

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

**For The Fiscal Year Ended
June 30, 2015**



**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**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Charles E. 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, 2015.

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 Magoffin County, Kentucky's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT OF THE
MAGOFFIN COUNTY FISCAL COURT

June 30, 2015

Dean Dorton Allen Ford, PLLC has completed the audit of the Magoffin County Fiscal Court for fiscal year ended June 30, 2015.

They have issued an unmodified opinion, based on their audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Magoffin County, Kentucky.

Financial Condition:

The Magoffin County Fiscal Court had total receipts of \$7,516,593 and disbursements of \$9,011,734 in fiscal year 2015. This resulted in a total ending fund balance of \$1,773,681, which is a decrease of \$1,495,141 from the prior year.

Report Comments:

- 2015-001 The County Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements
- 2015-002 The County's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle
- 2015-003 The Fiscal Court Did Not Prepare A Schedule Of Expenditures Of Federal Awards
- 2015-004 The Fiscal Court Did Not Have Insurance On A 2013 Mack Truck That Could Not Be Found During A Physical Inventory Test
- 2015-005 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2015-006 The Fiscal Court Does Not Have Adequate Internal Controls Over Gravel Inventory
- 2015-007 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts And Flexible Spending Accounts
- 2015-008 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable
- 2015-009 The Fiscal Court Does Not Have Adequate Oversight Of Monthly Reconciliation Processes

Deposits:

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

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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 Magoffin County, Kentucky, for the year ended June 30, 2015, 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 more fully 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, 2015, 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, 2015, 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 Assets 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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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 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 comments and recommendations included herein, which discusses the following report comments:

- 2015-001 The County Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements
- 2015-002 The County's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle
- 2015-003 The Fiscal Court Did Not Prepare A Schedule Of Expenditures Of Federal Awards
- 2015-004 The Fiscal Court Did Not Have Insurance On A 2013 Mack Truck That Could Not Be Found During A Physical Inventory Test
- 2015-005 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2015-006 The Fiscal Court Does Not Have Adequate Internal Controls Over Gravel Inventory
- 2015-007 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts And Flexible Spending Accounts
- 2015-008 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable
- 2015-009 The Fiscal Court Does Not Have Adequate Oversight Of Monthly Reconciliation Processes

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
November 30, 2016

MAGOFFIN COUNTY OFFICIALS**For The Year Ended June 30, 2015****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, 2015

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

For The Year Ended June 30, 2015

	Budgeted Funds				
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	CERF Grant Fund
RECEIPTS					
Taxes	\$ 2,396,802	\$	\$	\$	\$
Excess Fees	33,306				
Licenses and Permits	93,361	56,617			
Intergovernmental	479,972	1,756,874	70,195	653,951	450,709
Charges for Services					
Miscellaneous	434,048	42,509	10	34,892	
Interest	512	162		78	
Total Receipts	<u>3,438,001</u>	<u>1,856,162</u>	<u>70,205</u>	<u>688,921</u>	<u>450,709</u>
DISBURSEMENTS					
General Government	1,121,590			82,889	
Protection to Persons and Property	74,058		411,336	336,466	
General Health and Sanitation				11,252	
Social Services				95,110	
Recreation and Culture	7,835			187,270	
Roads		2,198,412		975,450	
Debt Service	367,226				
Capital Projects	532,181				245,329
Administration	860,306	359,120	22,730	70,581	
Total Disbursements	<u>2,963,196</u>	<u>2,557,532</u>	<u>434,066</u>	<u>1,759,018</u>	<u>245,329</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	474,805	(701,370)	(363,861)	(1,070,097)	205,380
Other Adjustments to Cash (Uses)					
Transfers From Other Funds		787,000	359,000	90,590	
Transfers To Other Funds	(1,235,448)	(10,590)			
Total Other Adjustments to Cash (Uses)	<u>(1,235,448)</u>	<u>776,410</u>	<u>359,000</u>	<u>90,590</u>	
Net Change in Fund Balance	(760,643)	75,040	(4,861)	(979,507)	205,380
Fund Balance - Beginning	1,700,465	10,080	10,664	1,053,495	
Fund Balance - Ending	<u>\$ 939,822</u>	<u>\$ 85,120</u>	<u>\$ 5,803</u>	<u>\$ 73,988</u>	<u>\$ 205,380</u>
Composition of Fund Balance					
Bank Balance	\$ 964,299	\$ 94,495	\$ 11,821	\$ 82,068	\$ 205,380
Less: Outstanding Checks	(24,477)	(9,375)	(6,018)	(8,080)	
Fund Balance - Ending	<u>\$ 939,822</u>	<u>\$ 85,120</u>	<u>\$ 5,803</u>	<u>\$ 73,988</u>	<u>\$ 205,380</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, 2015
(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
\$ 2,524	\$ 73,828	\$	\$	\$	\$ 216,883	\$
	122,206				8,890	
	13,362				6,254	
	114		9		12	
<u>2,524</u>	<u>209,510</u>		<u>9</u>		<u>232,039</u>	
2,957					147,715	
	179,557					
		9,080				
	79,692				65,079	
<u>2,957</u>	<u>259,249</u>	<u>9,080</u>			<u>212,794</u>	
(433)	(49,739)	(9,080)	9		19,245	
500		8,948				
<u>500</u>		<u>8,948</u>				
67	(49,739)	(132)	9		19,245	
	212,302	1,892	17,839	250,000	9,690	222
<u>\$ 67</u>	<u>\$ 162,563</u>	<u>\$ 1,760</u>	<u>\$ 17,848</u>	<u>\$ 250,000</u>	<u>\$ 28,935</u>	<u>\$ 222</u>
\$ 67	\$ 177,670	\$ 1,760	\$ 17,848	\$ 250,000	\$ 28,935	\$ 222
	(15,107)					
<u>\$ 67</u>	<u>\$ 162,563</u>	<u>\$ 1,760</u>	<u>\$ 17,848</u>	<u>\$ 250,000</u>	<u>\$ 28,935</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, 2015
(Continued)

	<u>Unbudgeted Fund</u>	
	Magoffin County Public Properties Corporation Justice Center Fund	Total Funds
RECEIPTS		
Taxes	\$	\$ 2,690,037
Excess Fees		33,306
Licenses and Permits		149,978
Intergovernmental	568,513	4,111,310
Charges for Services		
Miscellaneous		531,075
Interest		887
Total Receipts	<u>568,513</u>	<u>7,516,593</u>
DISBURSEMENTS		
General Government		1,204,479
Protection to Persons and Property		972,532
General Health and Sanitation		190,809
Social Services		95,110
Recreation and Culture		195,105
Roads		3,173,862
Debt Service	567,013	943,319
Capital Projects		777,510
Administration	1,500	1,459,008
Total Disbursements	<u>568,513</u>	<u>9,011,734</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(1,495,141)
Other Adjustments to Cash (Uses)		
Transfers From Other Funds		1,246,038
Transfers To Other Funds		<u>(1,246,038)</u>
Total Other Adjustments to Cash (Uses)		
Net Change in Fund Balance		(1,495,141)
Fund Balance - Beginning	2,173	3,268,822
Fund Balance - Ending	<u>\$ 2,173</u>	<u>\$ 1,773,681</u>
Composition of Fund Balance		
Bank Balance	\$ 2,173	\$ 1,836,738
Less Outstanding Checks		<u>(63,057)</u>
Ending Fund Balance	<u>\$ 2,173</u>	<u>\$ 1,773,681</u>

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

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TO THE FINANCIAL STATEMENT**

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MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of the Magoffin County Fiscal Court includes all budgeted and unbudgeted funds under the control of the Magoffin County 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 county'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 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, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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.

CERF Grant Fund – The primary purpose of this fund is to account for the receipts and disbursements related to the Central Emergency Response Fund (CERF) grant.

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 a 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 Funds

The fiscal court reports the following unbudgeted funds:

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.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

The State Local Finance Officer does not require the 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 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 Magoffin County 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).

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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, 2015, 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 2015.

	Road Fund	Jail Fund	Forestry Fund	Sinking Fund	LGEA Fund	Total Transfers Out
General Fund	\$ 787,000	\$ 359,000	\$ 500	\$ 8,948	\$ 80,000	\$ 1,235,448
Road Fund					10,590	10,590
Total Transfers In	<u>\$ 787,000</u>	<u>\$ 359,000</u>	<u>\$ 500</u>	<u>\$ 8,948</u>	<u>\$ 90,590</u>	<u>\$ 1,246,038</u>

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

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Note Receivable

In August 2008, the Magoffin County 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. As of June 30, 2015, there have been no payments made on the loan and the entire \$20,000 balance remains outstanding.

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 five percent interest for the completion of the Magoffin County Community Center Project. The fiscal court pays semi-annual 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 \$70,300 as of June 30, 2015. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 5,600	\$ 3,515
2017	5,900	3,235
2018	6,200	2,940
2019	6,500	2,630
2020	6,800	2,305
2021-2025	39,300	6,075
Totals	<u>\$ 70,300</u>	<u>\$ 20,700</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 Magoffin County Fiscal Court, issued \$4,030,000 in First Mortgage Refunding Revenue Bonds for the payment of debt for the construction of the justice center. Semi-annual principal and interest payments 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, the 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.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

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

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

As of June 30, 2015 the principal balance on these bonds was \$4,030,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 465,000	\$ 97,813
2017	475,000	88,513
2018	485,000	79,013
2019	490,000	69,313
2020	505,000	58,288
2021-2025	<u>1,610,000</u>	<u>93,675</u>
Totals	<u>\$ 4,030,000</u>	<u>\$ 486,615</u>

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

In October 2013, the Magoffin County 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 were \$3,000,000. The fiscal court is required to make monthly principal and interest payments in accordance with a schedule to complete the contract. The final payment of the lease is due January 2024. The principal balance of the agreement was \$2,622,500 as of June 30, 2015. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 272,083	\$ 71,956
2017	279,167	66,515
2018	287,083	60,931
2019	294,167	54,585
2020	304,167	47,231
2021-2024	<u>1,185,833</u>	<u>94,362</u>
Totals	<u>\$ 2,622,500</u>	<u>\$ 395,580</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

D. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 4,565,600	\$	\$ 465,300	\$ 4,100,300	\$ 470,600
Financing Obligations	2,889,583		267,083	2,622,500	272,083
Total Long-term Debt	<u>\$ 7,455,183</u>	<u>\$</u>	<u>\$ 732,383</u>	<u>\$ 6,722,800</u>	<u>\$ 742,683</u>

Note 6. Employee Retirement System

A. Plan Description

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The fiscal court's contribution rate for nonhazardous employees was 17.67 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent.

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

The fiscal court's contribution for Fiscal Year 2013 was \$271,116, Fiscal Year 2014 was \$271,211, and Fiscal Year 2015 was \$291,329.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (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.

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

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

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

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.

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

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

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, the fiscal court's proportionate share of the net pension liability as of June 30, 2015 is:

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Employee Retirement System (Continued)

B. Net Pension Liability (Continued)

	June 30, 2014	June 30, 2015
Hazardous	\$ 62,000	\$ 55,000
Non-Hazardous	2,597,000	2,295,000
Total	<u>\$ 2,659,000</u>	<u>\$ 2,350,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 7. Insurance

For the fiscal year ended June 30, 2015, 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 2015, three employees participated in the program, which is administered by the county treasurer.
- 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 2015, 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 to be maintained by the fiscal court an amount of 50 cents per ton of coal hauled not to exceed \$250,000. 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 upkeep of the roadway shall revert back to the corporation.

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 1,773,900	\$ 2,382,566	\$ 2,396,802	\$ 14,236
Excess Fees		33,306	33,306	
Licenses and Permits	50,700	91,969	93,361	1,392
Intergovernmental	287,332	531,532	479,972	(51,560)
Miscellaneous	29,800	319,879	434,048	114,169
Interest	300	300	512	212
Total Receipts	<u>2,142,032</u>	<u>3,359,552</u>	<u>3,438,001</u>	<u>78,449</u>
DISBURSEMENTS				
General Government	930,306	1,216,601	1,121,590	95,011
Protection to Persons and Property	67,777	80,277	74,058	6,219
Recreation and Culture		7,835	7,835	
Debt Service	367,227	369,074	367,226	1,848
Capital Projects		532,182	532,181	1
Administration	751,061	1,768,457	860,306	908,151
Total Disbursements	<u>2,116,371</u>	<u>3,974,426</u>	<u>2,963,196</u>	<u>1,011,230</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>25,661</u>	<u>(614,874)</u>	<u>474,805</u>	<u>1,089,679</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(375,061)</u>	<u>(375,061)</u>	<u>(1,235,448)</u>	<u>(860,387)</u>
Total Other Adjustments to Cash (Uses)	<u>(375,061)</u>	<u>(375,061)</u>	<u>(1,235,448)</u>	<u>(860,387)</u>
Net Change in Fund Balance	(349,400)	(989,935)	(760,643)	229,292
Fund Balance - Beginning	<u>349,400</u>	<u>1,700,464</u>	<u>1,700,465</u>	<u>1</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ 710,529</u>	<u>\$ 939,822</u>	<u>\$ 229,293</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,373,656	\$ 1,891,222	\$ 1,756,874	\$ (134,348)
Licenses and Permits	4,200	56,617	56,617	
Miscellaneous		25,527	42,509	16,982
Interest	300	300	162	(138)
Total Receipts	<u>1,378,156</u>	<u>1,973,666</u>	<u>1,856,162</u>	<u>(117,504)</u>
DISBURSEMENTS				
Roads	1,074,456	2,199,388	2,198,412	976
Administration	303,700	359,490	359,120	370
Total Disbursements	<u>1,378,156</u>	<u>2,558,878</u>	<u>2,557,532</u>	<u>1,346</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(585,212)</u>	<u>(701,370)</u>	<u>(116,158)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			787,000	787,000
Transfers To Other Funds			<u>(10,590)</u>	<u>(10,590)</u>
Total Other Adjustments to Cash (Uses)			<u>776,410</u>	<u>776,410</u>
Net Change in Fund Balance		(585,212)	75,040	660,252
Fund Balance - Beginning		<u>10,080</u>	<u>10,080</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$ (575,132)</u>	<u>\$ 85,120</u>	<u>\$ 660,252</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 76,968	\$ 76,968	\$ 70,195	\$ (6,773)
Interest	8	8	10	2
Total Receipts	<u>76,976</u>	<u>76,976</u>	<u>70,205</u>	<u>(6,771)</u>
DISBURSEMENTS				
Protection to Persons and Property	405,063	415,727	411,336	4,391
Administration	37,394	37,394	22,730	14,664
Total Disbursements	<u>442,457</u>	<u>453,121</u>	<u>434,066</u>	<u>19,055</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(365,481)</u>	<u>(376,145)</u>	<u>(363,861)</u>	<u>12,284</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	365,481	365,481	359,000	(6,481)
Total Other Adjustments to Cash (Uses)	<u>365,481</u>	<u>365,481</u>	<u>359,000</u>	<u>(6,481)</u>
Net Change in Fund Balance		(10,664)	(4,861)	5,803
Fund Balance - Beginning		<u>10,664</u>	<u>10,664</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 5,803</u>	<u>\$ 5,803</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 396,485	\$ 543,532	\$ 653,951	\$ 110,419
Charges for Services	200	200		(200)
Miscellaneous	10,000	34,730	34,892	162
Interest	400	400	78	(322)
Total Receipts	<u>407,085</u>	<u>578,862</u>	<u>688,921</u>	<u>110,059</u>
DISBURSEMENTS				
General Government	65,799	82,928	82,889	39
Protection to Persons and Property	83,757	336,468	336,466	2
General Health and Sanitation	12,500	11,253	11,252	1
Social Services	50,000	95,111	95,110	1
Recreation and Culture	155,504	188,527	187,270	1,257
Roads	123,872	975,450	975,450	
Administration	59,168	70,583	70,581	2
Total Disbursements	<u>550,600</u>	<u>1,760,320</u>	<u>1,759,018</u>	<u>1,302</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(143,515)</u>	<u>(1,181,458)</u>	<u>(1,070,097)</u>	<u>111,361</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			90,590	90,590
Total Other Adjustments to Cash (Uses)			<u>90,590</u>	<u>90,590</u>
Net Change in Fund Balance	(143,515)	(1,181,458)	(979,507)	201,951
Fund Balance - Beginning	<u>143,515</u>	<u>1,053,495</u>	<u>1,053,495</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$ (127,963)</u>	<u>\$ 73,988</u>	<u>\$ 201,951</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	CERF GRANT FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$	\$ 500,000	\$ 450,709	\$ (49,291)
Total Receipts		<u>500,000</u>	<u>450,709</u>	<u>(49,291)</u>
DISBURSEMENTS				
Capital Projects		500,000	245,329	254,671
Total Disbursements		<u>500,000</u>	<u>245,329</u>	<u>254,671</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>205,380</u>	<u>205,380</u>
Net Change in Fund Balance			205,380	205,380
Fund Balance - Beginning				
Fund Balance - Ending	\$	\$	<u>\$ 205,380</u>	<u>\$ 205,380</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	FORESTRY FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 2,500	\$ 2,500	\$ 2,524	\$ 24
Total Receipts	<u>2,500</u>	<u>2,500</u>	<u>2,524</u>	<u>24</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)	<u>(500)</u>	<u>(500)</u>	<u>(433)</u>	<u>67</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			500	500
Total Other Adjustments to Cash (Uses)			<u>500</u>	<u>500</u>
Net Change in Fund Balance	(500)	(500)	67	567
Fund Balance - Beginning	<u>500</u>	<u>500</u>		<u>(500)</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 67</u>	<u>\$ 67</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 80,000	\$ 80,000	\$ 73,828	\$ (6,172)
Intergovernmental		98,205	122,206	24,001
Miscellaneous	13,000	13,000	13,362	362
Interest	50	91	114	23
Total Receipts	<u>93,050</u>	<u>191,296</u>	<u>209,510</u>	<u>18,214</u>
DISBURSEMENTS				
General Health and Sanitation	83,450	321,079	179,557	141,522
Debt Service	28,710	28,710		28,710
Administration		53,809	79,692	(25,883)
Total Disbursements	<u>112,160</u>	<u>403,598</u>	<u>259,249</u>	<u>144,349</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(19,110)</u>	<u>(212,302)</u>	<u>(49,739)</u>	<u>162,563</u>
Net Change in Fund Balance	(19,110)	(212,302)	(49,739)	162,563
Fund Balance - Beginning	<u>19,110</u>	<u>212,302</u>	<u>212,302</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 162,563</u>	<u>\$ 162,563</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

COMMUNITY CENTER SINKING FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Debt Service	\$ 9,080	\$ 9,080	\$ 9,080	\$
Total Disbursements	<u>9,080</u>	<u>9,080</u>	<u>9,080</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(9,080)</u>	<u>(9,080)</u>	<u>(9,080)</u>	
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>9,080</u>	<u>9,080</u>	<u>8,948</u>	<u>(132)</u>
Total Other Adjustments to Cash (Uses)	<u>9,080</u>	<u>9,080</u>	<u>8,948</u>	<u>(132)</u>
Net Change in Fund Balance			(132)	(132)
Fund Balance - Beginning			<u>1,892</u>	<u>1,892</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 1,760</u>	<u>\$ 1,760</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	RIGHT OF WAY USE FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Interest	\$	\$	\$ 9	\$ 9
Total Receipts			9	9
DISBURSEMENTS				
Roads	5,000	5,000		5,000
Total Disbursements	5,000	5,000		5,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(5,000)	(5,000)	9	5,009
Net Change in Fund Balance	(5,000)	(5,000)	9	5,009
Fund Balance - Beginning	5,000	5,000	17,839	12,839
Fund Balance - Ending	\$	\$	\$ 17,848	\$ 17,848

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ESCROW FOR CLEAR RIVER FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Administration	\$ 250,000	\$ 250,000	\$	\$ 250,000
Total Disbursements	250,000	250,000		250,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(250,000)	(250,000)		250,000
Net Change in Fund Balance	(250,000)	(250,000)		250,000
Fund Balance - Beginning	250,000	250,000	250,000	
Fund Balance - Ending	\$	\$	\$ 250,000	\$ 250,000

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 215,172	\$ 215,172	\$ 216,883	\$ 1,711
Intergovernmental		8,890	8,890	
Miscellaneous		6,254	6,254	
Interest	10	10	12	2
Total Receipts	<u>215,182</u>	<u>230,326</u>	<u>232,039</u>	<u>1,713</u>
DISBURSEMENTS				
Protection to Persons and Property	150,468	171,111	147,715	23,396
Administration	64,714	76,339	65,079	11,260
Total Disbursements	<u>215,182</u>	<u>247,450</u>	<u>212,794</u>	<u>34,656</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(17,124)</u>	<u>19,245</u>	<u>36,369</u>
Net Change in Fund Balance		(17,124)	19,245	36,369
Fund Balance - Beginning		<u>9,690</u>	<u>9,690</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$ (7,434)</u>	<u>\$ 28,935</u>	<u>\$ 36,369</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	RESERVE FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
DISBURSEMENTS				
Debt Service	\$ 221	\$ 221	\$	\$ 221
Total Disbursements	<u>221</u>	<u>221</u>		<u>221</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(221)</u>	<u>(221)</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>\$</u>	<u>\$</u>	<u>\$ 222</u>	<u>\$ 222</u>

MAGOFFIN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

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 1. Excess of Disbursements over Appropriations

The solid waste fund's administration line item exceeded budget appropriations by \$25,883.

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**MAGOFFIN COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015**

MAGOFFIN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land	\$ 1,104,003	\$ 375,000	\$	\$ 1,479,003
Buildings and Building Improvements	12,604,539			12,604,539
Vehicles and Equipment	1,573,739			1,573,739
Infrastructure	6,920,540	1,615,270		8,535,810
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 22,202,821</u>	<u>\$ 1,990,270</u>	<u>\$ 0</u>	<u>\$ 24,193,091</u>

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

June 30, 2015

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***



The Honorable Charles E. 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, 2015, and the related notes to the financial statement and have issued our report thereon dated November 30, 2016.

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 comments and recommendations, 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 comments and recommendations as items 2015-004, 2015-005, and 2015-006 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 comments and recommendations as items 2015-007, 2015-008, and 2015-009 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 comments and recommendations as items 2015-001, 2015-002, and 2015-003.

County Judge/Executive's Responses to Findings

The Magoffin County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Magoffin County Judge/Executive'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
November 30, 2016

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

STATE LAWS AND REGULATIONS:

2015-001 The County Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements

The fiscal court did not maintain a complete and accurate capital asset schedule for the fiscal year ending June 30, 2015. 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.

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.

County Judge/Executive's Response: Recommendation Accepted.

2015-002 The County's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle

Fiscal court employees' personal use (e.g. commuting mileage) of a county vehicle is not being reported as compensation to the employees. Internal Revenue 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 does not address the use of a county vehicle, therefore, it is unclear as to whether personal use of the vehicles 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.

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.
- 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. In addition, it should address the tax implications of using a vehicle for personal use or commuting travel.

County Judge/Executive's Response: Recommendation Accepted.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2015-003 The Fiscal Court Did Not Prepare A Schedule of Expenditures of Federal Awards

The fiscal court did not prepare a Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2015 in accordance with OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. By not preparing a Schedule of Expenditures of Federal Awards, the fiscal court creates the risk of a single audit not being performed, if needed, which could affect the fiscal court's ability to receive federal funding. OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations, Section 310(B)* requires the fiscal court to prepare a SEFA from its financial records. At a minimum, the SEFA should include the following, if applicable:

- A listing of individual federal programs by federal agency.
- For federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity.
- Total federal awards expended for each individual federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.
- Notes that describe the significant accounting policies used in preparing the SEFA.
- Total amount provided to subrecipients from each federal program.
- The value of the federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year-end. While not required, it is preferable to present this information in the SEFA.

County Judge/Executive's Response: Recommendation Accepted.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2015-004 The Fiscal Court Did Not Have Insurance On A 2013 Mack Truck That Could Not Be Found During A Physical Inventory Test

The fiscal court did not have adequate internal control procedures to ensure all assets are properly tracked and insured. A 2013 Mack truck could not be found and was determined to be missing. The fiscal court's fixed asset records list the truck as having a historical value of \$35,000. The truck was not listed as being on the fiscal court's list of insured assets. The lack of insurance has created a financial loss to the fiscal court equal to the value of the truck. This missing asset was reported to the Kentucky State Police and is currently being investigated.

In fiscal year 2016, the fiscal court implemented procedures to ensure all acquired assets get added to the fiscal court's insurance policy.

County Judge/Executive's Response: Unable to comment due to ongoing investigation.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2015-005 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll

A strong internal control system does not allow one person to perform processing, documentation, and reporting functions. 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, there is a risk that fraud or errors will occur and go undetected.

We recommend the fiscal court adequately segregate duties related to payroll or implement other controls to compensate for the weaknesses identified. For example, designating an individual to review the receipts and payroll ledgers, reconciliations, and reports. This individual can document their review by initialing the documents that were reviewed.

County Judge/Executive's Response: Recommendation Accepted.

2015-006 The Fiscal Court Does Not Have Adequate Internal Controls Over Gravel Inventory

The fiscal court does not have adequate internal controls over gravel purchased and stored at the Road Department. 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 disbursements, we noted gravel purchases for Fiscal Year 2015 were \$169,235. The fiscal court's lack of internal controls has created an opportunity for misappropriation of the assets to occur.

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

County Judge/Executive's Response: Recommendation Accepted.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2015-007 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts And Flexible Spending Accounts

The fiscal court did not adequately track health reimbursement account and flexible spending account contributions. The amounts contributed to these accounts were not maintained separately from regular fiscal court funds and payroll funds and could not be easily identified in the accounting records. These funds do not belong to the fiscal court and should be maintained and tracked separately in the accounting system. Failure to track these accounts separately increases the risk that the monies could be misappropriated.

During Fiscal Year 2017, the fiscal court opened a separate bank account in order to track and identify health reimbursement and flexible spending accounts for all employees who participate in the program.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2015-007 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts
And Flexible Spending Accounts (Continued)

County Judge/Executive's Response: A new bank account was opened for the Flex Spending account as we said would be after the June 30, 2013 audit.

2015-008 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable

The fiscal court does not have proper oversight and controls over notes receivable. 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 Water District 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, establishment of payment plans, and having notes receivable outstanding for significant time periods deprives the fiscal court of needed funds.

We recommend the fiscal court review the terms of all notes receivable to determine if the fiscal court will pursue collection or alternate disposition (i.e. loan forgiveness) and document those decisions in the fiscal court minutes.

County Judge/Executive's Response: With respect to the \$50,000 given to the City of Salyersville, the Fiscal Court will review the terms of the loan. The loan to Magoffin Co. Water District was forgiven.

2015-009 The Fiscal Court Does Not Have Adequate Oversight of Monthly Reconciliation Processes

The finance officer's appropriation ledger is not reconciled on a monthly basis with the treasurer's ledger, as required by DLG. Reconciliations are not being performed on a monthly basis due to the small size of the accounting department and lack of resource. This results in noncompliance with DLG requirements.

We recommend that the treasurer and finance officer's appropriation ledgers are reconciled on a monthly basis.

County Judge/Executive's Response: Recommendation Accepted.

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

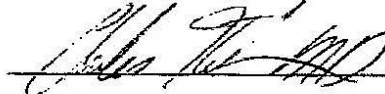
MAGOFFIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MAGOFFIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

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

