

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

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



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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 Matthew Wireman, Magoffin County Judge/Executive

The Honorable Charles Hardin, Former Magoffin County Judge/Executive

Members of the Magoffin 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 Magoffin County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Magoffin County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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



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

As described in Note 1 of the financial statement, the financial statement is prepared by the Magoffin County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Magoffin County Fiscal Court as of June 30, 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 Magoffin 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 Magoffin County Fiscal Court. The Budgetary Comparison Schedules and the Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2019, on our consideration of the Magoffin County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Magoffin County Fiscal Court's internal control over financial reporting and compliance.

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

- 2018-001 The Fiscal Court's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of Vehicles Owned By The Fiscal Court
- 2018-002 The Fiscal Court Did Not Consistently Utilize The Purchase Order System
- 2018-003 The Fiscal Court Was Not Presented All Claims For Review Before Payment
- 2018-004 The Fiscal Court Did Not Pay Invoices Timely
- 2018-005 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2018-006 The Fiscal Court Did Not Comply With Procurement Procedures For Competitive Bidding

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 8, 2019

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

Charles Hardin	County Judge/Executive
Gary Risner	Magistrate
Pernell Lemaster	Magistrate
Matthew 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 Keeton	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, 2018

MAGOFFIN 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	\$ 1,920,525	\$	\$	\$
Excess Fees	60,772			
Licenses and Permits	249,754			
Intergovernmental	1,491,416	1,461,194	51,024	229,883
Charges for Services				100
Miscellaneous	138,523	7,752		12,765
Interest	222	704	14	34
Total Receipts	<u>3,861,212</u>	<u>1,469,650</u>	<u>51,038</u>	<u>242,782</u>
DISBURSEMENTS				
General Government	867,126			111,683
Protection to Persons and Property	88,977		502,058	122,922
General Health and Sanitation				12,048
Social Services				79,106
Recreation and Culture	62,007			151,903
Roads		994,260		34,000
Debt Service	367,290			
Capital Projects	794,984			
Administration	917,699	243,286	22,011	97,255
Total Disbursements	<u>3,098,083</u>	<u>1,237,546</u>	<u>524,069</u>	<u>608,917</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>763,129</u>	<u>232,104</u>	<u>(473,031)</u>	<u>(366,135)</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account	25,127			
Transfers From Other Funds			451,750	364,000
Transfers To Other Funds	(806,715)			
Total Other Adjustments to Cash (Uses)	<u>(781,588)</u>		<u>451,750</u>	<u>364,000</u>
Net Change in Fund Balance	(18,459)	232,104	(21,281)	(2,135)
Fund Balance - Beginning	521,553	780,224	27,374	33,135
Fund Balance - Ending	<u>\$ 503,094</u>	<u>\$ 1,012,328</u>	<u>\$ 6,093</u>	<u>\$ 31,000</u>
Composition of Fund Balance				
Bank Balance	\$ 519,721	\$ 1,054,999	\$ 47,277	\$ 87,376
Payroll Revolving Account Reconciled Balance	25,127			
Less: Outstanding Checks	(41,754)	(42,671)	(41,184)	(56,376)
Fund Balance - Ending	<u>\$ 503,094</u>	<u>\$ 1,012,328</u>	<u>\$ 6,093</u>	<u>\$ 31,000</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, 2018
(Continued)

Budgeted Funds						
Economic Development Sewer Project Fund	Forestry Fund	Solid Waste Fund	Community Center Sinking Fund	Right of Way Use Fund	Escrow for Clear River Fund	911 Fund
\$	\$ 2,421	\$ 72,163	\$	\$	\$	\$ 216,078
475,612		112,673				18,346
		17,224				19,072
		100		8		134
<u>475,612</u>	<u>2,421</u>	<u>202,160</u>		<u>8</u>		<u>253,630</u>
	2,957					183,131
		116,160				
			9,140			
392,013		48,564				89,618
<u>392,013</u>	<u>2,957</u>	<u>164,724</u>	<u>9,140</u>			<u>272,749</u>
<u>83,599</u>	<u>(536)</u>	<u>37,436</u>	<u>(9,140)</u>	<u>8</u>		<u>(19,119)</u>
25	550		9,140			(18,750)
<u>25</u>	<u>550</u>		<u>9,140</u>			<u>(18,750)</u>
83,624	14	37,436		8		(37,869)
	36	200,820	4	17,866	67,100	276,717
<u>\$ 83,624</u>	<u>\$ 50</u>	<u>\$ 238,256</u>	<u>\$ 4</u>	<u>\$ 17,874</u>	<u>\$ 67,100</u>	<u>\$ 238,848</u>
\$ 83,624	\$ 50	\$ 252,889	\$ 4	\$ 17,874	\$ 67,100	\$ 238,848
		(14,633)				
<u>\$ 83,624</u>	<u>\$ 50</u>	<u>\$ 238,256</u>	<u>\$ 4</u>	<u>\$ 17,874</u>	<u>\$ 67,100</u>	<u>\$ 238,848</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, 2018
(Continued)

	<u>Budgeted Funds</u>	<u>Unbudgeted Fund</u>	
	<u>Reserve Fund</u>	<u>Magoffin County Public Properties Corporation Justice Center Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 2,211,187
Excess Fees			60,772
Licenses and Permits			249,754
Intergovernmental		565,513	4,405,661
Charges for Services			100
Miscellaneous			195,336
Interest		93	1,309
Total Receipts		<u>565,606</u>	<u>7,124,119</u>
DISBURSEMENTS			
General Government			978,809
Protection to Persons and Property			900,045
General Health and Sanitation			128,208
Social Services			79,106
Recreation and Culture			213,910
Roads			1,028,260
Debt Service		564,013	940,443
Capital Projects			1,186,997
Administration		1,500	1,419,933
Total Disbursements		<u>565,513</u>	<u>6,875,711</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>93</u>	<u>248,408</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account			25,127
Transfers From Other Funds			825,465
Transfers To Other Funds			(825,465)
Total Other Adjustments to Cash (Uses)			<u>25,127</u>
Net Change in Fund Balance		93	273,535
Fund Balance - Beginning	222	2,177	1,927,228
Fund Balance - Ending	<u>\$ 222</u>	<u>\$ 2,270</u>	<u>\$ 2,200,763</u>
Composition of Fund Balance			
Bank Balance	\$ 222	\$ 2,270	\$ 2,372,254
Payroll Revolving Account Reconciled Balance			25,127
Less: Outstanding Checks			(196,618)
Fund Balance - Ending	<u>\$ 222</u>	<u>\$ 2,270</u>	<u>\$ 2,200,763</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, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Magoffin County 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 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.

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.

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.

MAGOFFIN 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)

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

Economic Development Sewer Project Fund - The primary purpose of this fund is to account for a sewer project grant and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

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

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

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

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

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

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

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

Unbudgeted 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 the debt service of revenue bonds that were issued to fund construction of public buildings.

D. Budgetary Information

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

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

The state local finance officer does not require the Magoffin County Public Properties Corporation Justice Center fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Magoffin County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Magoffin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within 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 Magoffin County Fiscal Court.

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

F. Deposits and Investments

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

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

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.

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

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.

Note 3. Transfers

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

	General Fund	911 Fund	Total Transfers In
Jail Fund	\$ 433,000	\$ 18,750	\$ 451,750
LGEA Fund	364,000		364,000
Economic Development Sewer Fund	25		25
Forestry Fund	550		550
Community Center Sinking Fund	9,140		9,140
	<hr/>	<hr/>	<hr/>
Total Transfers Out	\$ 806,715	\$ 18,750	\$ 825,465

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.

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

Note 4. Long-term Debt

A. First Mortgage Revenue Bond, Series 1995

In June 1995, the fiscal court entered into an agreement with Farmers Home Administration to borrow \$140,000 at 5 percent interest for the completion of the Magoffin County Community Center Project. The fiscal court pays semiannual installments due on July 1 and January 1 each year in accordance with a schedule to complete the contract. The principal balance of the agreement was \$52,600 as of June 30, 2018. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 6,500	\$ 2,630
2020	6,800	2,305
2021	7,100	1,965
2022	7,500	1,610
2023	7,900	1,235
2024-2025	16,800	1,265
Totals	<u>\$ 52,600</u>	<u>\$ 11,010</u>

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

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

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

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

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

As of June 30, 2018, the principal balance on these bonds was \$2,605,000. Future principal and interest requirements are as follows:

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

Note 4. Long-Term Debt (Continued)

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

Fiscal Year Ending June 30	Principal	Interest
2019	\$ 490,000	\$ 69,313
2020	505,000	58,287
2021	520,000	45,662
2022	535,000	31,363
2023	555,000	16,650
Totals	<u>\$ 2,605,000</u>	<u>\$ 221,275</u>

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

In October 2013, the fiscal court entered into a lease with the Kentucky Association of Counties Finance Corporation for the purpose of paving roads in Magoffin County. The total proceeds of the lease were \$3,000,000. The fiscal court is required to make monthly principal and interest payments at 2.75 percent. The final payment of the lease is due January 2024. The principal balance of the agreement was \$1,784,167 as of June 30, 2018. Future lease principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Interest
2019	\$ 294,167	\$ 54,585
2020	304,167	47,231
2021	314,167	38,981
2022	326,250	29,390
2023-2024	545,416	25,991
Totals	<u>\$ 1,784,167</u>	<u>\$ 196,178</u>

D. 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	\$ 3,148,800	\$	\$ 491,200	\$ 2,657,600	\$ 496,500
Financing Obligations	2,071,251		287,084	1,784,167	294,167
Total Long-term Debt	<u>\$ 5,220,051</u>	<u>\$ 0</u>	<u>\$ 778,284</u>	<u>\$ 4,441,767</u>	<u>\$ 790,667</u>

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

Note 5. 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 \$257,665, FY 2017 was \$285,426, and FY 2018 was \$283,851.

Nonhazardous

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:

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

Note 5. Employee Retirement System (Continued)

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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.

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

Note 5. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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.

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 6. Health Reimbursement Account/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 fiscal year 2018, five 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 expenses to receive reimbursement. During fiscal year 2018, one employee participated in the program, which is administered by the county treasurer.

Note 7. Insurance

For the fiscal year ended June 30, 2018, the Magoffin 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 8. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2018, was added to the general fund cash balance for financial reporting purposes.

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

Note 9. Contingencies

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

Note 10. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to other governmental entities for the acquisition and construction of governmental facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Magoffin County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement.

Note 11. Notes Receivable

In August 2008, the fiscal court gave \$20,000 to the Magoffin County Water District. The funds were used to install a water line extension to a family that was still carrying water from other sources to the dwelling. No repayments have been made as of June 30, 2018. During a court meeting on June 28, 2018, the fiscal court voted and approved that the August 2008 minutes should have reflected this was a contribution instead of a loan, therefore resulting in no receivable due to the fiscal court from the water district.

In September 2011, the fiscal court loaned \$50,000 to the Magoffin County Water District, who loaned the funds to the Salyersville Waterworks for water projects. No payments have been made as of June 30, 2018.

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

For The Year Ended June 30, 2018

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MAGOFFIN 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	\$ 2,005,500	\$ 2,051,665	\$ 1,920,525	\$ (131,140)
Excess Fees			60,772	60,772
Licenses and Permits	142,500	232,463	249,754	17,291
Intergovernmental	605,952	1,459,504	1,491,416	31,912
Miscellaneous	55,000	58,106	138,523	80,417
Interest	175	175	222	47
Total Receipts	<u>2,809,127</u>	<u>3,801,913</u>	<u>3,861,212</u>	<u>59,299</u>
DISBURSEMENTS				
General Government	1,176,261	1,116,805	867,126	249,679
Protection to Persons and Property	68,777	92,866	88,977	3,889
Recreation and Culture	52,767	62,007	62,007	
Debt Service	367,291	367,291	367,290	1
Capital Projects		794,984	794,984	
Administration	864,297	1,053,775	917,699	136,076
Total Disbursements	<u>2,529,393</u>	<u>3,487,728</u>	<u>3,098,083</u>	<u>389,645</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>279,734</u>	<u>314,185</u>	<u>763,129</u>	<u>448,944</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds				
Transfers To Other Funds	<u>(729,734)</u>	<u>(729,734)</u>	<u>(806,715)</u>	<u>(76,981)</u>
Total Other Adjustments to Cash (Uses)	<u>(729,734)</u>	<u>(729,734)</u>	<u>(806,715)</u>	<u>(76,981)</u>
Net Change in Fund Balance	(450,000)	(415,549)	(43,586)	371,963
Fund Balance - Beginning	<u>450,000</u>	<u>521,553</u>	<u>521,553</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 106,004</u>	<u>\$ 477,967</u>	<u>\$ 371,963</u>

MAGOFFIN 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	\$ 1,182,517	\$ 1,294,575	\$ 1,461,194	\$ 166,619
Miscellaneous		2,160	7,752	5,592
Interest	200	448	704	256
Total Receipts	<u>1,182,717</u>	<u>1,297,183</u>	<u>1,469,650</u>	<u>172,467</u>
DISBURSEMENTS				
Roads	918,664	1,739,577	994,260	745,317
Administration	264,053	318,663	243,286	75,377
Total Disbursements	<u>1,182,717</u>	<u>2,058,240</u>	<u>1,237,546</u>	<u>820,694</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(761,057)</u>	232,104	<u>993,161</u>
Net Change in Fund Balance		(761,057)	232,104	993,161
Fund Balance - Beginning		<u>761,057</u>	<u>780,224</u>	<u>19,167</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,012,328</u>	<u>\$ 1,012,328</u>

MAGOFFIN 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	\$ 73,200	\$ 73,531	\$ 51,024	\$ (22,507)
Interest	10	10	14	4
Total Receipts	<u>73,210</u>	<u>73,541</u>	<u>51,038</u>	<u>(22,503)</u>
DISBURSEMENTS				
Protection to Persons and Property	372,655	505,172	502,058	3,114
Administration	20,915	22,108	22,011	97
Total Disbursements	<u>393,570</u>	<u>527,280</u>	<u>524,069</u>	<u>3,211</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(320,360)</u>	<u>(453,739)</u>	<u>(473,031)</u>	<u>(19,292)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>320,360</u>	<u>320,360</u>	<u>451,750</u>	<u>131,390</u>
Total Other Adjustments to Cash (Uses)	<u>320,360</u>	<u>320,360</u>	<u>451,750</u>	<u>131,390</u>
Net Change in Fund Balance		(133,379)	(21,281)	112,098
Fund Balance - Beginning		<u>27,375</u>	<u>27,374</u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (106,004)</u>	<u>\$ 6,093</u>	<u>\$ 112,097</u>

MAGOFFIN 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	\$ 218,700	\$ 270,662	\$ 229,883	\$ (40,779)
Charges for Services	200	200	100	(100)
Miscellaneous	10,000	13,838	12,765	(1,073)
Interest	20	29	34	5
Total Receipts	<u>228,920</u>	<u>284,729</u>	<u>242,782</u>	<u>(41,947)</u>
DISBURSEMENTS				
General Government	115,879	117,379	111,683	5,696
Protection to Persons and Property	79,000	124,922	122,922	2,000
General Health and Sanitation	12,125	12,415	12,048	367
Social Services	43,000	83,070	79,106	3,964
Recreation and Culture	153,300	154,461	151,903	2,558
Roads	46,285	46,285	34,000	12,285
Administration	118,452	118,452	97,255	21,197
Total Disbursements	<u>568,041</u>	<u>656,984</u>	<u>608,917</u>	<u>48,067</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(339,121)</u>	<u>(372,255)</u>	<u>(366,135)</u>	<u>6,120</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>339,121</u>	<u>339,121</u>	<u>364,000</u>	<u>24,879</u>
Total Other Adjustments to Cash (Uses)	<u>339,121</u>	<u>339,121</u>	<u>364,000</u>	<u>24,879</u>
Net Change in Fund Balance		(33,134)	(2,135)	30,999
Fund Balance - Beginning		<u>33,134</u>	<u>33,135</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 31,000</u>	<u>\$ 31,000</u>

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

ECONOMIC DEVELOPMENT SEWER PROJECT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	300,129	\$ 475,612	\$ 175,483
Total Receipts		300,129	475,612	175,483
DISBURSEMENTS				
Capital Projects		300,129	392,013	(91,884)
Total Disbursements		300,129	392,013	(91,884)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			83,599	83,599
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			25	25
Total Other Adjustments to Cash (Uses)			25	25
Net Change in Fund Balance			83,624	83,624
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 83,624	\$ 83,624

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

	FORESTRY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,500	\$ 2,500	\$ 2,421	\$ (79)
Total Receipts	<u>2,500</u>	<u>2,500</u>	<u>2,421</u>	<u>(79)</u>
DISBURSEMENTS				
Protection to Persons and Property	3,000	3,036	2,957	79
Total Disbursements	<u>3,000</u>	<u>3,036</u>	<u>2,957</u>	<u>79</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(500)</u>	<u>(536)</u>	<u>(536)</u>	
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	500	500	550	50
Total Other Adjustments to Cash (Uses)	<u>500</u>	<u>500</u>	<u>550</u>	<u>50</u>
Net Change in Fund Balance		(36)	14	50
Fund Balance - Beginning		<u>36</u>	<u>36</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 50</u>	<u>\$ 50</u>

MAGOFFIN 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				
Taxes	\$ 72,000	\$ 72,000	\$ 72,163	\$ 163
Intergovernmental	28,639	28,639	112,673	84,034
Miscellaneous	14,000	14,000	17,224	3,224
Interest	50	50	100	50
Total Receipts	<u>114,689</u>	<u>114,689</u>	<u>202,160</u>	<u>87,471</u>
DISBURSEMENTS				
General Health and Sanitation	194,039	194,039	116,160	77,879
Administration	81,263	81,263	48,564	32,699
Total Disbursements	<u>275,302</u>	<u>275,302</u>	<u>164,724</u>	<u>110,578</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(160,613)</u>	<u>(160,613)</u>	<u>37,436</u>	<u>198,049</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>60,613</u>	<u>60,613</u>		<u>(60,613)</u>
Total Other Adjustments to Cash (Uses)	<u>60,613</u>	<u>60,613</u>		<u>(60,613)</u>
Net Change in Fund Balance	(100,000)	(100,000)	37,436	137,436
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>200,820</u>	<u>100,820</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 238,256</u>	<u>\$ 238,256</u>

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

COMMUNITY CENTER SINKING FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Total Receipts	\$	\$	\$	\$
DISBURSEMENTS				
Debt Service	9,140	9,140	9,140	
Total Disbursements	9,140	9,140	9,140	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(9,140)	(9,140)	(9,140)	
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	9,140	9,140	9,140	
Total Other Adjustments to Cash (Uses)	9,140	9,140	9,140	
Net Change in Fund Balance				
Fund Balance - Beginning			4	4
Fund Balance - Ending	\$ 0	\$ 0	\$ 4	\$ 4

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

	RIGHT OF WAY USE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	\$	\$ 8	\$ 8
Total Receipts			8	8
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)	8	5,008
Net Change in Fund Balance	(5,000)	(5,000)	8	5,008
Fund Balance - Beginning	5,000	5,000	17,866	12,866
Fund Balance - Ending	\$ 0	\$ 0	\$ 17,874	\$ 17,874

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

	ESCROW FOR CLEAR RIVER FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Total Receipts	\$	\$	\$	\$
DISBURSEMENTS				
Administration	67,100	67,100		67,100
Total Disbursements	67,100	67,100		67,100
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(67,100)	(67,100)		67,100
Net Change in Fund Balance	(67,100)	(67,100)		67,100
Fund Balance - Beginning	67,100	67,100	67,100	
Fund Balance - Ending	\$ 0	\$ 0	\$ 67,100	\$ 67,100

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

	911 FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 212,664	\$ 212,664	\$ 216,078	\$ 3,414
Intergovernmental		18,346	18,346	
Miscellaneous		19,072	19,072	
Interest	10	112	134	22
Total Receipts	<u>212,674</u>	<u>250,194</u>	<u>253,630</u>	<u>3,436</u>
DISBURSEMENTS				
Protection to Persons and Property	188,100	406,938	183,131	223,807
Administration	104,800	119,973	89,618	30,355
Total Disbursements	<u>292,900</u>	<u>526,911</u>	<u>272,749</u>	<u>254,162</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(80,226)</u>	<u>(276,717)</u>	<u>(19,119)</u>	<u>257,598</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(18,750)	(18,750)
Total Other Adjustments to Cash (Uses)			<u>(18,750)</u>	<u>(18,750)</u>
Net Change in Fund Balance	(80,226)	(276,717)	(37,869)	238,848
Fund Balance - Beginning	<u>80,226</u>	<u>276,717</u>	<u>276,717</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 238,848</u>	<u>\$ 238,848</u>

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

	RESERVE FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Total Receipts	\$	\$	\$	\$
DISBURSEMENTS				
Debt Service	221	221		221
Total Disbursements	221	221		221
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(221)	(221)		221
Net Change in Fund Balance	(221)	(221)		221
Fund Balance - Beginning	221	221	222	1
Fund Balance - Ending	\$ 0	\$ 0	\$ 222	\$ 222

**MAGOFFIN 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. Reconciliation of the General Fund

The *Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis* differs from the *Budgetary Comparison Schedule* for the general fund due to the June 30, 2018 reconciled balance of the payroll revolving account of \$25,127 being added to the general fund cash balance for financial reporting purposes.

Note 3. Excess of Disbursements Over Appropriations

The Economic Development Sewer Project fund capital projects exceeded budgeted appropriations by \$91,884.

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

For The Year Ended June 30, 2018

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MAGOFFIN 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	\$ 1,479,003	\$	\$	\$ 1,479,003
Buildings	12,748,863		117,478	12,631,385
Vehicles	1,623,870	72,786	486,490	1,210,166
Infrastructure	9,096,389	373,749	555,942	8,914,196
 Total Capital Assets	 <u>\$ 24,948,125</u>	 <u>\$ 446,535</u>	 <u>\$ 1,159,910</u>	 <u>\$ 24,234,750</u>

**MAGOFFIN 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.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land	\$ 20,000	
Buildings	\$ 20,000	10-50
Vehicles	\$ 20,000	5-25
Infrastructure	\$ 20,000	20

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Matthew Wireman, Magoffin County Judge/Executive
The Honorable Charles Hardin, Former 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*

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 Magoffin County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Magoffin County Fiscal Court's financial statement and have issued our report thereon dated August 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Magoffin County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Magoffin County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magoffin County Fiscal Court's internal control.

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

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 2018-002, 2018-003, 2018-004 and 2018-005 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 deficiency described in the accompanying Schedule of Findings and Responses as item 2018-006 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-006.

Views of Responsible Officials and Planned Corrective Action

Magoffin 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

August 8, 2019

**MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Fiscal Court's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of Vehicles Owned By The Fiscal Court

This is a repeat finding and was included in the prior year audit report as finding 2017-002. 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 should address the use of vehicles and other assets owned by the fiscal court.

Fiscal court employees' personal use (e.g. commuting mileage) of county vehicles or other assets owned by the fiscal court is not reported as compensation to the employees. The fiscal court's administrative code does not address the use of vehicles or other assets owned by the fiscal court; therefore, it is unclear as to whether personal use of the vehicles and other assets are authorized by the fiscal court. Personal use of public resources is permitted if the fiscal court has approved such use and should be reported as compensation to employees. Historically, the fiscal court has not maintained the appropriate documentation or complied with Internal Revenue Code Section 61(a).

The fiscal court understands the recommendations, but as of June 30, 2018, has not implemented the recommendations.

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

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court adopted a new administrative code that addresses this issue and will ensure compliance with IRS regulations regarding accounting for the use of county owned vehicles.

2018-002 The Fiscal Court Did Not Consistently Utilize The Purchase Order System

This is a repeat finding and was reported in the prior year as finding 2017-007. The fiscal court is not consistently utilizing the purchase order system in accordance with the Department for Local Government (DLG) guidelines. Of the 81 items tested, 53 disbursements totaling \$2,206,441 did not have a purchase order. Failure to issue purchase orders for all disbursements increases the risk that adequate funds or sufficient budget appropriation will not be available to satisfy all financial obligations.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Fiscal Court Did Not Consistently Utilize The Purchase Order System (Continued)

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts, which is set forth in the *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. The manual states: “1. Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head. 2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted. 3. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made. 4. Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.”

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The treasurer was not aware that purchase orders for reoccurring monthly services such as Utilities, Payroll and Debt were required. As of January 1, 2019, the finance officer began utilizing the purchase order system that is included in the accounting program and should eliminate this issue. In addition, the new administration is developing a "Standard Operating Manual" for all accounting functions to enhance internal controls and ensure compliance with all statutes, regulations and generally accepted accounting principles.

2018-003 The Fiscal Court Was Not Presented All Claims For Review Before Payment

The fiscal court was not presented all claims to review before payment was made. Of the 81 transactions tested, 19 transactions totaling \$705,662 were not presented to the fiscal court. Management did not have adequate controls in place to ensure all claims and disbursements were presented to the fiscal court for review before payment. In addition, KRS 68.275(2) states, “[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid.” If the fiscal court does not have a chance to review all disbursements prior to payment, it increases the risk that undetected improper payments could be made. Furthermore, the fiscal court cannot provide proper oversight and make sound financial decisions if they are not adequately informed of the financial activity of the county. We recommend management implement adequate controls to ensure all claims and disbursements are presented to the fiscal court for review prior to payment.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: During this audit year it was believed that all claims were presented to the Fiscal Court for review except for claims approved by the fiscal court on the standing order. The new administration is developing a "Standard Operating Manual" for all accounting functions to enhance internal controls and ensure compliance with all statutes, regulations and generally accepted accounting principles.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Fiscal Court Did Not Pay Invoices Timely

The Magoffin County Fiscal Court did not pay invoices within 30 days of receipt of invoice. Of the 81 items tested, 11 transactions, totaling \$514,393, were not paid timely. Insurance payments were not made timely, resulting in late fees of \$7,661. In addition, finance charges were noted for credit cards totaling \$355. Management did not have adequate controls in place to ensure that invoices were paid timely. KRS 65.140(2) states, “[a]ll bills for goods or services shall be paid within thirty (30) working days of receipt of vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.” The fiscal court is in violation of the statute and paid late fees and finance charges, which are an inefficient use of taxpayer resources. We recommend the county comply with KRS 65.140(2) by paying invoices within 30 working days.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The Fiscal Court will ensure that invoices are entered on a claims list as they are received. Unless disputed, the bill will be paid according to the Department for Local Government (DLG) County Budget Preparation and State Local Finance Officer Policy Manual. In addition, the new administration is developing a “Standard Operating Manual” for all accounting functions to enhance internal controls and ensure compliance with all statutes, regulations and generally accepted accounting principles.

2018-005 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2017-003. We noted inadequate segregation of duties over payroll. The 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. According to the fiscal court, they have a small accounting/payroll department and segregation of duties has been challenging to achieve. By delegating all these duties to the same individual, the risk of undetected fraud and errors increases. Segregation of duties is an essential element of sustainable risk management and internal controls. The principle of segregation of duties is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. A strong internal control system does not allow one person to perform processing, documentation, and reporting functions. We recommend the fiscal court find ways to segregate key duties related to payroll or implement other controls to compensate for these weaknesses (for example, designating an individual to review the payroll ledgers, reconciliations, and reports, and requiring the individual to document their review by initialing the documents that were reviewed).

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Changes were made after the FY2015 audit in an attempt to further improve the segregation of duties and internal controls. At that time the E.M. director reviewed and signed the timesheets. The finance officer then posted checks to the ledger and the secretary reviewed and distributed the checks. In addition, the new administration is developing a “Standard Operating Manual” for all accounting functions to enhance internal controls and ensure compliance with all statutes, regulations and generally accepted accounting principles.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The Fiscal Court Did Not Comply With Procurement Procedures For Competitive Bidding

The fiscal court did not solicit competitive bids for all contracts exceeding \$20,000. KRS 45A.385, as effective during the relevant timeframe, allowed for use of small purchase procedures for contracts not exceeding \$20,000. We noted three instances in which competitive bids should have been solicited for purchases but were not. Additionally, we noted one instance in which the bid being used was obtained in 2015. Management did not have adequate controls in place to ensure competitive bidding procedures were followed. The fiscal court is in violation of procurement statutes and there is increased risk that the fiscal court did not receive goods and services at the best possible price.

KRS 45A.365 states,

- (1) All contracts or purchases shall be awarded by competitive sealed bidding, which may include the use of a reverse auction, except as otherwise provided by KRS 45A.370 to 45A.385 and for the purchase of wholesale electric power by municipal utilities as provided in KRS 96.901(1).
- (2) The invitation for bids shall state that the award shall be made on the basis of the lowest bid price or the lowest evaluated bid price. If the latter is used, the objective measurable criteria to be utilized shall be set forth in the invitation for bids. The invitation for bids shall include the reciprocal preference for resident bidders described in KRS 45A.494.
- (3) Adequate public notice of the invitation for bids and any reverse auction shall be given prior to the date set forth for the opening of bids. The notice may include posting on the Internet or publication in a newspaper of general circulation in the local jurisdiction at least seven (7) days before the date set for the opening of the bids and any reverse auction. Nothing in this section shall prohibit additional notice, posting, or publication, nor shall additional notification, posting, or publication extend the required notice period. The public notice shall include the time and place the bids will be opened and the time and place where the specifications may be obtained.
- (4) The bids shall be opened publicly or entered through a reverse auction at the time and place designated in the invitation for bids. Each written or reverse auction bid, together with the name of the bidder, shall be recorded and be open to public inspection. Electronic bid opening and posting of the required information for public viewing shall satisfy the requirements of this subsection.

We recommend management implement adequate controls to ensure all contracts and expenditures are properly procured in accordance with Local Model Procurement Code and the county's administrative code.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All items purchased will be procured in compliance with the Model Procurement Code and the county's Administrative Code. In addition, the new administration is developing a "Standard Operating Manual" for all accounting functions to enhance internal controls and ensure compliance with all statutes, regulations and generally accepted accounting principles.

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

MAGOFFIN COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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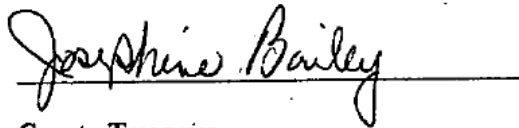
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM
MAGOFFIN COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Magoffin 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