

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

Honorable William Davis, Martin County Judge/Executive

Honorable Kelly Callaham, Former Martin County Judge/Executive

Members of the Martin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Martin County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Martin County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Martin County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Martin County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

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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 9, 2020, on our consideration of the Martin County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Martin County Fiscal Court's internal control over financial reporting and compliance.

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

- 2017-001 The Fiscal Court Has \$254,994 In Liabilities As Of June 30, 2017 For Disbursements Relating To The Government Building
- 2017-002 The Fiscal Court Had \$596,562 Of Prior Year Disbursements Paid In The Current Fiscal Year
- 2017-003 The Fiscal Court Has Not Implemented Internal Controls Over Disbursements
- 2017-004 The Fiscal Court Did Not Follow Proper Bid Laws and Regulations
- 2017-005 The Fiscal Court Did Not Properly Report Encumbrances

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 9, 2020

MARTIN COUNTY OFFICIALS**For The Year Ended June 30, 2017****Fiscal Court Members:**

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

Other Elected Officials:

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

Appointed Personnel:

Linda Sumpter	County Treasurer
Donna Callaham	Chief Financial Officer

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 611,739	\$	\$
Excess Fees	266,442		
Licenses and Permits			
Intergovernmental	176,786	1,605,913	82,646
Charges for Services	810		
Miscellaneous	381,538	40,016	623
Interest	457	718	60
Total Receipts	<u>1,437,772</u>	<u>1,646,647</u>	<u>83,329</u>
DISBURSEMENTS			
General Government	1,080,016	24,924	
Protection to Persons and Property			500,956
General Health and Sanitation			
Social Services	4,200		
Recreation and Culture			
Roads		1,206,796	
Debt Service		32,057	
Administration	462,233	221,343	28,247
Total Disbursements	<u>1,546,449</u>	<u>1,485,120</u>	<u>529,203</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(108,677)</u>	<u>161,527</u>	<u>(445,874)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	155,424		450,000
Transfers To Other Funds	(206,550)	(100,000)	
Total Other Adjustments to Cash (Uses)	<u>(51,126)</u>	<u>(100,000)</u>	<u>450,000</u>
Net Change in Fund Balance	(159,803)	61,527	4,126
Fund Balance - Beginning	368,714	56,320	16,120
Fund Balance - Ending	<u>\$ 208,911</u>	<u>\$ 117,847</u>	<u>\$ 20,246</u>
Composition of Fund Balance			
Bank Balance	\$ 215,099	\$ 136,657	\$ 100,959
Plus: Deposits In Transit			
Less: Outstanding Checks	(6,188)	(18,810)	(80,713)
Fund Balance - Ending	<u>\$ 208,911</u>	<u>\$ 117,847</u>	<u>\$ 20,246</u>

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

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

Budgeted Funds						
Local Government Economic Assistance Fund	State Grants Fund	Federal Grant Fund	Forestry Fund	Solid Waste Fund	Occupational Tax Fund	Local Government Economic Development Fund
\$	\$	\$	\$	\$	\$ 885,554	\$
				39,034		
337,931	1,121,642	74,899				
2,001	1,019		1,265	281,667	41,800	
73	40					2
<u>340,005</u>	<u>1,122,701</u>	<u>74,899</u>	<u>1,265</u>	<u>320,701</u>	<u>927,354</u>	<u>2</u>
27,316	624,339	24,899			63,804	
44,474	88,791				17,347	
32,053	44,966			8,249	44,837	
					50,000	
					183,877	
77,862	9,190					
	667,145			294,751		
17,980	32,520			725	233,318	
<u>199,685</u>	<u>1,466,951</u>	<u>24,899</u>		<u>303,725</u>	<u>593,183</u>	
140,320	(344,250)	50,000	1,265	16,976	334,171	2
	117,794			14,000		
(135,000)					(311,683)	
<u>(135,000)</u>	<u>117,794</u>			<u>14,000</u>	<u>(311,683)</u>	
5,320	(226,456)	50,000	1,265	30,976	22,488	2
9,989	395,301	2,439	20	1,996	87,435	6,608
<u>\$ 15,309</u>	<u>\$ 168,845</u>	<u>\$ 52,439</u>	<u>\$ 1,285</u>	<u>\$ 32,972</u>	<u>\$ 109,923</u>	<u>\$ 6,610</u>
\$ 16,447	\$ 192,546	\$ 52,439	\$ 1,285	\$ 32,972	\$ 273,799	\$ 6,610
					50,000	
(1,138)	(23,701)				(213,876)	
<u>\$ 15,309</u>	<u>\$ 168,845</u>	<u>\$ 52,439</u>	<u>\$ 1,285</u>	<u>\$ 32,972</u>	<u>\$ 109,923</u>	<u>\$ 6,610</u>

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

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

	Budgeted Funds			
	HUD Fund	Sheriff Office Fund	Emergency Dispatch Fund	Volunteer Fire Department Fund
RECEIPTS				
Taxes	\$	\$	\$	\$
Excess Fees				
Licenses and Permits				
Intergovernmental		442,637		
Charges for Services			268,043	1,469
Miscellaneous	8,276	6,377		
Interest	294		2,729	17
Total Receipts	<u>8,570</u>	<u>449,014</u>	<u>270,772</u>	<u>1,486</u>
DISBURSEMENTS				
General Government		408,781		
Protection to Persons and Property			378,338	33,954
General Health and Sanitation				
Social Services				
Recreation and Culture				
Roads				
Debt Service				
Administration	1	116,442	53,507	
Total Disbursements	<u>1</u>	<u>525,223</u>	<u>431,845</u>	<u>33,954</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>8,569</u>	<u>(76,209)</u>	<u>(161,073)</u>	<u>(32,468)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		16,000		15
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)		<u>16,000</u>		<u>15</u>
Net Change in Fund Balance	8,569	(60,209)	(161,073)	(32,453)
Fund Balance - Beginning	<u>216,758</u>	<u>76,032</u>	<u>250,742</u>	<u>32,468</u>
Fund Balance - Ending	<u>\$ 225,327</u>	<u>\$ 15,823</u>	<u>\$ 89,669</u>	<u>\$ 15</u>
Composition of Fund Balance				
Bank Balance	\$ 225,327	\$ 21,213	\$ 91,248	\$ 15
Deposits In Transit				
Less Outstanding Checks		<u>(5,390)</u>	<u>(1,579)</u>	
Ending Fund Balance	<u>\$ 225,327</u>	<u>\$ 15,823</u>	<u>\$ 89,669</u>	<u>\$ 15</u>

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

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

<u>Unbudgeted Fund</u>		
Public		
Properties		
Corporation		
Bond	Total	
Fund	Funds	
		\$ 1,497,293
		266,442
		39,034
		3,842,454
		270,322
		764,582
		4,390
		<u>6,684,517</u>
		2,254,079
		1,063,860
		130,105
		54,200
		183,877
		1,293,848
		993,953
		<u>1,166,316</u>
		<u>7,140,238</u>
		(455,721)
		753,233
		<u>(753,233)</u>
		(455,721)
25		<u>1,520,967</u>
\$ 25	\$	<u>1,065,246</u>
\$ 25	\$	1,366,641
		50,000
		<u>(351,395)</u>
\$ 25	\$	<u>1,065,246</u>

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

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TO THE FINANCIAL STATEMENT**

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**MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

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

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

Forestry Fund - the primary purpose of this fund is used to account for taxes collected for protection of forest lands.

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

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

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

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

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

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Bond Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

The state local finance officer does not require the public facilities construction corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Martin County Elected Officials

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

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

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).

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

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

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

	General Fund	Road Fund	LGEA Fund	Occupational Tax Fund	Total Transfers In
General Fund	\$	\$ 100,000	\$	\$ 55,424	\$ 155,424
Jail Fund	95,000		135,000	220,000	450,000
State Grants Fund	97,535			20,259	117,794
Solid Waste Fund	14,000				14,000
Sheriffs Office Fund				16,000	16,000
Volunteer Fire Departments Fund	15				15
Total Transfers Out	<u>\$ 206,550</u>	<u>\$ 100,000</u>	<u>\$ 135,000</u>	<u>\$ 311,683</u>	<u>\$ 753,233</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.

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

Note 4. Agency Trust Fund

Agency trust funds report only those resources held in trust or custodial capacity for individuals, private organizations, or other governments. The fiscal court has the following agency trust fund:

Non Structural Flood Control - The primary purpose of this fund is to account for the Martin County Fiscal Court writing checks for the City of Inez. Since this fund is a fiduciary fund in nature, it is not represented in the financial statement. The balance in this account as of June 30, 2017, is \$49,505.

Note 5. Receivables

A. Martin County Water District

In July, 2005, the Martin County Fiscal Court issued financing obligations of \$200,000 to the Martin County Water District. The financing proceeds were paid directly to the water district. The water district makes the lease payments directly to the trustee of the lease to pay the principal and interest. The receivable reflects the principal amount due from the Martin County Water District of \$106,222 outstanding as of June 30, 2017. This will be reflected in the notes to the financial statement.

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2018	\$ 10,000	\$ 5,927
2019	10,000	5,375
2020	15,000	4,761
2021	15,000	3,934
2022	15,000	3,109
2023-2025	41,222	4,372
Totals	<u>\$ 106,222</u>	<u>\$ 27,478</u>

B. Martin County-Inez Fire District

In February, 2007, the Martin County fiscal Court issued financing obligations of \$152,000 to the Martin County Inez Fire District. The financing proceeds were paid directly to the fire district. The fire district makes the lease payments directly to the trustee of the lease to pay the principal and interest. The receivable reflects the principal amount due from the Martin County Inez Fire District of \$27,308 outstanding as of June 30, 2017. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2018	\$ 18,870	\$ 1,185
2019	8,438	223
Totals	<u>\$ 27,308</u>	<u>\$ 1,408</u>

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

Note 6. Long-term Debt

A. Martin County Water District – Financing Obligations

In July, 2005, the Martin County Fiscal court entered into a lease agreement with Kentucky Association of counties (KACO) and then issued financing obligations of \$200,000 to the Martin County Water District (see Note 4). The financing proceeds were paid directly to the water company. The water company makes the lease payments directly to the trustee of the lease to pay principal and interest. The note requires an annual interest and principal payment due March 20th of each year with a final payment due in March 2025. As of June 30, 2017, the principal amount outstanding was \$106,222. The principal amount outstanding corresponds to the receivable due to the county (as outlined in Note 4.A). Principal of \$10,000 and interest of \$5,046 were paid as of June 30, 2017. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2018	\$ 10,000	\$ 5,927
2019	10,000	5,375
2020	15,000	4,761
2021	15,000	3,934
2022	15,000	3,109
2023-2025	41,222	4,372
Totals	<u>\$ 106,222</u>	<u>\$ 27,478</u>

B. Martin County - Inez Fire District - Financing Obligation

In February 2007, the Martin County Fiscal Court entered into a lease agreement with KACO and then issued financing obligations of \$152,000 to the Martin County Inez Fire District (see Note 4). The financing proceeds were paid directly to the fire district. The fire district makes the lease payments directly to the trustee of the lease to pay principal and interest. The note requires variable monthly payments with a final payment due in December 2018. As of June 30, 2017, the principal amount outstanding was \$27,308. The principal amount outstanding corresponds to the receivable due to the county (as outlined in Note 4.B.). Principal of \$14,065 and interest of \$1,171 was paid as of June 30, 2017. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2018	\$ 18,870	\$ 1,185
2019	8,438	223
Totals	<u>\$ 27,308</u>	<u>\$ 1,408</u>

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

Note 6. Long-term Debt (Continued)

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

On March, 2014, the Martin County Fiscal Court issued revenue bonds through KACO for the construction of their new Government Center Building and the refinancing of existing KACO leases. The principal amount of the bonds was \$10,000,000. The agreement requires variable monthly payments for 24 years to be paid in full on December 20, 2038. As of June 30, 2017, the principal amount outstanding was \$9,307,500. Principal of \$275,000 and interest of \$368,469 were paid as of June 30, 2017. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2018	\$ 290,000	\$ 351,744
2019	300,000	343,044
2020	310,000	334,044
2021	320,000	324,744
2022	330,000	315,144
2023-2027	1,827,500	1,412,994
2028-2032	2,232,500	1,033,244
2033-2037	2,752,500	543,741
2038-2039	945,000	52,181
Totals	<u>\$ 9,307,500</u>	<u>\$ 4,710,880</u>

D. Trucks - Financing Obligation

On June 25, 2014, the Martin County Fiscal Court entered into a lease agreement with KACO to refinance an existing note payment for the purchase of four trucks. The principal amount of the lease was \$471,000. The agreement requires variable monthly payments for 5 years to be paid in full on December 25, 2019. As of June 30, 2017, this lease was paid in full. Principal of \$291,450 and interest of \$2,766 were paid as of June 30, 2017.

E. Caterpillar - Financing Obligations

On November 24, 2014, the Martin County Fiscal Court entered into a lease agreement to finance the purchase of a track type tractor. The principal amount of the lease was \$128,190. The agreement requires variable monthly payments for five years to be paid in full December 14, 2019. As of June 30, 2017, the principal amount outstanding was \$61,570. Principal of \$29,625 and interest of \$1,980 were paid as of June 30, 2017. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2018	\$ 21,629	\$ 947
2019	26,481	610
2020	13,460	86
Totals	<u>\$ 61,570</u>	<u>\$ 1,643</u>

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

Note 6. Long-term Debt (continued)

F. Changes in Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 9,590,000		\$ 282,500	\$ 9,307,500	\$ 290,000
Financing Obligations	540,241		345,141	195,100	49,193
Total Long-term Debt	<u>\$ 10,130,241</u>	<u>\$ 0</u>	<u>\$ 627,641</u>	<u>\$ 9,502,600</u>	<u>\$ 339,193</u>

Note 7. Commitments and Contingencies

The Martin County Fiscal Court is subject to various legal actions in various stages of litigation, the outcome of which is not determinable at this time. All of these cases have been put into the hands of their insurance carrier. Management of the Fiscal Court and its legal counsel do not anticipate that there will be a material effect on the financial statement above insurance coverage as a result of the cases presently in progress.

Note 8. 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 2015 was \$287,768, FY 2016 was \$280,606, and FY 2017 was \$311,090.

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

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

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

Note 8. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (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 18.68 percent.

Health Insurance Coverage

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

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

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

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

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 9. Deferred Compensation

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

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

Note 9. Deferred Compensation (Continued)

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

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

Note 10. Insurance

For the fiscal year ended June 30, 2017, the Martin County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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

For The Year Ended June 30, 2017

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MARTIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 528,350	\$ 528,350	\$ 611,739	\$ 83,389
In Lieu Tax Payments	5	5		(5)
Excess Fees	15,000	15,000	266,442	251,442
Licenses and Permits	500	500		(500)
Intergovernmental	192,180	192,180	176,786	(15,394)
Charges for Services			810	810
Miscellaneous	321,550	321,550	381,538	59,988
Interest	250	250	457	207
Total Receipts	<u>1,057,835</u>	<u>1,057,835</u>	<u>1,437,772</u>	<u>379,937</u>
DISBURSEMENTS				
General Government	1,014,338	1,136,717	1,080,016	56,701
Protection to Persons and Property	200	200		200
Social Services	4,300	3,250	4,200	(950)
Debt Service	10,000	200		200
Administration	387,476	494,587	462,233	32,354
Total Disbursements	<u>1,416,314</u>	<u>1,634,954</u>	<u>1,546,449</u>	<u>88,505</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(358,479)</u>	<u>(577,119)</u>	<u>(108,677)</u>	<u>468,442</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	155,286	155,286	155,424	138
Transfers To Other Funds	(141,807)	(141,807)	(206,550)	(64,743)
Total Other Adjustments to Cash (Uses)	<u>13,479</u>	<u>13,479</u>	<u>(51,126)</u>	<u>(64,605)</u>
Net Change in Fund Balance	(345,000)	(563,640)	(159,803)	403,837
Fund Balance - Beginning	345,000	345,000	368,714	23,714
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (218,640)</u>	<u>\$ 208,911</u>	<u>\$ 427,551</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,715,760	\$ 1,715,760	\$ 1,605,913	\$ (109,847)
Miscellaneous	6,000	6,000	40,016	34,016
Interest	575	575	718	143
Total Receipts	<u>1,722,335</u>	<u>1,722,335</u>	<u>1,646,647</u>	<u>(75,688)</u>
DISBURSEMENTS				
General Government	24,000	24,924	24,924	
Roads	621,209	1,278,282	1,206,796	71,486
Debt Service	31,850	37,850	32,057	5,793
Administration	959,990	295,993	221,343	74,650
Total Disbursements	<u>1,637,049</u>	<u>1,637,049</u>	<u>1,485,120</u>	<u>151,929</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>85,286</u>	<u>85,286</u>	<u>161,527</u>	<u>76,241</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(155,286)</u>	<u>(155,286)</u>	<u>(100,000)</u>	<u>55,286</u>
Total Other Adjustments to Cash (Uses)	<u>(155,286)</u>	<u>(155,286)</u>	<u>(100,000)</u>	<u>55,286</u>
Net Change in Fund Balance	(70,000)	(70,000)	61,527	131,527
Fund Balance - Beginning	<u>70,000</u>	<u>70,000</u>	<u>56,320</u>	<u>(13,680)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 117,847</u>	<u>\$ 117,847</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 81,550	\$ 81,550	\$ 82,646	\$ 1,096
Miscellaneous	2,500	2,500	623	(1,877)
Interest	50	50	60	10
Total Receipts	<u>84,100</u>	<u>84,100</u>	<u>83,329</u>	<u>(771)</u>
DISBURSEMENTS				
Protection to Persons and Property	385,883	523,845	500,956	22,889
Administration	48,520	37,464	28,247	9,217
Total Disbursements	<u>434,403</u>	<u>561,309</u>	<u>529,203</u>	<u>32,106</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(350,303)</u>	<u>(477,209)</u>	<u>(445,874)</u>	<u>31,335</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	345,303	345,303	450,000	104,697
Total Other Adjustments to Cash (Uses)	<u>345,303</u>	<u>345,303</u>	<u>450,000</u>	<u>104,697</u>
Net Change in Fund Balance	(5,000)	(131,906)	4,126	136,032
Fund Balance - Beginning	5,000	5,000	16,120	11,120
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (126,906)</u>	<u>\$ 20,246</u>	<u>\$ 147,152</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 465,000	\$ 465,000	\$ 337,931	\$ (127,069)
Miscellaneous	2,180	2,180	2,001	(179)
Interest	95	95	73	(22)
Total Receipts	<u>467,275</u>	<u>467,275</u>	<u>340,005</u>	<u>(127,270)</u>
DISBURSEMENTS				
General Government	27,445	30,095	27,316	2,779
Protection to Persons and Property	44,525	45,633	44,474	1,159
General Health and Sanitation	41,100	42,450	32,053	10,397
Social Services	1,300	650		650
Roads	86,834	86,834	77,862	8,972
Administration	53,800	48,942	17,980	30,962
Total Disbursements	<u>255,004</u>	<u>254,604</u>	<u>199,685</u>	<u>54,919</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>212,271</u>	<u>212,671</u>	<u>140,320</u>	<u>(72,351)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(214,771)</u>	<u>(214,771)</u>	<u>(135,000)</u>	<u>79,771</u>
Total Other Adjustments to Cash (Uses)	<u>(214,771)</u>	<u>(214,771)</u>	<u>(135,000)</u>	<u>79,771</u>
Net Change in Fund Balance	(2,500)	(2,100)	5,320	7,420
Fund Balance - Beginning	<u>2,500</u>	<u>2,500</u>	<u>9,989</u>	<u>7,489</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 400</u>	<u>\$ 15,309</u>	<u>\$ 14,909</u>

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

	STATE GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,500,000	\$ 2,500,000	\$ 1,121,642	\$ (1,378,358)
Miscellaneous			1,019	1,019
Interest			40	40
Total Receipts	<u>2,500,000</u>	<u>2,500,000</u>	<u>1,122,701</u>	<u>(1,377,299)</u>
DISBURSEMENTS				
General Government		650,916	624,339	26,577
Protection to Persons and Property		107,535	88,791	18,744
General Health and Sanitation		44,967	44,966	1
Roads		9,190	9,190	
Debt Service	667,144	691,595	667,145	24,450
Administration	1,852,856	777,616	32,520	745,096
Total Disbursements	<u>2,520,000</u>	<u>2,281,819</u>	<u>1,466,951</u>	<u>814,868</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(20,000)</u>	<u>218,181</u>	<u>(344,250)</u>	<u>(562,431)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			117,794	117,794
Total Other Adjustments to Cash (Uses)			<u>117,794</u>	<u>117,794</u>
Net Change in Fund Balance	(20,000)	218,181	(226,456)	(444,637)
Fund Balance - Beginning	20,000	20,000	395,301	375,301
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 238,181</u>	<u>\$ 168,845</u>	<u>\$ (69,336)</u>

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

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,342,000	\$ 1,342,000	\$ 74,899	\$ (1,267,101)
Total Receipts	<u>1,342,000</u>	<u>1,342,000</u>	<u>74,899</u>	<u>(1,267,101)</u>
DISBURSEMENTS				
General Government		24,899	24,899	
General Health and Sanitation	1,344,200	1,319,301		1,319,301
Total Disbursements	<u>1,344,200</u>	<u>1,344,200</u>	<u>24,899</u>	<u>1,319,301</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,200)</u>	<u>(2,200)</u>	<u>50,000</u>	<u>52,200</u>
Net Change in Fund Balance	(2,200)	(2,200)	50,000	52,200
Fund Balance - Beginning	<u>2,200</u>	<u>2,200</u>	<u>2,439</u>	<u>239</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 52,439</u>	<u>\$ 52,439</u>

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

	FORESTRY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$ 1,265	\$ 1,265
Total Receipts			1,265	1,265
DISBURSEMENTS				
Protection to Persons and Property		3,000	3,000	3,000
Total Disbursements		3,000	3,000	3,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(3,000)	1,265	4,265
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		1,276	1,276	(1,276)
Total Other Adjustments to Cash (Uses)		1,276	1,276	(1,276)
Net Change in Fund Balance		(1,724)	1,265	2,989
Fund Balance - Beginning		1,724	20	(1,704)
Fund Balance - Ending	\$	0	\$ 1,285	\$ 1,285

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

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 26,400	\$ 26,400	\$ 39,034	\$ 12,634
Miscellaneous	210,000	210,000	281,667	71,667
Total Receipts	<u>236,400</u>	<u>236,400</u>	<u>320,701</u>	<u>84,301</u>
DISBURSEMENTS				
General Health and Sanitation	30,004	30,304	8,249	22,055
Debt Service	200,000	298,035	294,751	3,284
Administration	8,396	8,096	725	7,371
Total Disbursements	<u>238,400</u>	<u>336,435</u>	<u>303,725</u>	<u>32,710</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,000)</u>	<u>(100,035)</u>	<u>16,976</u>	<u>117,011</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			14,000	14,000
Total Other Adjustments to Cash (Uses)			<u>14,000</u>	<u>14,000</u>
Net Change in Fund Balance	(2,000)	(100,035)	30,976	131,011
Fund Balance - Beginning	2,000	2,000	1,996	(4)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (98,035)</u>	<u>\$ 32,972</u>	<u>\$ 131,007</u>

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

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 931,000	\$ 931,000	\$ 885,554	\$ (45,446)
Miscellaneous			41,800	41,800
Total Receipts	<u>931,000</u>	<u>931,000</u>	<u>927,354</u>	<u>(3,646)</u>
DISBURSEMENTS				
General Government	75,933	80,026	63,804	16,222
Protection to Persons and Property	400	17,670	17,347	323
General Health and Sanitation	57,500	59,781	44,837	14,944
Social Services	50,000	50,000	50,000	
Recreation and Culture	233,395	210,151	183,877	26,274
Administration	231,921	246,521	233,318	13,203
Total Disbursements	<u>649,149</u>	<u>664,149</u>	<u>593,183</u>	<u>70,966</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>281,851</u>	<u>266,851</u>	<u>334,171</u>	<u>67,320</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(331,851)</u>	<u>(331,851)</u>	<u>(311,683)</u>	<u>20,168</u>
Total Other Adjustments to Cash (Uses)	<u>(331,851)</u>	<u>(331,851)</u>	<u>(311,683)</u>	<u>20,168</u>
Net Change in Fund Balance	(50,000)	(65,000)	22,488	87,488
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>87,435</u>	<u>37,435</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (15,000)</u>	<u>\$ 109,923</u>	<u>\$ 124,923</u>

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

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 5,000	\$ 5,000	\$	\$ (5,000)
Interest	25	25	2	(23)
Total Receipts	<u>5,025</u>	<u>5,025</u>	<u>2</u>	<u>(5,023)</u>
DISBURSEMENTS				
General Government	<u>11,633</u>	<u>11,633</u>		<u>11,633</u>
Total Disbursements	<u>11,633</u>	<u>11,633</u>		<u>11,633</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(6,608)</u>	<u>(6,608)</u>	<u>2</u>	<u>6,610</u>
Net Change in Fund Balance	(6,608)	(6,608)	2	6,610
Fund Balance - Beginning	<u>6,608</u>	<u>6,608</u>	<u>6,608</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,610</u>	<u>\$ 6,610</u>

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

	HUD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 10,000	\$ 10,000	\$ 8,276	\$ (1,724)
Interest	225	225	294	69
Total Receipts	<u>10,225</u>	<u>10,225</u>	<u>8,570</u>	<u>(1,655)</u>
DISBURSEMENTS				
Social Services	165,041	40		40
Administration	60,225	5,226	1	5,225
Total Disbursements	<u>225,266</u>	<u>5,266</u>	<u>1</u>	<u>5,265</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(215,041)</u>	<u>4,959</u>	<u>8,569</u>	<u>3,610</u>
Net Change in Fund Balance	(215,041)	4,959	8,569	3,610
Fund Balance - Beginning	<u>215,041</u>	<u>215,041</u>	<u>216,758</u>	<u>1,717</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 220,000</u>	<u>\$ 225,327</u>	<u>\$ 5,327</u>

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

	SHERIFFS OFFICE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 250,000	\$ 250,000	\$ 442,637	\$ 192,637
Miscellaneous			6,377	6,377
Total Receipts	<u>250,000</u>	<u>250,000</u>	<u>449,014</u>	<u>199,014</u>
DISBURSEMENTS				
General Government	502,600	505,291	408,781	96,510
Administration	127,751	125,060	116,442	8,618
Total Disbursements	<u>630,351</u>	<u>630,351</u>	<u>525,223</u>	<u>105,128</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(380,351)</u>	<u>(380,351)</u>	<u>(76,209)</u>	<u>304,142</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	341,851	341,851	16,000	(325,851)
Total Other Adjustments to Cash (Uses)	<u>341,851</u>	<u>341,851</u>	<u>16,000</u>	<u>(325,851)</u>
Net Change in Fund Balance	(38,500)	(38,500)	(60,209)	(21,709)
Fund Balance - Beginning	<u>38,500</u>	<u>38,500</u>	<u>76,032</u>	<u>37,532</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,823</u>	<u>\$ 15,823</u>

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

EMERGENCY DISPATCH FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 265,000	\$ 265,000	\$ 268,043	\$ 3,043
Interest			2,729	2,729
Total Receipts	<u>265,000</u>	<u>265,000</u>	<u>270,772</u>	<u>5,772</u>
DISBURSEMENTS				
Protection to Persons and Property	460,262	462,087	378,338	83,749
Administration	69,738	67,913	53,507	14,406
Total Disbursements	<u>530,000</u>	<u>530,000</u>	<u>431,845</u>	<u>98,155</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(265,000)</u>	<u>(265,000)</u>	<u>(161,073)</u>	<u>103,927</u>
Net Change in Fund Balance	(265,000)	(265,000)	(161,073)	103,927
Fund Balance - Beginning	<u>265,000</u>	<u>265,000</u>	<u>250,742</u>	<u>(14,258)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 89,669</u>	<u>\$ 89,669</u>

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

VOLUNTEER FIRE DEPARTMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 45,000	\$ 45,000	\$ 1,469	\$ (43,531)
Miscellaneous			17	17
Total Receipts	<u>45,000</u>	<u>45,000</u>	<u>1,486</u>	<u>(43,514)</u>
DISBURSEMENTS				
Protection to Persons and Property	<u>46,500</u>	<u>46,500</u>	<u>33,954</u>	<u>12,546</u>
Total Disbursements	<u>46,500</u>	<u>46,500</u>	<u>33,954</u>	<u>12,546</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,500)</u>	<u>(1,500)</u>	<u>(32,468)</u>	<u>(30,968)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			<u>15</u>	<u>15</u>
Total Other Adjustments to Cash (Uses)			<u>15</u>	<u>15</u>
Net Change in Fund Balance	(1,500)	(1,500)	(32,453)	(30,953)
Fund Balance - Beginning	<u>1,500</u>	<u>1,500</u>	<u>32,468</u>	<u>30,968</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15</u>	<u>\$ 15</u>

**MARTIN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES**

June 30, 2017

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursement Over Appropriation

The general fund line item disbursement for social services exceeded budgeted appropriations by \$950. Overall, the general fund budget was not overspent.

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

For The Year Ended June 30, 2017

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MARTIN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land	\$ 640,520	\$	\$	\$ 640,520
Land Improvements	370,770			370,770
Buildings	11,774,589	621,268		12,395,857
Vehicles and Equipment	3,011,828	221,921	112,898	3,120,851
Infrastructure	2,293,278	178,772		2,472,050
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 18,090,985</u>	<u>\$ 1,021,961</u>	<u>\$ 112,898</u>	<u>\$ 19,000,048</u>

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

June 30, 2017

Note 1. Capital Assets

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

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

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Martin County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Martin County Fiscal Court's financial statement and have issued our report thereon dated April 9, 2020.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-003, 2017-004, and 2017-005 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Martin County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-003, 2017-004, and 2017-005.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 9, 2020

**MARTIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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MARTIN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Fiscal Court Has \$254,994 In Liabilities As Of June 30, 2017 For Disbursements Relating To
 The Government Building

The fiscal court received \$8,143,894 in bond proceeds, \$1,998,965 in state grant funds, and \$560,000 from the Economic Development Authority totaling \$10,702,859 of funds that were received for the government building. The fiscal court spent \$10,756,315 as of June 30, 2017, which resulted in an overrun of \$53,456. This does not include the liabilities of \$254,994 that are still owed contractors as of June 30, 2017, leaving this project \$308,450 over budget.

The fiscal court failed to implement proper internal control procedures to prevent the overspending of this project. As of January 2017, the fiscal court owed contractors \$772,066. The fiscal court enter into settlement agreement with the contractors to pay the remaining funds. The first payment was due on February 15, 2017, and the remaining balance is two be paid in two semiannual payments over the next 48 months. The Economic Development Authority gave the fiscal court \$560,000 of recaptured coal severance funds. These funds were used to pay the first initial payment to the contractors and the first semiannual payment. Without the Economic Development Authority giving the fiscal court these funds, the fiscal court did not have the cash flow to pay these bills.

KRS 65.140 requires “all bills for goods or services shall be paid within thirty (30) working days of receipt of a 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.”

We recommend the fiscal court implement procedures to comply with KRS 65.140 and pay bills with 30 working days. In addition, we recommend the fiscal court implement procedures to ensure that projects are overseen and stay within budget.

County Judge/Executive's Response: This occurred under the previous administration. We have properly budgeted and tracked this liability and are making payments accordingly.

2017-002 The Fiscal Court Had \$596,562 Of Prior Year Disbursements Paid In The Current Fiscal Year

Auditors found that \$596,562 of disbursements tested were from prior fiscal years. Disbursements in the amount of \$10,000 should have been paid in fiscal year 2014, and \$586,562 should have been paid in fiscal year 2015. These invoices were not listed on the prior year encumbrance list, therefore leaving the fiscal court with no knowledge these invoices were outstanding. In addition, these invoices were not taken into account toward their ending cash balance. The prior year ending cash balance in the road fund was \$56,320, two invoices totaling \$577,372 should have been paid in the prior year. However, the fiscal court did not have the funds to pay these two invoices, which would have left the road fund in a deficit of \$521,052.

The fiscal court failed to implement proper internal control procedures to detect that these prior year disbursements were outstanding. These purchases should have been listed on the encumbrance list as an outstanding purchase order at the end of each year, therefore alerting the fiscal court that these expenditures were outstanding.

Without implementing proper internal control procedures, the fiscal court is making decisions without a true financial picture of the county's finances. If these expenditures would have been listed on the encumbrance list, the fiscal court would have been aware that there were a cash flow problems.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Fiscal Court Had \$596,562 Of Prior Year Disbursements Paid In The Current Fiscal Year
 (Continued)

KRS 65.140 requires “all bills for goods or services shall be paid within thirty (30) working days of receipt of a 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.”

We recommend the fiscal court implement procedures to comply with KRS 65.140 and pay bills with 30 working days. In addition, we recommend the fiscal court implement procedures to ensure that all expenditures are accounted.

County Judge/Executive's Response: This occurred under the previous administration. The current administration inputs invoices as received and has properly budgeted for prior year claims.

2017-003 The Fiscal Court Has Not Implemented Internal Controls Over Disbursements

Internal controls associated over disbursements were not operating as intended. Based on items tested, disbursements were not properly authorized, supporting documentation was not maintained and appropriate, and proper procedures were not followed. The deficiencies listed below were able to occur due to a lack of monitoring of controls, which diminish the effectiveness of the controls put in place over disbursements by fiscal court. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets.

As a result, the following exceptions were noted:

- The fiscal court is paying vendors in advance.
- Thirty-One (31) disbursements totaling \$1,429,354 were not paid within 30 days.
- Eleven (11) instances was noted where sufficient supporting documentation was not maintained to determine what was purchased.
- Four (4) transactions were prior year expenditures that were paid in fiscal year 2018 totaling \$596,562.

Proper internal controls over expenditures are important to ensure purchase orders are created with sufficient funds available, include proper supporting documentation, and are paid in a timely manner. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government (DLG), “purchases shall not be made prior to approval by the county judge/executive (or designee) or department head.” Furthermore, KRS 65.140 requires invoices to be paid within 30 days of being received. We recommend fiscal court implement proper internal controls over expenditures and ensure they are operating effectively.

County Judge/Executive's Response: This occurred under the previous administration. The current administration follows the KRS.

2017-004 The Fiscal Court Did Not Follow Proper Bid Laws And Regulations

The fiscal court did not maintain bid documentation for any of the vendors tested during expenditures over the bid threshold. The fiscal court lacks sufficient internal controls over the bidding process to ensure items were not purchased from vendors without first advertising or receiving bids when necessary on all purchases requiring bids.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Fiscal Court Did Not Follow Proper Bid Laws And Regulations (Continued)

As a result, eight disbursements totaling \$1,139,944 were not bid in fiscal year end 2017. By limiting competition or not receiving bids at all, the fiscal court may not get the benefits of the best price available. Competitive bidding ensures the fiscal court procures equipment and services at the best price available. Maintaining proper bid documentation also ensures all bids are considered on an equal basis and ensures all bids meet the minimum specifications of the fiscal court.

According to the fiscal court's administrative code, "all purchases of items of like or similar nature in excess of \$10,000 in a fiscal year shall be advertised for bids, except otherwise provided in this administrative code items normally supplied as a unit shall not be artificially divided for the purpose of avoiding the competitive bidding procedure of this administrative code."

We recommend the fiscal court follow the requirements of the administrative code and properly advertise and award bids for all purchases over \$10,000. We further recommend the fiscal court implement internal controls over the bidding process to ensure all required bid documentation are maintained and approved by the fiscal court.

County Judge/Executive's Response: This occurred under the previous administration. The current administration passed an ordinance to update the bid amount to match the state's requirement which will keep us in compliance. Bid documentation is maintained by the court recorder.

2017-005 The Fiscal Court Did Not Properly Report Encumbrances

The encumbrance list was not inclusive. Auditors found that the fiscal court entered into settlement agreements for the government building due to the overspending of funds acquired. These settlement agreements totaled \$772,066. After the first initial payments were made in February, the remaining balance of these agreements totaled \$254,994. This remaining balance of these agreements were not listed on the encumbrance list. Based upon these expenditures not being listed on the encumbrance list auditors could not determine if the fiscal court had more encumbrances not listed.

The fiscal court failed to implement proper internal control procedures to detect that these prior year expenditures were outstanding. These purchases should have been listed on the encumbrance list as an outstanding purchase order at the end of each year, therefore alerting the fiscal court that these expenditures were outstanding. Without implementing proper internal control procedures, the fiscal court is making decisions without a true financial picture of the county's finances. If these expenditures would have been listed on the encumbrance list, the fiscal court would have been aware that there were cash flow problems.

KRS 68.210 requires the state local finance officer create system of uniform accounts for all accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county to disclose encumbrances of the face of the fourth quarter financial report. Inaccurate reporting of encumbrances does not show the accurate cash balances, and cannot inform management of cash flow problems. We recommend the fiscal court maintain an accurate listing of outstanding purchase orders and include all outstanding purchase orders on the fourth quarter financial statement.

County Judge/Executive's Response: This occurred under the previous administration. The current administration is tracking the encumbrances properly.

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

MARTIN COUNTY FISCAL COURT

For The Year Ended June 30, 2017

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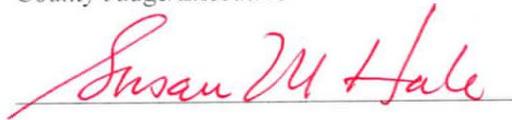
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MARTIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

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

Handwritten signature of William R. Davis in black ink, written over a horizontal line.

County Judge/Executive

Handwritten signature of Susan M. Hale in red ink, written over a horizontal line.

County Treasurer