

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

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



**MIKE HARMON
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
MUHLENBERG COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT	10
BUDGETARY COMPARISON SCHEDULES.....	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES	32
SCHEDULE OF CAPITAL ASSETS.....	35
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS	36
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	39
SCHEDULE OF FINDINGS AND RESPONSES	43
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM	

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MIKE HARMON
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To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Rick Newman, Former Muhlenberg County Judge/Executive

The Honorable Curtis McGehee, Muhlenberg County Judge/Executive

Members of the Muhlenberg 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 Muhlenberg County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Muhlenberg 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 Muhlenberg 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 Muhlenberg 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 Muhlenberg 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 Muhlenberg 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.

To the People of Kentucky

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2019, on our consideration of the Muhlenberg 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 Muhlenberg 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 Muhlenberg County Fiscal Court's Off-Site Locations Lack Adequate Controls Over Decentralized Receipts And Disbursements And Deposits Are Not Made Daily
- 2018-002 Muhlenberg County Fiscal Court Failed To Properly Account For Multiple Accounts
- 2018-003 Muhlenberg County Fiscal Court Did Not Maintain An Accurate Liabilities Schedule

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 10, 2019

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

Rick Newman	County Judge/Executive
Brent Sherrod	Magistrate
Cozy Chappell	Magistrate
Darrin Benton	Magistrate
Joe Glen Mitchell	Magistrate
Tommy Walkins	Magistrate

Other Elected Officials:

Darris Russell	County Attorney
Mark Curry	Jailer
Gaylan Spurlin	County Clerk
Cameron Laycock	Circuit Court Clerk
Curtis McGehee	Sheriff
Bill Alward	Property Valuation Administrator
Tony Armour	Coroner
	July 1, 2017 to December 31, 2017
Larry Vincent	Coroner
	January 1, 2018 to June 30, 2018

Appointed Personnel:

Charles Lewis	County Treasurer
Laura Montgomery	Deputy Judge/Executive
Amy Gardner	Finance Officer

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 2,132,073	\$	\$
In Lieu Tax Payments	2,414,329		
Excess Fees	1,499,034		
Licenses and Permits	81,519		
Intergovernmental	719,428	2,186,010	2,579,932
Charges for Services	399,347		15,529
Miscellaneous	1,270,157	621,265	235,874
Interest	478		
Total Receipts	<u>8,516,365</u>	<u>2,807,275</u>	<u>2,831,335</u>
DISBURSEMENTS			
General Government	3,542,386		
Protection to Persons and Property	945,805		2,476,456
General Health and Sanitation	526,591		
Social Services	75,158		
Recreation and Culture	327,668		
Roads		2,064,770	
Debt Service		673,567	
Capital Projects	2,645		
Administration	1,903,771	408,000	649,323
Total Disbursements	<u>7,324,024</u>	<u>3,146,337</u>	<u>3,125,779</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,192,341</u>	<u>(339,062)</u>	<u>(294,444)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds		583,640	
Bond Proceeds			
Transfers to Paying Agent			
Transfers From Other Funds	900,000	500,000	290,000
Transfers To Other Funds	(920,000)	(700,000)	
Total Other Adjustments to Cash (Uses)	<u>(20,000)</u>	<u>383,640</u>	<u>290,000</u>
Net Change in Fund Balance	1,172,341	44,578	(4,444)
Fund Balance - Beginning (Restated)	556,885	28,660	50,932
Fund Balance - Ending	<u>\$ 1,729,226</u>	<u>\$ 73,238</u>	<u>\$ 46,488</u>
Composition of Fund Balance			
Bank Balance	\$ 1,778,547	\$ 73,238	\$ 46,488
Plus: Deposits In Transit			
Less: Outstanding Checks	(84,321)		
Certificates of Deposits	35,000		
Fund Balance - Ending	<u>\$ 1,729,226</u>	<u>\$ 73,238</u>	<u>\$ 46,488</u>

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

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

Budgeted Funds			
Local Government Economic Assistance Fund	Pennyrile Narcotics Fund	Local Government Economic Development Fund	Tourism Fund
\$	\$	\$	\$ 120,448
918,435	287,695	382,265	
223	5	7	5
<u>918,658</u>	<u>287,700</u>	<u>382,272</u>	<u>120,453</u>
197,000			
			223
389,500			
933,531			
41		262	
	<u>331,399</u>		<u>94,900</u>
<u>1,520,072</u>	<u>331,399</u>	<u>262</u>	<u>95,123</u>
<u>(601,414)</u>	<u>(43,699)</u>	<u>382,010</u>	<u>25,330</u>
2,246,000			
(2,213,846)			
130,000			
(200,000)			
<u>(37,846)</u>			
(639,260)	(43,699)	382,010	25,330
644,837	68,393	784	37,180
<u>\$ 5,577</u>	<u>\$ 24,694</u>	<u>\$ 382,794</u>	<u>\$ 62,510</u>
\$ 5,577	\$ 29,778	\$ 382,794	\$ 62,510
	(5,084)		
<u>\$ 5,577</u>	<u>\$ 24,694</u>	<u>\$ 382,794</u>	<u>\$ 62,510</u>

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

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

	<u>Unbudgeted Funds</u>		
	<u>Justice Center Corporation Refunding Bond Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 2,252,521
In Lieu Tax Payments			2,414,329
Excess Fees			1,499,034
Licenses and Permits			81,519
Intergovernmental	515,000		7,588,765
Charges for Services			414,876
Miscellaneous		428,577	2,555,873
Interest	14		732
Total Receipts	<u>515,014</u>	<u>428,577</u>	<u>16,807,649</u>
DISBURSEMENTS			
General Government			3,542,386
Protection to Persons and Property			3,619,261
General Health and Sanitation			526,591
Social Services			75,158
Recreation and Culture		423,829	751,720
Roads			2,454,270
Debt Service	515,000		2,122,098
Capital Projects			2,948
Administration			3,387,393
Total Disbursements	<u>515,000</u>	<u>423,829</u>	<u>16,481,825</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>14</u>	<u>4,748</u>	<u>325,824</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			583,640
Bond Proceeds			2,246,000
Transfers to Paying Agent			(2,213,846)
Transfers From Other Funds			1,820,000
Transfers To Other Funds			(1,820,000)
Total Other Adjustments to Cash (Uses)			<u>615,794</u>
Net Change in Fund Balance	14	4,748	941,618
Fund Balance - Beginning (Restated)	540	168,759	1,556,970
Fund Balance - Ending	<u>\$ 554</u>	<u>\$ 173,507</u>	<u>\$ 2,498,588</u>
Composition of Fund Balance			
Bank Balance	\$ 554	\$ 174,363	\$ 2,553,849
Plus: Deposits In Transit		4,248	4,248
Less: Outstanding Checks		(5,104)	(94,509)
Certificates of Deposits			35,000
Fund Balance - Ending	<u>\$ 554</u>	<u>\$ 173,507</u>	<u>\$ 2,498,588</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
NOTE 2.	DEPOSITS	13
NOTE 3.	TRANSFERS.....	13
NOTE 4.	ASSETS HELD FOR RESALE	14
NOTE 5.	LONG-TERM DEBT	14
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	17
NOTE 7.	DEFERRED COMPENSATION.....	20
NOTE 8.	INSURANCE.....	20
NOTE 9.	CONDUIT DEBT.....	20
NOTE 10.	PRIOR PERIOD ADJUSTMENTS	21

**MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Muhlenberg County includes all budgeted and unbudgeted funds under the control of the Muhlenberg 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.

MUHLENBERG 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 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.

Pennyrile Narcotics Fund - The primary purpose of this fund is to account for the activity of a tri-county drug enforcement agency. The primary sources of receipts for this fund are grants from the federal government and contributions from other local governments.

Local Government Economic Development Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary source of receipts for this fund is from the state government.

Tourism Fund - The primary purpose of this fund is to account for taxes collected to help promote tourism in the county. The primary source of receipts for this fund is taxes collected from hotel guests. The tax rate during the fiscal year was 4 percent. Of this amount, 3 percent goes to the Muhlenberg County Tourism Commission and 1 percent stays with the fiscal court.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Justice Center Corporation Refunding Bond Fund - The primary purpose of this fund is to account for the proceeds and debt service of refunding revenue bonds that were issued to fund construction of the Justice Center. The Department for Local Government does not require the fiscal court to report or budget this fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund. The Department for Local Government does not require the fiscal court to report or budget this fund.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the justice center corporation refunding bond fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Muhlenberg County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Muhlenberg 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 Muhlenberg 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on this criteria, the following are considered joint ventures of the Muhlenberg Fiscal Court:

Paradise Industrial Park
 Bluegrass Crossing Industrial Park

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	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 700,000	\$ 200,000	\$ 900,000
Road Fund	500,000			500,000
Jail Fund	290,000			290,000
LGEA Fund	130,000			130,000
Total Transfers Out	<u>\$ 920,000</u>	<u>\$ 700,000</u>	<u>\$ 200,000</u>	<u>\$ 1,820,000</u>

Reason for transfers:

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

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

Note 4. Assets Held For Resale

	Beginning Balance	Additions	Reductions	Ending Balance
Vehicles and Equipment	\$ 576,562	\$ 583,640	\$ 576,562	\$ 583,640
Total	\$ 576,562	\$ 583,640	\$ 576,562	\$ 583,640

Note 5. Long-term Debt

A. General Obligation Refunding Bonds, Series 2007 (Detention Center)

On March 1, 2007, the Muhlenberg County Fiscal issued \$6,255,000 General Obligation Refunding Bonds, Series 2007, for the purpose of (i) refunding, in advance of maturity, the outstanding County of Muhlenberg County Fiscal Court General Obligation Improvement Bonds (Detention Facilities Project), Series 2000 and (ii) paying the costs of issuing the bonds. Interest on the bonds will be payable semi-annually on February 1 and August 1 of each year commencing August 1, 2007. The interest rate on the bonds ranges from 3.5 percent to 3.75 percent. The bonds will mature on August 1 of each year beginning August 1, 2007. The outstanding balance as of June 30, 2018, was \$270,000.

On August 14, 2017, Muhlenberg County, Kentucky General Obligation Refunding Bond, Series 2017A were issued for the purpose of the current refunding of all or certain maturities of the bonds. See Note G below.

Future bond principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 270,000	\$ 4,995
Totals	\$ 270,000	\$ 4,995

B. General Obligation Refunding and Improvement Bonds, Series 2011 (Courthouse)

On March 3, 2011, the Muhlenberg County Fiscal Court issued \$11,765,000 General Obligation Refunding and Improvement Bonds, Series 2011, for the purpose of courthouse renovations. Interest on the bonds will be payable semi-annually on April 1 and October 1 of each year commencing October 1, 2011. The interest rate on the bonds ranges from 2.25 percent to 4.75 percent. The outstanding balance as of June 30, 2018, was \$8,510,000. Future bond principal and interest requirements are:

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

Note 5. Long-term Debt (Continued)

B. General Obligation Refunding and Improvement Bonds, Series 2011 (Courthouse)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 515,000	\$ 357,240
2020	535,000	340,503
2021	550,000	321,777
2022	570,000	301,428
2023	595,000	280,337
2024-2028	3,355,000	1,015,662
2029-2031	2,390,000	229,663
Totals	<u>\$ 8,510,000</u>	<u>\$ 2,846,610</u>

C. First Mortgage Refunding Revenue Bonds, Series 2012 (Justice Center)

On April 5, 2012, the Muhlenberg County Justice Center Corporation (Corporation) issued \$4,570,000 First Mortgage Refunding Revenue Bonds (Judicial Center Project), Series 2012, for the purpose of (i) advance partial refunding the \$6,955,000 Muhlenberg County, Kentucky Justice Center Corporation First Mortgage Revenue Bonds, Series 2002, the proceeds of which were used for the construction of a Judicial Center facility; (ii) paying accrued interest, if any; and (iii) paying the cost of issuance incurred with respect to the issuance of the bonds. Interest on the bonds is payable each March 1 and September 1, beginning September 1, 2012. The bonds will mature on September 1 of each year beginning September 1, 2013. The interest rate on the bonds ranges from 1 percent to 2.75 percent.

On May 1 of each even numbered year, this lease may be renewed by the Administrative Office of the Courts (AOC) for another biennial period of two years.

The Corporation, the county and AOC have entered into a lease agreement, dated as of April 5, 2012, wherein AOC will lease from the Corporation the project and the project site at an agreed rental, which rental amount will be assigned by the Corporation to the trustee and is anticipated to be adequate to pay approximately 100 percent of the principal and interest on the bonds. The lease does not require the county to make any rental payments toward the project; however, the county is obligated to provide for the operation, maintenance, insurance and repair of the project. Bonds outstanding as of June 30, 2018, totaled \$2,825,000. Future principal and interest requirements are:

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

Note 5. Long-term Debt (Continued)

C. First Mortgage Refunding Revenue Bonds, Series 2012 (Justice Center) (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 445,000	\$ 66,150
2020	455,000	57,150
2021	460,000	46,850
2022	475,000	35,162
2023	490,000	22,488
2024	500,000	6,875
Totals	<u>\$ 2,825,000</u>	<u>\$ 234,675</u>

D. Financing Obligation - Caterpillar Grader

On December 16, 2013, the Muhlenberg County Fiscal Court entered into a four year loan agreement with the First Kentucky Bank for purchase of a Caterpillar 120M2 Grader. The principal amount borrowed was \$225,470 with an interest rate of 2.44 percent. The agreement requires monthly principal and interest payments. The outstanding balance as of June 30, 2018, was \$0.

E. Financing Obligation - Four Mack Trucks

On December 9, 2016, the Muhlenberg County Fiscal Court entered into an 18-month lease purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purpose of purchasing four Mack trucks. The principal amount borrowed was \$576,562 with an interest rate of 3.79 percent. The outstanding balance as of June 30, 2018, was \$0.

F. Financing Obligation - Four Mack Trucks

On November 3, 2017, the Muhlenberg County Fiscal Court entered into an 18-month lease purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purpose of purchasing four Mack trucks. The principal amount borrowed was \$583,640 with an interest rate of 4.05 percent. The outstanding balance as of June 30, 2018, was \$583,640. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 583,640	\$ 19,649
Totals	<u>\$ 583,640</u>	<u>\$ 19,649</u>

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

Note 5. Long-term Debt (Continued)

G. General Obligation Refunding Bond, Series 2017A

On August 14, 2017, Muhlenberg County issued \$2,246,000 of General Obligation Refunding Bond, Series 2017A, for the purpose of (a) the current refunding of all or certain maturities of the Muhlenberg County, Kentucky General Obligation Refunding Bonds, Series 2007, dated March 1, 2007, in the original principal amount of \$6,225,000, (b) financing the payment of accrued interest, if any; and (c) financing the payment of the Cost of Issuance. The bonds will mature on August 1, 2022. Interest is payable each February 1 and August 1. As of June 30, 2018, bonds outstanding were \$2,246,000. Future bond principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 202,500	\$ 64,943
2020	488,000	54,489
2021	502,900	39,487
2022	518,400	24,024
2023	534,200	8,088
Totals	<u>\$ 2,246,000</u>	<u>\$ 191,031</u>

H. 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
General Obligation Bonds	\$ 11,445,000	\$ 2,246,000	\$ 2,665,000	\$ 11,026,000	\$ 987,500
Revenue Bonds	3,265,000		440,000	2,825,000	445,000
Financing Obligations	647,121	583,640	647,121	583,640	583,640
Total Long-term Debt	<u>\$ 15,357,121</u>	<u>\$ 2,829,640</u>	<u>\$ 3,752,121</u>	<u>\$ 14,434,640</u>	<u>\$ 2,016,140</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was 940,630, FY 2017 was \$947,783, and FYE 2018 was \$987,971.

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

Note 6. Employee Retirements System (Continued)

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:

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%

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

Note 6. Employee Retirements System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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

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

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

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

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

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

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

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

E. Death Benefit

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

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

Note 6. Employee Retirements System (Continued)

KRS Annual Financial Report and Proportionate Share Audit Report

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

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 7. Deferred Compensation

On February 24, 2000, the Muhlenberg County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

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

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

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

Note 9. Conduit Debt

From time to time the county has issued bonds and notes to provide financial assistance to various government entities for the acquisition and construction of industrial and commercial 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 Muhlenberg 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.

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

Note 9. Conduit Debt (Continued)

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. As of June 30, 2018, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 10. Prior Period Adjustments

Prior Year Ending Fund Balance	\$ 1,498,963
Adjustments:	
General fund - account omitted in prior year	3,327
Jail fund - account omitted in prior year	30,359
Jail commissary - voided checks	24,298
LGEA - account omitted in prior year	<u>23</u>
Beginning Fund Balance Restated	<u>\$ 1,556,970</u>

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MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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MUHLENBERG 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	\$ 1,983,500	\$ 1,983,500	\$ 2,132,073	\$ 148,573
In Lieu Tax Payments	2,180,000	2,180,000	2,414,329	234,329
Excess Fees	1,400,000	1,400,000	1,499,034	99,034
Licenses and Permits	95,000	95,000	81,519	(13,481)
Intergovernmental	763,475	763,475	719,428	(44,047)
Charges for Services	377,600	377,600	399,347	21,747
Miscellaneous	1,012,000	1,012,000	1,270,157	258,157
Interest	1,000	1,000	478	(522)
Total Receipts	<u>7,812,575</u>	<u>7,812,575</u>	<u>8,516,365</u>	<u>703,790</u>
DISBURSEMENTS				
General Government	3,386,170	3,801,670	3,542,386	259,284
Protection to Persons and Property	1,037,150	1,102,750	945,805	156,945
General Health and Sanitation	510,500	575,500	526,591	48,909
Social Services	100,000	102,500	75,158	27,342
Recreation and Culture	365,000	392,000	327,668	64,332
Debt Service	1,007,500	757,500		757,500
Capital Projects	35,000	35,000	2,645	32,355
Administration	2,414,310	1,962,210	1,903,771	58,439
Total Disbursements	<u>8,855,630</u>	<u>8,729,130</u>	<u>7,324,024</u>	<u>1,405,106</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,043,055)</u>	<u>(916,555)</u>	<u>1,192,341</u>	<u>2,108,896</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds	1,000,000	1,000,000		(1,000,000)
Transfers From Other Funds	425,000	425,000	900,000	475,000
Transfers To Other Funds	(431,945)	(431,945)	(920,000)	(488,055)
Total Other Adjustments to Cash (Uses)	<u>993,055</u>	<u>993,055</u>	<u>(20,000)</u>	<u>(1,013,055)</u>
Net Change in Fund Balance	(50,000)	76,500	1,172,341	1,095,841
Fund Balance - Beginning (Restated)	<u>50,000</u>	<u>50,000</u>	<u>556,885</u>	<u>506,885</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 126,500</u>	<u>\$ 1,729,226</u>	<u>\$ 1,602,726</u>

MUHLENBERG 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	\$ 2,316,000	\$ 2,316,000	\$ 2,186,010	\$ (129,990)
Miscellaneous	585,000	585,000	621,265	36,265
Total Receipts	<u>2,901,000</u>	<u>2,901,000</u>	<u>2,807,275</u>	<u>(93,725)</u>
DISBURSEMENTS				
Roads	2,527,700	2,521,700	2,064,770	456,930
Debt Service	674,645	680,645	673,567	7,078
Administration	408,000	408,000	408,000	
Total Disbursements	<u>3,610,345</u>	<u>3,610,345</u>	<u>3,146,337</u>	<u>464,008</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(709,345)</u>	<u>(709,345)</u>	<u>(339,062)</u>	<u>370,283</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds	650,000	650,000	583,640	(66,360)
Transfers From Other Funds	9,345	9,345	500,000	490,655
Transfers To Other Funds			<u>(700,000)</u>	<u>(700,000)</u>
Total Other Adjustments to Cash (Uses)	<u>659,345</u>	<u>659,345</u>	<u>383,640</u>	<u>(275,705)</u>
Net Change in Fund Balance	(50,000)	(50,000)	44,578	94,578
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>28,660</u>	<u>(21,340)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 73,238</u>	<u>\$ 73,238</u>

MUHLENBERG 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	\$ 2,431,500	\$ 2,431,500	\$ 2,579,932	\$ 148,432
Charges for Services	8,000	8,000	15,529	7,529
Miscellaneous	173,000	173,000	235,874	62,874
Interest	100	100		(100)
Total Receipts	<u>2,612,600</u>	<u>2,612,600</u>	<u>2,831,335</u>	<u>218,735</u>
DISBURSEMENTS				
Protection to Persons and Property	2,406,700	2,533,200	2,476,456	56,744
Administration	678,500	678,500	649,323	29,177
Total Disbursements	<u>3,085,200</u>	<u>3,211,700</u>	<u>3,125,779</u>	<u>85,921</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(472,600)</u>	<u>(599,100)</u>	<u>(294,444)</u>	<u>304,656</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	422,600	422,600	290,000	(132,600)
Total Other Adjustments to Cash (Uses)	<u>422,600</u>	<u>422,600</u>	<u>290,000</u>	<u>(132,600)</u>
Net Change in Fund Balance	(50,000)	(176,500)	(4,444)	172,056
Fund Balance - Beginning (Restated)	50,000	50,000	50,932	932
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (126,500)</u>	<u>\$ 46,488</u>	<u>\$ 172,988</u>

MUHLENBERG 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	\$ 950,000	\$ 950,000	\$ 918,435	\$ (31,565)
Interest	100	100	223	123
Total Receipts	<u>950,100</u>	<u>950,100</u>	<u>918,658</u>	<u>(31,442)</u>
DISBURSEMENTS				
General Government	40,000	40,000		40,000
Protection to Persons and Property	197,000	197,000	197,000	
Roads	400,000	389,500	389,500	
Debt Service	812,105	942,605	933,531	9,074
Capital Projects	120,995	995	41	954
Total Disbursements	<u>1,570,100</u>	<u>1,570,100</u>	<u>1,520,072</u>	<u>50,028</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(620,000)</u>	<u>(620,000)</u>	<u>(601,414)</u>	<u>18,586</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds			2,246,000	2,246,000
Transfer To Paying Agent			(2,213,846)	(2,213,846)
Transfers From Other Funds			130,000	130,000
Transfers To Other Funds			(200,000)	(200,000)
Total Other Adjustments to Cash (Uses)			<u>(37,846)</u>	<u>(2,283,846)</u>
Net Change in Fund Balance	(620,000)	(620,000)	(639,260)	(19,260)
Fund Balance - Beginning (Restated)	<u>620,000</u>	<u>620,000</u>	<u>644,837</u>	<u>24,837</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,577</u>	<u>\$ 5,577</u>

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

PENNYRILE NARCOTICS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 699,900	\$ 699,900	\$ 287,695	\$ (412,205)
Charges for Services	100	100		(100)
Interest			5	5
Total Receipts	<u>700,000</u>	<u>700,000</u>	<u>287,700</u>	<u>(412,300)</u>
DISBURSEMENTS				
Administration	<u>750,000</u>	<u>750,000</u>	<u>331,399</u>	<u>418,601</u>
Total Disbursements	<u>750,000</u>	<u>750,000</u>	<u>331,399</u>	<u>418,601</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>(43,699)</u>	<u>6,301</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(25,000)</u>	<u>(25,000)</u>		<u>25,000</u>
Total Other Adjustments to Cash (Uses)	<u>(25,000)</u>	<u>(25,000)</u>		<u>25,000</u>
Net Change in Fund Balance	(75,000)	(75,000)	(43,699)	31,301
Fund Balance - Beginning	<u>75,000</u>	<u>75,000</u>	<u>68,393</u>	<u>(6,607)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,694</u>	<u>\$ 24,694</u>

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

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 400,000	\$ 400,000	\$ 382,265	\$ (17,735)
Interest			7	7
Total Receipts	<u>400,000</u>	<u>400,000</u>	<u>382,272</u>	<u>(17,728)</u>
DISBURSEMENTS				
Capital Projects	<u>1,000</u>	<u>1,000</u>	<u>262</u>	<u>738</u>
Total Disbursements	<u>1,000</u>	<u>1,000</u>	<u>262</u>	<u>738</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>399,000</u>	<u>399,000</u>	<u>382,010</u>	<u>(16,990)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(400,000)</u>	<u>(400,000)</u>		<u>400,000</u>
Total Other Adjustments to Cash (Uses)	<u>(400,000)</u>	<u>(400,000)</u>		<u>400,000</u>
Net Change in Fund Balance	(1,000)	(1,000)	382,010	383,010
Fund Balance - Beginning	<u>1,000</u>	<u>1,000</u>	<u>784</u>	<u>(216)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 382,794</u>	<u>\$ 382,794</u>

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

	TOURISM FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 100,000	\$ 100,000	\$ 120,448	\$ 20,448
Interest			5	5
Total Receipts	<u>100,000</u>	<u>100,000</u>	<u>120,453</u>	<u>20,453</u>
DISBURSEMENTS				
Recreation and Culture	61,000	32,500	223	32,277
Administration	67,000	95,500	94,900	600
Total Disbursements	<u>128,000</u>	<u>128,000</u>	<u>95,123</u>	<u>32,877</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(28,000)</u>	<u>(28,000)</u>	<u>25,330</u>	<u>53,330</u>
Net Change in Fund Balance	(28,000)	(28,000)	25,330	53,330
Fund Balance - Beginning	<u>28,000</u>	<u>28,000</u>	<u>37,180</u>	<u>9,180</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 62,510</u>	<u>\$ 62,510</u>

MUHLENBERG 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.

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

For The Year Ended June 30, 2018

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MUHLENBERG 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	\$ 2,022,585	\$	\$ 47,000	\$ 1,975,585
Land Improvements	184,053			184,053
Buildings and Building Improvements	33,563,952			33,563,952
Vehicles and Equipment	7,139,641	227,602	215,402	7,151,841
Infrastructure	594,527			594,527
Total Capital Assets	<u>\$ 43,504,758</u>	<u>\$ 227,602</u>	<u>\$ 262,402</u>	<u>\$ 43,469,958</u>

**MUHLENBERG 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 Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 10,000	3-25
Vehicles	\$ 10,000	3-25
Infrastructure	\$ 50,000	10-50

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rick Newman, Former Muhlenberg County Judge/Executive
The Honorable Curtis McGehee, Muhlenberg County Judge/Executive

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 Muhlenberg County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Muhlenberg County Fiscal Court's financial statement and have issued our report thereon dated April 10, 2019.

Internal Control Over Financial Reporting

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

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 20018-001, 2018-002, and 2018-003 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Muhlenberg 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 2018-002 and 2018-003.

Views of Responsible Official and Planned Corrective Action

Muhlenberg 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,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

April 10, 2019

**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 Muhlenberg County Fiscal Court Off-Site Locations Lack Adequate Controls Over Decentralized Receipts And Deposits Are Not Made Daily

This is a repeat finding and was included in the prior year audit report as finding 2017-001. The Muhlenberg County Fiscal Court's garbage sites and agriculture center collections lack adequate controls over receipts. The Muhlenberg County Fiscal Court does not issue receipts for all monies collected at the transfer stations. Receipts are not issued for monies collected at garbage drop off locations or for the sale of garbage bags. During receipts testing, we noted that receipts for the garbage site collections and agriculture center are not deposited daily. During the fiscal year, Muhlenberg County Fiscal Court recorded \$92,751 in receipts related to the agriculture center and \$395,979 in receipts related to the garbage collections.

According to the county treasurer, this lack of internal controls is a result of a limited budget, which restricts the number of qualified employees the fiscal court can hire for accounting functions. The issues have been addressed before and they are still looking for a solution for the garbage site collection oversight. The fiscal court is trying to implement a cash free transaction system on the garbage sites locations.

Without the proper internal controls and deposits made daily, the fiscal court creates the opportunity for undetected misappropriation of assets and inaccurate financial reporting.

Good internal controls dictate that duties over the various accounting functions such as preparation of deposits, checkout sheet preparation, and collection of cash should be segregated in order to decrease the risk of undetected misappropriation of assets and inaccurate financial reporting. Good internal controls also dictate that accurate and sufficient records be maintained in order to ensure all fees collected are deposited by the county treasurer. Furthermore, per KRS 68.210, the state local finance officer shall prescribe minimum accounting standards, including performing daily check-out procedures and making daily deposits intact to a federally insured banking institution.

We recommend the fiscal court require a receipt for each transaction of the agriculture expo center and garbage collection sites in accordance with KRS 64.840 and to better determine the actual amount that is collected from each location. We also recommend that the garbage collection sites and the agriculture expo center administrator implement internal controls over daily transactions and fees collected and begin making deposits daily.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Response: The garbage sites collect cash daily. This cash is picked up at several sites on a daily basis and is brought back to the courthouse where it is counted at the Judge Executive's office and a receipt is issued. This receipt is compared to the register count at each site. Sometimes timing of the delivery in the afternoon from this site is not timely for getting the deposit to the banking institution and the deposit is put in safe keeping in the courthouse. On occasion the counting is off from the receipt and additional investigation has been prepared to reconcile the cash count to the site count. This count is then recorded on a master receipt record for bank reconciliation purposes. The deposit is then delivered to the bank for the deposit, which may not be the same day it is deposited by the bank.

The County Treasurer is coordinating the aforementioned process each day at approximately 11:00 A.M. each business day to expedite and coordinate any delay in the process to ensure if at all possible that the daily deposit is deposited. The coordination is not simple and there will be some instances when this process will not be possible.

**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-001 Muhlenberg County Fiscal Court Off-Site Locations Lack Adequate Controls Over Decentralized Receipts And Deposits Are Not Made Daily (Continued)

Views of Responsible Official and Planned Corrective Action: (Continued)

County Treasurer's Response: (Continued)

An audit exception regarding rental monies received at the Convention Center was raised. County Treasurer is aware of all events and accounts for all deposits that reconcile with worksheet provided by department head. Now the County Treasurer has requested a monthly schedule of events and rentals received that will be reconciled to deposits. In addition the Fiscal Court will approve a standard rental schedule and exceptions to this amount collected will be presented to the Fiscal Court for their approval. All rents collected shall require a signed written receipt issued to the lessee, prenumbered, with a copy to the County Treasurer.

2018-002 Muhlenberg County Fiscal Court Failed To Properly Account For Multiple Accounts

The Muhlenberg County Fiscal Court failed to account for all activities of the county. The following items were noted:

- The Muhlenberg County Fiscal Court failed to account for the activities of the Paradise Park Board (board), an annual music festival held in the county. As a result, proper records were not maintained to support the financial activity of the board. For fiscal year 2018, the board had a beginning balance of \$3,332, receipts of \$3,299, disbursements of \$2,486, and an ending fund balance of \$4,145. The board did not maintain adequate supporting documentation for all disbursements. Furthermore, the board shorted a deposit in the amount of \$250.
- The Muhlenberg County Fiscal failed to account for the activities of the Freedom Fest account, a fund set up for Fourth of July fireworks. For fiscal year 2018, the Freedom Fest account had a beginning balance of \$0, the fund had receipts of \$1,700 with no disbursement, and an ending balance of \$1,700.
- The Muhlenberg County Jail failed to account for an equipment fund which was used to submit invoices to a telephone company. For fiscal year 2018, the beginning balance was \$1,860, no receipts and disbursements occurred, leaving an ending balance of \$1,860. The Muhlenberg County Jail had a second equipment fund which was used to submit invoices to a telephone company. For fiscal year 2018, the account had a beginning balance of \$30,359, no receipts, disbursements of \$12,538, and an ending balance of \$17,821.
- The Muhlenberg County Fiscal Court failed to account for the GO Bonds, Series 2017A. The trustee held the bank accounts, but the county treasurer did not include the activity on his financial statement. For fiscal year 2018, the account had \$2,217,549 in receipts and \$2,213,846 in disbursements, leaving an ending balance of \$3,703

According to county personnel, the county was originally unsure of its responsibilities towards the board due to the nature of its operations. Although the county is in the process, it has not yet implemented systematic internal controls over the board's receipts and disbursements. Also, according to county personnel, the county was unaware of their responsibilities for the other accounts.

The lack of internal controls over the operations of the omitted accounts exposes its assets to the risk of misappropriation. Additionally, failure to maintain minimum accounting records means the county was not in compliance with KRS 68.210.

**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 Muhlenberg County Fiscal Court Failed To Properly Account For Multiple Accounts (Continued)

According to the minimum requirements for handling public funds established by KRS 68.210, accounting systems should include books of original entry for receipts and expenditures such as receipts and disbursements ledgers. They should also include pre-numbered receipt forms issued to customers. Also, all deposits should be intact.

We recommend the fiscal court require the omitted accounts be budgeted and included on the county's financial statements in order for the activity to be properly reported. We also recommend the county implement internal controls over these activities in order to protect its assets from misappropriation.

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Responses: There were two bank accounts that was originally instituted by volunteer groups, one for the park improvements and the other for the July 4, fireworks. The County did not feel they were responsible for these accounts and did not have any supervision of the activity for these accounts. The County Treasurer was not a signatory of one of these accounts. These two groups had a separate committee to oversee these accounts.

The County Treasurer is in the process of closing these two accounts and bringing the activity of these into the General Fund as administered by the Fiscal Court.

2018-003 Muhlenberg County Fiscal Court Did Not Maintain An Accurate Liabilities Schedule

The Muhlenberg County Fiscal Court's liabilities schedule presented to the Department for Local Government (DLG) was materially misstated. The fiscal court did not report all debt of the county. GO Refunding Bonds, Series 2007 and First Mortgage Refunding Revenue Bonds, Series 2012 debt were omitted from the liabilities schedule.

The county treasurer stated that he left off the debt due to guidance from the Department for Local Government and was unaware of the remaining balance of the Series 2007 bonds that were partially refunded.

By not accurately reporting debt, the county is not in compliance with KRS 68.210. In addition, the county is not providing a complete overview of their debt by understating it by \$3,095,000 in principal and \$237,705 in interest.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, all county money is to be reported on the financial statement whether it is included in the budget or not. Documentation of the county's liabilities must be submitted to the state local finance officer.

We recommend the county ensure all debt has been disclosed and the balances are accurate when reporting the county's liabilities on the fourth quarter report submitted to DLG.

**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 Muhlenberg County Fiscal Court Did Not Maintain An Accurate Liabilities Schedule (Continued)

Views of Responsible Official and Planned Corrective Action:

County Treasurer's Responses: The Jail Bond was refinanced during the current audit period. At year end the Fiscal Court was unaware that one payment was left to pay on the old issue and not included in the schedule of payments in the refinanced issue. Actually, the County Treasurer was not aware this payment one year out was due until a week before the payment was due. This payment was actually due and payable during the current fiscal year. This obligation was not included on the fourth quarter report to DLG because it was not known. However, this liability was reported to the audit team on the schedule and reconciliation of bonds payable at year end 6-30-18 for audit purposes. This issue has now been paid in full during the current year and no further action will be necessary. The amortization schedule showing this one payment left was not available when the 6-30-18 quarterly report was due and filed.

We were disturbed that this one payment was not part of the refinance and felt like we were somewhat misled about this fact.

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

MUHLENBERG COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

MUHLENBERG COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Muhlenberg 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