funds

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

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 9. Agency Trust Funds (Continued)

The fiscal court has the following agency trust funds:

Non Structural Flood Control - The primary purpose of this fund is to account for the Martin County Fiscal Court writing checks for the City of Inez. Since this fund is a fiduciary fund in nature, it is not represented in the financial statements. The balance in this account as of June 30, 2018, was \$113,152.

Local Emergency Planning Committee - The primary purpose of this fund is to provide emergency planning to protect public health and the environment. This account is for the activity of Local Emergency Planning Committee. Since this fund is a fiduciary fund in nature, it is not represented in the financial statements. The balance in this account as of June 30, 2018, was \$1,888.

Note 10. Related Party Transaction

For fiscal year ending June 30, 2018, the fiscal court did business with a cleaning service that employs one of the magistrates. The fiscal court spent \$42,206 to this cleaning service for this fiscal year.

Note 11. Interfund Receivable and Liability

As of June 30, 2018, the Martin County Fiscal Court transferred \$58,000 from the HUD fund which is a restricted fund to purchase vehicles for the sheriff's office. The table below reflects fund balances after accounting for the receivable and liability that are not included on the financial statements prepared in accordance with the regulatory basis of accounting.

	<u>HUD Fund</u>	<u>Federal Fund</u>
Fund Ending Cash Balance	\$ 174,782	\$ 3,304
Interfund Receivable (Liability)	58,000	(58,000)
Fund Ending Balance	<u>\$ 232,782</u>	<u>\$ (54,696)</u>

Note 12. Settlement Agreements

In January 2017, the Martin County Fiscal Court entered into settlement agreements with numerous parties in regard to outstanding payments owed on the work performed by these parties on the Marin County Government Center project. Most agreements called for the county to make an initial payment to the parties by February 2017, and the remaining balances paid in two semiannual payments over 48 months. Two agreements called for the county to make annual payments over 4 years. The total outstanding balance of these agreements as of June 30, 2018, was \$314,255.

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

For The Year Ended June 30, 2018

THIS PAGE LEFT BLANK INTENTIONALLY

MARTIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 526,150	\$ 526,150	\$ 483,883	\$ (42,267)
In Lieu Tax Payments	5	5		(5)
Excess Fees	90,000	90,000	60,000	(30,000)
Intergovernmental	172,928	172,928	152,239	(20,689)
Charges for Services			2,421	2,421
Miscellaneous	432,175	432,175	289,667	(142,508)
Interest	300	300	55	(245)
Total Receipts	<u>1,221,558</u>	<u>1,221,558</u>	<u>988,265</u>	<u>(233,293)</u>
DISBURSEMENTS				
General Government	1,086,515	1,173,007	1,020,070	152,937
General Health and Sanitation	200	200		200
Social Services	4,300	4,300	4,200	100
Debt Service	10,000			
Administration	396,086	396,656	282,914	113,742
Total Disbursements	<u>1,497,101</u>	<u>1,574,163</u>	<u>1,307,184</u>	<u>266,979</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(275,543)</u>	<u>(352,605)</u>	<u>(318,919)</u>	<u>33,686</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	159,021	159,021	182,111	23,090
Transfers To Other Funds	<u>(133,478)</u>	<u>(133,478)</u>	<u>(10,100)</u>	<u>123,378</u>
Total Other Adjustments to Cash (Uses)	<u>25,543</u>	<u>25,543</u>	<u>172,011</u>	<u>146,468</u>
Net Change in Fund Balance	(250,000)	(327,062)	(146,908)	180,154
Fund Balance - Beginning	<u>250,000</u>	<u>250,000</u>	<u>208,911</u>	<u>(41,089)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (77,062)</u>	<u>\$ 62,003</u>	<u>\$ 139,065</u>

MARTIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,243,770	\$ 1,243,770	\$ 1,005,230	\$ (238,540)
Miscellaneous	3,500	3,500	732	(2,768)
Interest	650	650	270	(380)
Total Receipts	<u>1,247,920</u>	<u>1,247,920</u>	<u>1,006,232</u>	<u>(241,688)</u>
DISBURSEMENTS				
General Government	24,000	23,530	23,391	139
Protection to Persons and Property		470	470	
Roads	676,535	764,485	666,622	97,863
Debt Service	27,090	27,090	20,657	6,433
Administration	426,274	338,324	202,105	136,219
Total Disbursements	<u>1,153,899</u>	<u>1,153,899</u>	<u>913,245</u>	<u>240,654</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>94,021</u>	<u>94,021</u>	<u>92,987</u>	<u>(1,034)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(159,021)</u>	<u>(159,021)</u>	<u>(120,000)</u>	<u>39,021</u>
Total Other Adjustments to Cash (Uses)	<u>(159,021)</u>	<u>(159,021)</u>	<u>(120,000)</u>	<u>39,021</u>
Net Change in Fund Balance	(65,000)	(65,000)	(27,013)	37,987
Fund Balance - Beginning	<u>65,000</u>	<u>65,000</u>	<u>117,847</u>	<u>52,847</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 90,834</u>	<u>\$ 90,834</u>

MARTIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 81,375	\$ 81,375	\$ 82,713	\$ 1,338
Miscellaneous	500	500		(500)
Interest	50	50	18	(32)
Total Receipts	<u>81,925</u>	<u>81,925</u>	<u>82,731</u>	<u>806</u>
DISBURSEMENTS				
Protection to Persons and Property	383,577	383,577	289,738	93,839
Administration	37,380	37,380	28,045	9,335
Total Disbursements	<u>420,957</u>	<u>420,957</u>	<u>317,783</u>	<u>103,174</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(339,032)</u>	<u>(339,032)</u>	<u>(235,052)</u>	<u>103,980</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>335,532</u>	<u>335,532</u>	<u>225,500</u>	<u>(110,032)</u>
Total Other Adjustments to Cash (Uses)	<u>335,532</u>	<u>335,532</u>	<u>225,500</u>	<u>(110,032)</u>
Net Change in Fund Balance	(3,500)	(3,500)	(9,552)	(6,052)
Fund Balance - Beginning	<u>3,500</u>	<u>3,500</u>	<u>20,246</u>	<u>16,746</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,694</u>	<u>\$ 10,694</u>

MARTIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 375,000	\$ 375,000	\$ 342,417	\$ (32,583)
Miscellaneous	300	300	3	(297)
Interest	65	65	44	(21)
Total Receipts	<u>375,365</u>	<u>375,365</u>	<u>342,464</u>	<u>(32,901)</u>
DISBURSEMENTS				
General Government	29,345	30,065	25,499	4,566
Protection to Persons and Property	44,525	44,525	36,030	8,495
General Health and Sanitation	42,100	42,100	29,119	12,981
Social Services	1,300	1,300		1,300
Roads	89,462	88,742	31,963	56,779
Administration	56,662	56,662	40,035	16,627
Total Disbursements	<u>263,394</u>	<u>263,394</u>	<u>162,646</u>	<u>100,748</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>111,971</u>	<u>111,971</u>	<u>179,818</u>	<u>67,847</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(114,471)</u>	<u>(114,471)</u>	<u>(175,600)</u>	<u>(61,129)</u>
Total Other Adjustments to Cash (Uses)	<u>(114,471)</u>	<u>(114,471)</u>	<u>(175,600)</u>	<u>(61,129)</u>
Net Change in Fund Balance	(2,500)	(2,500)	4,218	6,718
Fund Balance - Beginning	<u>2,500</u>	<u>2,500</u>	<u>15,309</u>	<u>12,809</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,527</u>	<u>\$ 19,527</u>

MARTIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	STATE GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 570,463	\$ 570,463	\$ 926,319	\$ 355,856
Miscellaneous			2	2
Interest			11	11
Total Receipts	<u>570,463</u>	<u>570,463</u>	<u>926,332</u>	<u>355,869</u>
DISBURSEMENTS				
General Government		(50)	45	(95)
Protection to Persons and Property		18,318	18,318	
General Health and Sanitation		41,065	41,063	2
Debt Service	665,463	688,316	667,409	20,907
Administration		60,750	60,000	750
Total Disbursements	<u>665,463</u>	<u>808,399</u>	<u>786,835</u>	<u>21,564</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(95,000)</u>	<u>(237,936)</u>	<u>139,497</u>	<u>377,433</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(18,596)	(18,596)
Total Other Adjustments to Cash (Uses)			<u>(18,596)</u>	<u>(18,596)</u>
Net Change in Fund Balance	(95,000)	(237,936)	120,901	358,837
Fund Balance - Beginning	95,000	95,000	168,845	73,845
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (142,936)</u>	<u>\$ 289,746</u>	<u>\$ 432,682</u>

MARTIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,342,000	\$ 1,342,000	\$ 63,049	(1,278,951)
Total Receipts	<u>1,342,000</u>	<u>1,342,000</u>	<u>63,049</u>	<u>(1,278,951)</u>
DISBURSEMENTS				
General Government		106,385	106,385	
Protection to Persons and Property		18,596	18,596	
General Health and Sanitation	1,344,400	1,060,333	63,050	997,283
Administration		750	750	
Total Disbursements	<u>1,344,400</u>	<u>1,186,064</u>	<u>188,781</u>	<u>997,283</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,400)</u>	<u>155,936</u>	<u>(125,732)</u>	<u>(281,668)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			95,193	95,193
Transfers To Other Funds			(18,596)	(18,596)
Total Other Adjustments to Cash (Uses)			<u>76,597</u>	<u>76,597</u>
Net Change in Fund Balance	(2,400)	155,936	(49,135)	(205,071)
Fund Balance - Beginning	<u>2,400</u>	<u>2,400</u>	<u>52,439</u>	<u>50,039</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 158,336</u>	<u>\$ 3,304</u>	<u>\$ (155,032)</u>

MARTIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

FIRE PROTECTION FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Protection to Persons and Property	\$ 1,300	\$ 3,408	\$ 3,408	\$
Total Disbursements	1,300	3,408	3,408	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,300)	(3,408)	(3,408)	
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			2,123	2,123
Total Other Adjustments to Cash (Uses)			2,123	2,123
Net Change in Fund Balance	(1,300)	(3,408)	(1,285)	2,123
Fund Balance - Beginning	1,300	1,300	1,285	(15)
Fund Balance - Ending	\$ 0	\$ (2,108)	\$ 0	\$ 2,108

MARTIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 40,000	\$ 40,000	\$ 40,947	\$ 947
Total Receipts	<u>40,000</u>	<u>40,000</u>	<u>40,947</u>	<u>947</u>
DISBURSEMENTS				
General Health and Sanitation	50,929	51,129	22,007	29,122
Administration	9,071	8,871	5,813	3,058
Total Disbursements	<u>60,000</u>	<u>60,000</u>	<u>27,820</u>	<u>32,180</u>
Net Change in Fund Balance	(20,000)	(20,000)	13,127	33,127
Fund Balance - Beginning	<u>20,000</u>	<u>20,000</u>	<u>32,972</u>	<u>12,972</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 46,099</u>	<u>\$ 46,099</u>

BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 950,000	\$ 950,000	\$ 817,309	\$ (132,691)
Total Receipts	<u>950,000</u>	<u>950,000</u>	<u>817,309</u>	<u>(132,691)</u>
DISBURSEMENTS				
General Government	75,933	81,913	70,811	11,102
Protection to Persons and Property	20,400	20,400	17,500	2,900
General Health and Sanitation	68,800	68,000	40,098	27,902
Social Services	50,000	50,000	43,750	6,250
Recreation and Culture	233,395	242,562	151,807	90,755
Administration	368,836	354,489	314,054	40,435
Total Disbursements	<u>817,364</u>	<u>817,364</u>	<u>638,020</u>	<u>179,344</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>132,636</u>	<u>132,636</u>	<u>179,289</u>	<u>46,653</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	133,478	133,478	(230,635)	(364,113)
Transfers To Other Funds	(316,114)	(316,114)		316,114
Total Other Adjustments to Cash (Uses)	<u>(182,636)</u>	<u>(182,636)</u>	<u>(230,635)</u>	<u>(47,999)</u>
Net Change in Fund Balance	(50,000)	(50,000)	(51,346)	(1,346)
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>109,923</u>	<u>59,923</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 58,577</u>	<u>\$ 58,577</u>

BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Interest	\$ 2	\$ 2	\$	\$ (2)
Total Receipts	<u>2</u>	<u>2</u>		<u>(2)</u>
DISBURSEMENTS				
General Government	997	997		997
Total Disbursements	<u>997</u>	<u>997</u>		<u>997</u>
Net Change in Fund Balance	(995)	(995)		995
Fund Balance - Beginning	<u>995</u>	<u>995</u>	6,610	<u>5,615</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,610</u>	<u>\$ 6,610</u>

BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	HUD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 9,500	\$ 9,500	\$ 7,351	\$ (2,149)
Interest	260	260	104	(156)
Total Receipts	<u>9,760</u>	<u>9,760</u>	<u>7,455</u>	<u>(2,305)</u>
DISBURSEMENTS				
Social Services	165,041	101,271		101,271
Administration	59,760	59,760		59,760
Total Disbursements	<u>224,801</u>	<u>161,031</u>		<u>161,031</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(215,041)</u>	<u>(151,271)</u>	<u>7,455</u>	<u>158,726</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			18,596	18,596
Transfers To Other Funds			(76,596)	(76,596)
Total Other Adjustments to Cash (Uses)			<u>(58,000)</u>	<u>(58,000)</u>
Net Change in Fund Balance	(215,041)	(151,271)	(50,545)	100,726
Fund Balance - Beginning	<u>215,041</u>	<u>215,041</u>	<u>225,327</u>	<u>10,286</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 63,770</u>	<u>\$ 174,782</u>	<u>\$ 111,012</u>

BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	SHERIFF'S OFFICE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 475,000	\$ 475,000	\$ 356,054	\$ (118,946)
Miscellaneous			5,210	5,210
Total Receipts	<u>475,000</u>	<u>475,000</u>	<u>361,264</u>	<u>(113,736)</u>
DISBURSEMENTS				
General Government	487,000	482,132	389,170	92,962
Administration	98,053	102,921	91,164	11,757
Total Disbursements	<u>585,053</u>	<u>585,053</u>	<u>480,334</u>	<u>104,719</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(110,053)</u>	<u>(110,053)</u>	<u>(119,070)</u>	<u>(9,017)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	95,053	95,053	114,000	18,947
Total Other Adjustments to Cash (Uses)	<u>95,053</u>	<u>95,053</u>	<u>114,000</u>	<u>18,947</u>
Net Change in Fund Balance	(15,000)	(15,000)	(5,070)	9,930
Fund Balance - Beginning	<u>15,000</u>	<u>15,000</u>	<u>15,823</u>	<u>823</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,753</u>	<u>\$ 10,753</u>

BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	EMERGENCY DISPATCH 911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 265,000	\$ 265,000	\$ 265,236	\$ 236
Total Receipts	<u>265,000</u>	<u>265,000</u>	<u>265,236</u>	<u>236</u>
DISBURSEMENTS				
Protection to Persons and Property	269,608	268,853	216,117	52,736
Administration	70,392	71,147	39,060	32,087
Total Disbursements	<u>340,000</u>	<u>340,000</u>	<u>255,177</u>	<u>84,823</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(75,000)</u>	<u>(75,000)</u>	<u>10,059</u>	<u>85,059</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			12,600	12,600
Total Other Adjustments to Cash (Uses)			<u>12,600</u>	<u>12,600</u>
Net Change in Fund Balance	(75,000)	(75,000)	22,659	97,659
Fund Balance - Beginning	<u>75,000</u>	<u>75,000</u>	<u>89,669</u>	<u>14,669</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 112,328</u>	<u>\$ 112,328</u>

BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

VOLUNTEER FIRE DEPARTMENTS FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Total Receipts	\$	\$	\$	\$
DISBURSEMENTS				
Administration	15	15		15
Total Disbursements	15	15		15
Net Change in Fund Balance	(15)	(15)		15
Fund Balance - Beginning	15	15	15	
Fund Balance - Ending	\$ 0	\$ 0	\$ 15	\$ 15

MARTIN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

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 state grant fund line item for general government exceeded budget appropriations by \$95. Overall, the state grant fund budget was not overspent.

THIS PAGE LEFT BLANK INTENTIONALLY

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

For The Year Ended June 30, 2018

THIS PAGE LEFT BLANK INTENTIONALLY

MARTIN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 640,520	\$ 20,250	\$	\$ 660,770
Land Improvements	370,770			370,770
Buildings	12,395,857	98,567		12,494,424
Vehicles and Equipment	3,120,851	151,674	235,934	3,036,591
Infrastructure	2,472,050	33,200		2,505,250
 Total Capital Assets	 <u>\$ 19,000,048</u>	 <u>\$ 303,691</u>	 <u>\$ 235,934</u>	 <u>\$ 19,067,805</u>

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

June 30, 2018

Note 1. Capital Assets

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

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

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

THIS PAGE LEFT BLANK INTENTIONALLY



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Victor Slone, Martin County Judge/Executive
The Honorable William Davis, Former Martin County Judge/Executive
The Honorable Kelly Callaham, Former Martin County Judge/Executive
Members of the Martin County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Martin County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Martin County Fiscal Court's financial statement and have issued our report thereon dated February 2, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Martin 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 Martin County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Martin 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 2018-001, 2018-002, and 2018-004 to be material weaknesses.



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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-003, 2018-005, 2018-006, 2018-007, and 2018-008 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Martin 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, 2018-001, 2018-002, and 2018-004.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 2, 2021

**MARTIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

THIS PAGE LEFT BLANK INTENTIONALLY

**MARTIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Martin County Fiscal Court's Overall Design And Operations Of The Control Environment Needs Improvement

Internal controls over the accounting process did not operate as designed resulting in procedures not being followed and creating an overall weak control environment. These numerous weaknesses significantly increase the risk of fraud, misappropriation of funds, and the fiscal court's ability to ensure that financial data is recorded, processed, and reported in accurate and reliable manner.

The items were noted during the audit that show the accounting process did not operate as designed due to poor internal controls and are discussed further in detail in the following findings:

- The Martin County Fiscal Court Did Not Adequately Identify Federal Grants
- The Martin County Fiscal Court Has \$58,000 of Questioned Cost Relating To HUD Funds
- The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements
- The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Receipts
- The Martin County Fiscal Court Did Not Approve Transfers
- The Martin County Fiscal Court Did Not Have A Policy To Address Reimbursements To The Coroner's Office For Transport
- The Martin County Fiscal Court Does Not Have An Accurate Capital Asset Schedule Or Insurance Listing

Management has a responsibility to implement internal controls that provide reasonable assurance regarding the reliability of financial reporting. Internal control is a management process for keeping an entity on course in achieving its business objectives. These controls should ensure resources are protected from waste, loss, and misuse and ensure reliable data is obtained, maintained, and fairly disclosed. Entities are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management system.

We recommend the fiscal court implement internal controls over the financial accounting system that ensure an adequate internal control structure, that includes management oversight, provides reasonable assurance that assets are safeguarded and transactions are processed in accordance with applicable laws and regulations.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive William Davis's Response: Previous administration.

2018-002 The Martin County Fiscal Court Did Not Adequately Identify Federal Grants

The original Schedule of Expenditures of Federal Awards (SEFA) provided to auditors was materially incorrect and grants were not adequately identified. FEMA expenditures of \$102,503 and HUD expenditures of \$58,000 were not included on the original SEFA.

As stated in 2 CFR 200.510(b) "the auditee must also prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statement which must include the total federal awards expended."

**MARTIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Martin County Fiscal Court Did Not Adequately Identify Federal Grants (Continued)

Failure to maintain an accurate SEFA with the required information such as the Catalog of Federal Domestic Assistance (CFDA) numbers could result in a failure to properly obtain a single audit in accordance with uniform guidance. This could endanger future federal awards per 2CFR 200.501(a), “a non-federal entity that expends \$750,000 or more during the non-federal entity’s fiscal year in federal awards must have a single or program-specific audit conducted for that year in accordance with the provision of this part.”

The auditee shall per 2CFR 200.510(b)(3) “provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number with the CFDA information is not available.”

We recommend the Martin County Fiscal Court implement internal controls to immediately recognize all federal awards and keep track of federal grant information including the identifying CFDA number. An employee should be assigned to track federal expenditures while maintaining an accurate SEFA.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive William Davis’s Response: Previous administration.

2018-003 The Martin County Fiscal Court Has \$58,000 Of Questioned HUD Funds

The sheriff was awarded a USDA grant to purchase cars. On June 7, 2017, the grant was awarded and needed to be executed. Per the fiscal court orders, the sheriff had his portion of the funding for these cars and the county needed to provide their portion. On June 29, 2017, the fiscal court ordered to temporarily transfer \$58,000 from the HUD fund to the federal grant fund to cover their portion. The county judge/executive said the amount would be enough to cover the cars and the money would be put back into the HUD fund. On July 12, 2017, the fiscal court wrote a check from the HUD fund to the federal grant fund in the amount of \$58,000.

The fiscal court had cash flow issues and decided to use restricted federal funds to operate the county.

The federal grant fund owes the HUD fund \$58,000 causing a deficit fund balance of \$54,696, due to the federal fund only having an ending balance cash balance of \$3,304, as of June 30, 2018.

Section 3 of the HUD program guidelines states these funds are to be spent on “replacing existing roofing material and sheathing, installation of permanent block foundation, doors and windows, exterior siding, insulation, replacement of damaged sheetrock, heating and cooling systems, replacement of existing plumbing and electrical system, installation of a potable drinking water supply and septic system, and renovations for handicapped accessibility.”

We recommend that the fiscal court not spend restricted funds to operate the county. In addition, we recommend the fiscal court immediately transfer these funds back to the HUD Fund. We will refer this matter to Department of Housing and Urban Development.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive William Davis’s Response: Previous administration.

MARTIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2017-003. The fiscal court's controls over disbursements were not operating as intended. Based on items tested, disbursements were not properly authorized, supporting documentation was not maintained, and appropriate and proper procedures were not followed.

The deficiencies listed below were able to occur due to lack of monitoring of controls, which diminish the effectiveness of the controls put in place over disbursements by fiscal court. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets.

As a result, the following exceptions were noted:

- The Martin County Fiscal Court did not follow Department for Local Government's policies regarding prepayment of services. We noted that the fiscal court prepaid three months of cleaning services totaling \$10,500.
- Fifty eight disbursements totaling \$652,879 were not paid within 30 days.
- Eleven instances totaling \$66,996 were noted for insufficient supporting documentation for items purchased.
- Five transactions totaling \$22,755 that were prior year expenditures and not paid within 30 days.
- The county did not provide proper bid documentation for seven purchases that exceed the county's administrative code bid threshold of \$10,000. These purchase include \$33,200 of steel drilling for a FEMA project, \$10,856 of gravel, and \$19,588 of supplies.
- State grant fund line item for general government exceeded appropriations by \$95.
- Three jail invoices, totaling \$73,114, for April 2018, May 2018, and June 2018 inmate housing were not paid until August 6, 2019, which is 14 - 15 months late.
- The county issued purchase orders when they did not have the cash balance to cover. The county reported encumbrances for the general fund of \$139,052 and jail fund of \$81,267 at June 30, 2018, however the ending cash balance in these funds was only \$62,003 and \$10,694, respectively.

Proper internal controls over expenditures are important to ensure purchase orders are created with sufficient funds available, include proper supporting documentation, and are paid in a timely manner. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, "purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head."

In addition, according to the fiscal court's administrative code, "all purchases of items of like or similar nature in excess of \$10,000 in a fiscal year shall be advertised for bids, except otherwise provided in this administrative code. Items normally supplied as a unit shall not be artificially divided for the purpose of avoiding the competitive bidding procedure of this administrative code." Furthermore, KRS 65.140 requires invoices to be paid within 30 days of being received.

We recommend fiscal court implement proper internal controls over expenditures and ensure they are operating effectively.

Former County Judge/Executive William Davis's Response: Previous administration.

MARTIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Martin County Fiscal Court Did Not Have Adequate Internal Controls Over Receipts

The Martin County Treasurer prepared and deposited receipts, posted receipts to the accounting system, prepared monthly reports for fiscal court and quarterly reports for the Department for Local Government, made cash transfers between funds and bank accounts, and performed bank reconciliations. There was no review by another person to ensure daily deposits agree to the receipts ledger.

The lack of adequate segregation of duties and too much control by one individual could result in the undetected misappropriation of assets and errors that could go unnoticed, and inaccurate financial reporting to occur.

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

We recommend the fiscal court strengthen internal controls by segregating the duties involved in receiving, recording, reconciling, and reporting receipts. If segregation is not possible, we recommend compensating controls, such as a receipt listing prepared by another person to compare to deposit tickets and ledger posting and documentation of oversight and review by a second person.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive William Davis's Response: Previous administration.

2018-006 The Martin County Fiscal Court Did Not Properly Approve Transfers

Fund transfers in the amount of \$126,600 did not have prior approval from the fiscal court before being made. However, transfers were later approved by the court in total.

During the review of the quarterly financial statement, we noted that a transfer was made resulting in the final budget having a negative balance. This caused a claim to be in excess of that line item budget. By the treasurer not getting prior approval, the fiscal court lost its ability to have proper management oversight of the county's limited financial resources and the practice could cause funds to be misappropriated or misused without the fiscal court's knowledge.

As stated in the *County Budget Preparation and State and Local Finance Officer Policy Manual*, "all transfers require a fiscal court order." In addition, KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void."

We recommend all transfers be approved by the fiscal court prior to the treasurer executing them. In addition, we recommend that the fiscal court implement procedures to ensure appropriations or claims are made within the budget appropriations.

Former County Judge/Executive William Davis's Response: Previous administration.

**MARTIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The Martin County Fiscal Court Did Not Have A Policy To Address Reimbursements To The Coroner's Office For Transports

The coroner bills the fiscal court \$300 for reimbursement of expenses to include payments for the transportation of bodies to the chief medical examiner's office in Frankfort. These flat fee transports are performed by either the coroner or one of his deputies and whoever performs the transport receives the \$300. All other county employees are reimbursed for actual expenses per the county's administrative code. These \$300 lump sum reimbursements totaling \$1,800 are not included on the employees' W-2s. The fiscal court did not follow their approved expense reimbursement policy.

By not following the county's administrative code which states "(1) Officials and employees of the Court may be reimbursed for personal expenses incurred while performing their duties as an employee of the Court. Personal expenses shall include food, lodging and travel. (3) Receipts shall be required for hotel bills, airline tickets, and automobile expense where travel is by court-owned vehicle. The use of court owned vehicles is encouraged while on court business. Employees shall be reimbursed \$4.00 for breakfast, \$5.00 for lunch, and \$12.00 for dinner without a receipt. Request for reimbursements in excess of these amounts shall be accompanied by a receipt." The coroner and his deputies are receiving lump sum payments as a fee for services provided, instead of a reimbursement of actual expenses for the coroner's office. Also since the reimbursements are for a flat rate and not actual expenses, the amounts are taxable; however, they were not included on their W-2's.

KRS 64.410(2) states, in part, "[n]o officer shall demand or receive any fee for his services:...(b) Any fee for services rendered when the law has not fixed compensation therefor[.]" Furthermore, KRS 64.530(4) allows the fiscal court to provide a salary for county officers and their deputies and assistants to be fixed no later than the first Monday in May in the year the officer was elected. The elected officer's compensation may not be changed but the deputies or assistants may be reviewed and adjusted by the fiscal court no later than the first Monday in May in any successive year upon written request by the officer. In addition, KRS 64.185 addresses monthly coroner and deputy coroner salaries based on county population as well as allows for a per month expense allowance up to \$300/month.

We recommend the fiscal court follow their county's adopted policies and procedures, applicable statutes, and IRS regulations.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive William Davis's Response: Previous administration.

2018-008 The Martin County Fiscal Court Does Not Maintain An Accurate Capital Asset Schedule Or Insurance Listing

The county's capital asset listing and insurance listing are inaccurate. The capital asset listing did not include all items that are on the insurance listing. Controls are not in place to ensure that capital assets are being added and removed from the capital asset listing and/or insurance listing.

Not maintaining an accurate list of capital assets or insurance policy could cause capital assets to be uninsured or result in paying for insurance for an asset the county no longer owns. It also leaves capital assets vulnerable to misappropriation and misstatement.

MARTIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-008 The Martin County Fiscal Court Does Not Maintain An Accurate Capital Asset Schedule Or Insurance Listing (Continued)

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. Additionally, good internal controls dictate management oversight of capital assets to prevent misappropriation or theft.

We recommend insurance policies be updated timely in order for the county to avoid unnecessary costs associated with insurance coverage on assets no longer owned by the county and to ensure that all county assets are properly insured in the event of loss. The county should also conduct a physical inspection of county assets at the end of each year and make comparisons to the county's list of inventoried assets and insurance policy.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive William Davis's Response: Previous administration.

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

MARTIN COUNTY FISCAL COURT

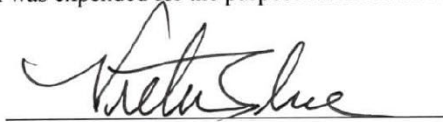
For The Year Ended June 30, 2018

THIS PAGE LEFT BLANK INTENTIONALLY

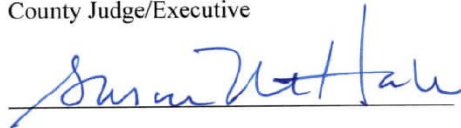
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM
MARTIN COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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



County Judge/Executive



County Treasurer