

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

**For The Fiscal Year Ended
June 30, 2014**



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

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

EXECUTIVE SUMMARY
AUDIT OF THE
MAGOFFIN COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Magoffin County Fiscal Court for fiscal year ended June 30, 2014.

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

Financial Condition:

The Magoffin County Fiscal Court had total receipts of \$6,226,950 and disbursements of \$10,672,918 in fiscal year 2014. This resulted in a total ending fund balance of \$3,268,822, which is a decrease of \$1,445,968 from the prior year.

Report Comments:

- 2014-001 The County Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements
- 2014-002 The County Treasurer Did Not Present An Annual Settlement To The Fiscal Court Within The Time Period Required By State Law
- 2014-003 The County Treasurer Did Not Monitor Fund Cash Balances Which Caused The Road Fund To Have A Negative Balance
- 2014-004 The County's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle
- 2014-005 The Fiscal Court Did Not Prepare A Schedule Of Expenditures Of Federal Awards
- 2014-006 The Fiscal Court Did Not Have Insurance On A 2013 Mack Truck That Could Not Be Found During A Physical Inventory Test
- 2014-007 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2014-008 The Fiscal Court Does Not Have Adequate Internal Controls Over Gravel Inventory
- 2014-009 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts And Flexible Spending Accounts
- 2014-010 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable

Deposits:

The fiscal court's deposits as of August 31, 2013, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$576,432

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
MAGOFFIN COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT.....	10
BUDGETARY COMPARISON SCHEDULES.....	19
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES	30
SCHEDULE OF CAPITAL ASSETS.....	32
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS	33
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>	35
COMMENTS AND RECOMMENDATIONS	38
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

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 Magoffin County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

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.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

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

As described more fully in Note 1, the financial statement is prepared by Magoffin County, Kentucky 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 Magoffin County, Kentucky as of June 30, 2014, 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 Magoffin County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Magoffin County, Kentucky. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule have 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 basic financial statement.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
 William M. Landrum, Secretary
 Finance and Administration Cabinet
 Honorable Charles E. Hardin, Magoffin County Judge/Executive
 Members of the Magoffin County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2016 on our consideration of Magoffin County, Kentucky'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* and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying *comments and recommendations*, which discusses the following report comments:

- 2014-001 The County Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements
- 2014-002 The County Treasurer Did Not Present An Annual Settlement To The Fiscal Court Within The Time Period Required By State Law
- 2014-003 The County Treasurer Did Not Monitor Fund Cash Balances Which Caused The Road Fund To Have A Negative Balance
- 2014-004 The County's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle
- 2014-005 The Fiscal Court Did Not Prepare A Schedule Of Expenditures Of Federal Awards
- 2014-006 The Fiscal Court Did Not Have Insurance On A 2013 Mack Truck That Could Not Be Found During A Physical Inventory Test
- 2014-007 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2014-008 The Fiscal Court Does Not Have Adequate Internal Controls Over Gravel Inventory
- 2014-009 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts And Flexible Spending Accounts
- 2014-010 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable

Respectfully submitted,

Mike Harmon
 Auditor of Public Accounts

April 21, 2016

MAGOFFIN COUNTY OFFICIALS**For The Year Ended June 30, 2014****Fiscal Court Members:**

Charles Hardin	County Judge/Executive
Gary Risner	Magistrate
Pernell Lemaster	Magistrate
Ronnie Lively	Magistrate

Other Elected Officials:

Gregory D. Allen	County Attorney
Bryan Montgomery	Jailer
Renee Arnett Shepherd	County Clerk
Tonya Ward	Circuit Court Clerk
Carson Montgomery	Sheriff
Jerry Swiney	Property Valuation Administrator
Anthony Jenkins	Coroner

Appointed Personnel:

Mike Wilson	Deputy Judge
Kila Keaton	County Treasurer
Susie Salyer	Finance Officer

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

For The Year Ended June 30, 2014

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

For The Year Ended June 30, 2014

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 1,686,516	\$	\$	\$
Excess Fees	10,962			
Licenses and Permits	50,740			
Intergovernmental	340,982	2,011,379	71,936	773,204
Charges for Services			1,266	200
Miscellaneous	240,061	1,882	12	9,375
Interest	1,073	316		567
Total Receipts	<u>2,330,334</u>	<u>2,013,577</u>	<u>73,214</u>	<u>783,346</u>
DISBURSEMENTS				
General Government	1,164,709			52,614
Protection to Persons and Property	145,391		431,513	111,380
General Health and Sanitation	65,000			11,474
Social Services	1,800			50,575
Recreation and Culture				189,667
Roads		5,573,932		295,698
Debt Service	182,457			
Capital Projects	122,088			
Administration	678,289	354,075	27,318	51,000
Total Disbursements	<u>2,359,734</u>	<u>5,928,007</u>	<u>458,831</u>	<u>762,408</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(29,400)</u>	<u>(3,914,430)</u>	<u>(385,617)</u>	<u>20,938</u>
Other Adjustments to Cash (Uses)				
Lease Proceeds		3,000,000		
Transfers From Other Funds		488,000	388,700	
Transfers To Other Funds	(778,511)			(203,200)
Total Other Adjustments to Cash (Uses)	<u>(778,511)</u>	<u>3,488,000</u>	<u>388,700</u>	<u>(203,200)</u>
Net Change in Fund Balance	(807,911)	(426,430)	3,083	(182,262)
Fund Balance - Beginning	2,508,376	436,510	7,581	1,235,757
Fund Balance - Ending	<u>\$ 1,700,465</u>	<u>\$ 10,080</u>	<u>\$ 10,664</u>	<u>\$ 1,053,495</u>
Composition of Fund Balance				
Bank Balance	\$ 1,708,594	\$ 96,958	\$ 12,034	\$ 1,053,795
Less: Outstanding Checks	(8,129)	(86,878)	(1,370)	(300)
Fund Balance - Ending	<u>\$ 1,700,465</u>	<u>\$ 10,080</u>	<u>\$ 10,664</u>	<u>\$ 1,053,495</u>

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

MAGOFFIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Budgeted Funds						
Forestry Fund	Solid Waste Fund	Community Center Sinking Fund	Right of Way Use Fund	Escrow for Clear River Fund	911 Fund	Reserve Fund
\$ 2,439	\$ 76,808	\$	\$	\$	\$ 225,129	\$
	78,745				54,957	
	15,019				128	
	118		9		14	
<u>2,439</u>	<u>170,690</u>		<u>9</u>		<u>280,228</u>	
2,957					297,554	
	144,490					
	38,491	9,135				
	30,905				67,293	
<u>2,957</u>	<u>213,886</u>	<u>9,135</u>			<u>364,847</u>	
(518)	(43,196)	(9,135)	9		(84,619)	
503		9,008			95,500	
<u>503</u>		<u>9,008</u>			<u>95,500</u>	
(15)	(43,196)	(127)	9		10,881	
15	255,498	2,019	17,830	250,000	(1,191)	222
<u>\$ 0</u>	<u>\$ 212,302</u>	<u>\$ 1,892</u>	<u>\$ 17,839</u>	<u>\$ 250,000</u>	<u>\$ 9,690</u>	<u>\$ 222</u>
\$	\$ 219,662	\$ 1,892	\$ 17,839	\$ 250,000	\$ 9,690	\$ 222
	(7,360)					
<u>\$ 0</u>	<u>\$ 212,302</u>	<u>\$ 1,892</u>	<u>\$ 17,839</u>	<u>\$ 250,000</u>	<u>\$ 9,690</u>	<u>\$ 222</u>

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

MAGOFFIN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	<u>Unbudgeted Fund</u>	
	Magoffin County Public Properties Corporation Justice Center Fund	Total Funds
	<u>Center Fund</u>	<u>Funds</u>
RECEIPTS		
Taxes	\$	\$ 1,990,892
Excess Fees		10,962
Licenses and Permits		50,740
Intergovernmental	573,113	3,904,316
Charges for Services		1,466
Miscellaneous		266,477
Interest		2,097
Total Receipts	<u>573,113</u>	<u>6,226,950</u>
DISBURSEMENTS		
General Government		1,217,323
Protection to Persons and Property		988,795
General Health and Sanitation		220,964
Social Services		52,375
Recreation and Culture		189,667
Roads		5,869,630
Debt Service	571,613	801,696
Capital Projects		122,088
Administration	1,500	1,210,380
Total Disbursements	<u>573,113</u>	<u>10,672,918</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(4,445,968)</u>
Other Adjustments to Cash (Uses)		
Lease Proceeds		3,000,000
Transfers From Other Funds		981,711
Transfers To Other Funds		(981,711)
Total Other Adjustments to Cash (Uses)		<u>3,000,000</u>
Net Change in Fund Balance		(1,445,968)
Fund Balance - Beginning	2,173	4,714,790
Fund Balance - Ending	<u>\$ 2,173</u>	<u>\$ 3,268,822</u>
Composition of Fund Balance		
Bank Balance	\$ 2,173	\$ 3,372,859
Less Outstanding Checks		(104,037)
Ending Fund Balance	<u>\$ 2,173</u>	<u>\$ 3,268,822</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.	NOTE RECEIVABLE	14
NOTE 5.	LONG-TERM DEBT.....	14
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	16
NOTE 7.	INSURANCE	17
NOTE 8.	HEALTH REIMBURSEMENT ACCOUNT AND FLEXIBLE SPENDING ACCOUNT	17
NOTE 9.	CONTINGENCIES.....	17

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The following entities: Magoffin County Public Properties Corporation would have been included in the reporting entity under accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board. However under the regulatory basis they are no longer are required components 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, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government 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 and 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.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

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

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

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

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

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

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

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Magoffin County Public Properties Corporation Justice Center Fund - The primary purpose of this fund is to account for debt service of revenue bonds that were issued to fund construction of public buildings.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

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

The State Local Finance Officer does not require the Magoffin County Public Properties Corporation Justice Center Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Magoffin County Elected Officials

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

- 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 the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(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.

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, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2013, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$576,432

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	Road Fund	Jail Fund	Forestry Fund	Sinking Fund	911 Fund	Total Transfers In
General Fund	\$ 488,000	\$ 281,000	\$ 503	\$ 9,008	\$	\$ 778,511
LGEA Fund		107,700			95,500	203,200
Total Transfers Out	\$ 488,000	\$ 388,700	\$ 503	\$ 9,008	\$ 95,500	\$ 981,711

Reason for transfers:

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

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Note Receivable

In August 2008, the Magoffin County Fiscal Court loaned \$20,000 to the Magoffin County Water District. The funds were used to install a water line extension to a family that was still carrying water from other sources to the dwelling.

Note 5. Long-term Debt

A. First Mortgage Revenue Bond, Series 1995

In June 1995, the fiscal court entered into an agreement with Farmers Home Administration to borrow \$140,000 at 5% interest for the completion of the Magoffin County Community Center Project. The county will pay semiannual installments due on July 1 and January 1 of each year in accordance with a schedule to complete the contract. The principle balance of the agreement was \$75,600 as of June 30, 2014. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 5,300	\$ 3,780
2016	5,600	3,515
2017	5,900	3,235
2018	6,200	2,940
2019	6,500	2,630
2020-2024	37,600	7,955
2025	8,500	425
Totals	<u>\$ 75,600</u>	<u>\$ 24,480</u>

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

In March 2012, the Public Properties Corporation, a component unit of the Magoffin County Fiscal Court, issued \$5,070,000 in First Mortgage Refunding Revenue Bonds for the payment of debt for the construction of the Justice Center. Semiannual principal and interest payments are required in May and November of each year beginning May 2012.

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

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

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

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

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

As of June 30, 2014 the principal balance on these bonds was \$4,490,000 Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 460,000	\$ 107,013
2016	465,000	97,813
2017	475,000	88,513
2018	485,000	79,013
2019	490,000	69,313
2020-2023	<u>2,115,000</u>	<u>151,963</u>
Totals	<u>\$ 4,490,000</u>	<u>\$ 593,628</u>

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

In October 2013, the Magoffin County Fiscal Court entered into a lease with the Kentucky Association of Counties Finance Corporation for the purpose of paving roads in Magoffin County. The total proceeds of the lease was \$3,000,000. The county is required to make monthly principle and interest payments in accordance with a schedule to complete the contract. The final payment of the lease is due January 2024. The principal balance of the agreement was \$2,889,583 as of June 30, 2014. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 267,083	\$ 77,298
2016	272,083	71,956
2017	279,167	66,515
2018	287,083	60,931
2019	294,167	54,585
2020-2024	<u>1,490,000</u>	<u>141,593</u>
Totals	<u>\$ 2,889,583</u>	<u>\$ 472,878</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

D. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 5,030,700	\$	\$ 465,100	\$ 4,565,600	\$ 460,000
Financing Obligations	37,736	3,000,000	148,153	2,889,583	267,083
Total Long-term Debt	<u>\$ 5,068,436</u>	<u>\$ 3,000,000</u>	<u>\$ 613,253</u>	<u>\$ 7,455,183</u>	<u>\$ 727,083</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, 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.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$254,936, FY 2013 was \$271,116, and FY 2014 was \$271,211.

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.

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%

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Employee Retirement System (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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

Note 7. Insurance

For the fiscal year ended June 30, 2013, Magoffin County 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 a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Health Reimbursement Account and Flexible Spending Account

- A. The fiscal court allows employees to participate in a health reimbursement account for employees who waive health insurance coverage provided by the fiscal court. The fiscal court contributes the value of a single health insurance plan and employees are required to submit adequate documentation for qualified medical expenses to receive reimbursement. Employees forfeit any remaining balance of funds not utilized during the year. During fiscal year 2014, three employees participated in the program, which is administered by the treasurer.
- B. The fiscal court allows employees to participate in a flexible spending account to provide employees an additional health benefit. Employees contribute pre-tax funds through payroll deduction and are required to submit adequate documentation for qualified medical expenses to receive reimbursement. During fiscal year 2014, two employees participated in the program, which is administered by the treasurer.

Note 9. Contingencies

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

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

For The Year Ended June 30, 2014

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,571,000	\$ 1,814,904	\$ 1,686,516	\$ (128,388)
Excess Fees		10,962	10,962	
Licenses and Permits	73,200	73,200	50,740	(22,460)
Intergovernmental	323,386	362,697	340,982	(21,715)
Miscellaneous	141,000	155,138	240,061	84,923
Interest	300	300	1,073	773
Total Receipts	<u>2,108,886</u>	<u>2,417,201</u>	<u>2,330,334</u>	<u>(86,867)</u>
DISBURSEMENTS				
General Government	1,127,708	1,298,341	1,164,709	133,632
Protection to Persons and Property	162,167	173,079	145,391	27,688
General Health and Sanitation		130,000	65,000	65,000
Social Services		1,800	1,800	
Debt Service		182,457	182,457	
Capital Projects	50,000	122,089	122,088	1
Administration	1,859,376	2,057,485	678,289	1,379,196
Total Disbursements	<u>3,199,251</u>	<u>3,965,251</u>	<u>2,359,734</u>	<u>1,605,517</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,090,365)</u>	<u>(1,548,050)</u>	<u>(29,400)</u>	<u>1,518,650</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(409,635)</u>	<u>(409,635)</u>	<u>(778,511)</u>	<u>(368,876)</u>
Total Other Adjustments to Cash (Uses)	<u>(409,635)</u>	<u>(409,635)</u>	<u>(778,511)</u>	<u>(368,876)</u>
Net Change in Fund Balance	(1,500,000)	(1,957,685)	(807,911)	1,149,774
Fund Balance Beginning	<u>1,500,000</u>	<u>2,508,375</u>	<u>2,508,376</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 550,690</u>	<u>\$ 1,700,465</u>	<u>\$ 1,149,775</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,386,163	\$ 2,025,625	\$ 2,011,379	\$ (14,246)
Licenses and Permits	4,200	4,200		(4,200)
Miscellaneous			1,882	1,882
Interest	300	300	316	16
Total Receipts	<u>1,390,663</u>	<u>2,030,125</u>	<u>2,013,577</u>	<u>(16,548)</u>
DISBURSEMENTS				
Roads	1,083,278	2,663,110	5,573,932	(2,910,822)
Administration	307,385	354,216	354,075	141
Total Disbursements	<u>1,390,663</u>	<u>3,017,326</u>	<u>5,928,007</u>	<u>(2,910,681)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(987,201)</u>	<u>(3,914,430)</u>	<u>(2,927,229)</u>
Other Adjustments to Cash (Uses)				
Lease Proceeds			3,000,000	3,000,000
Transfers From Other Funds			488,000	488,000
Total Other Adjustments to Cash (Uses)			<u>3,488,000</u>	<u>3,488,000</u>
Net Change in Fund Balance		(987,201)	(426,430)	560,771
Fund Balance Beginning		<u>436,511</u>	<u>436,510</u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (550,690)</u>	<u>\$ 10,080</u>	<u>\$ 560,770</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 68,263	\$ 74,309	\$ 71,936	\$ (2,373)
Miscellaneous		1,266	1,266	
Interest	8	8	12	4
Total Receipts	<u>68,271</u>	<u>75,583</u>	<u>73,214</u>	<u>(2,369)</u>
DISBURSEMENTS				
Protection to Persons and Property	602,142	616,730	431,513	185,217
Administration	36,085	36,390	27,318	9,072
Total Disbursements	<u>638,227</u>	<u>653,120</u>	<u>458,831</u>	<u>194,289</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(569,956)</u>	<u>(577,537)</u>	<u>(385,617)</u>	<u>191,920</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	569,956	569,956	388,700	(181,256)
Total Other Adjustments to Cash (Uses)	<u>569,956</u>	<u>569,956</u>	<u>388,700</u>	<u>(181,256)</u>
Net Change in Fund Balance		(7,581)	3,083	10,664
Fund Balance Beginning		<u>7,581</u>	<u>7,581</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,664</u>	<u>\$ 10,664</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 640,000	\$ 759,298	\$ 773,204	\$ 13,906
Charges for Services		200	200	
Miscellaneous	10,000	10,000	9,375	(625)
Interest	400	400	567	167
Total Receipts	<u>650,400</u>	<u>769,898</u>	<u>783,346</u>	<u>13,448</u>
DISBURSEMENTS				
General Government	65,799	65,799	52,614	13,185
Protection to Persons and Property	78,757	213,362	111,380	101,982
General Health and Sanitation	14,000	14,125	11,474	2,651
Social Services	68,000	70,650	50,575	20,075
Recreation and Culture	167,600	213,670	189,667	24,003
Roads	203,076	328,076	295,698	32,378
Administration	944,699	751,287	51,000	700,287
Total Disbursements	<u>1,541,931</u>	<u>1,656,969</u>	<u>762,408</u>	<u>894,561</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(891,531)</u>	<u>(887,071)</u>	<u>20,938</u>	<u>908,009</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(208,469)</u>	<u>(208,469)</u>	<u>(203,200)</u>	<u>5,269</u>
Total Other Adjustments to Cash (Uses)	<u>(208,469)</u>	<u>(208,469)</u>	<u>(203,200)</u>	<u>5,269</u>
Net Change in Fund Balance	(1,100,000)	(1,095,540)	(182,262)	913,278
Fund Balance Beginning	<u>1,100,000</u>	<u>1,235,757</u>	<u>1,235,757</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 140,217</u>	<u>\$ 1,053,495</u>	<u>\$ 913,278</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

FORESTRY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,500	\$ 2,500	\$ 2,439	\$ (61)
Total Receipts	<u>2,500</u>	<u>2,500</u>	<u>2,439</u>	<u>(61)</u>
DISBURSEMENTS				
Protection to Persons and Property	3,000	3,000	2,957	43
Total Disbursements	<u>3,000</u>	<u>3,000</u>	<u>2,957</u>	<u>43</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(500)</u>	<u>(500)</u>	<u>(518)</u>	<u>(18)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			503	503
Total Other Adjustments to Cash (Uses)			<u>503</u>	<u>503</u>
Net Change in Fund Balance	(500)	(500)	(15)	485
Fund Balance Beginning	500	500	15	(485)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 80,000	\$ 80,000	\$ 76,808	\$ (3,192)
Intergovernmental		78,745	78,745	
Miscellaneous	12,000	13,549	15,019	1,470
Interest	50	50	118	68
Total Receipts	<u>92,050</u>	<u>172,344</u>	<u>170,690</u>	<u>(1,654)</u>
DISBURSEMENTS				
General Health and Sanitation	290,824	343,197	144,490	198,707
Debt Service	26,183	38,491	38,491	
Administration	26,930	84,667	30,905	53,762
Total Disbursements	<u>343,937</u>	<u>466,355</u>	<u>213,886</u>	<u>53,762</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(251,887)</u>	<u>(294,011)</u>	<u>(43,196)</u>	<u>52,108</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	38,513	38,513		(38,513)
Total Other Adjustments to Cash (Uses)	<u>38,513</u>	<u>38,513</u>		<u>(38,513)</u>
Net Change in Fund Balance	(213,374)	(255,498)	(43,196)	212,302
Fund Balance - Beginning	213,374	255,498	255,498	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 212,302</u>	<u>\$ 212,302</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

COMMUNITY CENTER SINKING FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Debt Service	\$ 9,135	\$ 9,135	\$ 9,135	\$
Total Disbursements	<u>9,135</u>	<u>9,135</u>	<u>9,135</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(9,135)</u>	<u>(9,135)</u>	<u>(9,135)</u>	
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>9,135</u>	<u>9,135</u>	<u>9,008</u>	<u>(127)</u>
Total Other Adjustments to Cash (Uses)	<u>9,135</u>	<u>9,135</u>	<u>9,008</u>	<u>(127)</u>
Net Change in Fund Balance			(127)	(127)
Fund Balance Beginning			<u>2,019</u>	<u>2,019</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,892</u>	<u>\$ 1,892</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

RIGHT OF WAY USE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$		\$ 9	\$ 9
Total Receipts			9	9
DISBURSEMENTS				
Roads		5,000		5,000
Total Disbursements		5,000		5,000
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)		(5,000)	9	5,009
Net Change in Fund Balance		(5,000)	9	5,009
Fund Balance Beginning		5,000	17,830	12,830
Fund Balance - Ending	\$	0	\$ 17,839	\$ 17,839

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

ESCROW FOR CLEAR RIVER FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Administration	\$ 250,000	\$ 250,000	\$	\$ 250,000
Total Disbursements	<u>250,000</u>	<u>250,000</u>		<u>250,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(250,000)</u>	<u>(250,000)</u>		<u>250,000</u>
Net Change in Fund Balance	(250,000)	(250,000)		250,000
Fund Balance Beginning	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 232,800	\$ 232,800	\$ 225,129	\$ (7,671)
Intergovernmental	42,000	42,000	54,957	12,957
Miscellaneous			128	128
Interest	10	10	14	4
Total Receipts	<u>274,810</u>	<u>274,810</u>	<u>280,228</u>	<u>5,418</u>
DISBURSEMENTS				
Protection to Persons and Property	205,120	342,667	297,554	45,113
Administration	69,690	72,360	67,293	5,067
Total Disbursements	<u>274,810</u>	<u>415,027</u>	<u>364,847</u>	<u>50,180</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(140,217)</u>	<u>(84,619)</u>	<u>55,598</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			95,500	95,500
Total Other Adjustments to Cash (Uses)			<u>95,500</u>	<u>95,500</u>
Net Change in Fund Balance		(140,217)	10,881	151,098
Fund Balance - Beginning			(1,191)	(1,191)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (140,217)</u>	<u>\$ 9,690</u>	<u>\$ 149,907</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

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

MAGOFFIN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

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

Note 2. Excess of Disbursements Over Appropriations

Road disbursements from the Road Fund exceeded budgeted appropriations by \$2,910,822 due to Magoffin County not budgeting the disbursement of the KACO Lease Proceeds for asphalt.

**MAGOFFIN COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014**

MAGOFFIN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and Land Improvements	\$ 1,104,003	\$	\$	\$ 1,104,003
Buildings and Building Improvements	12,573,147	31,392		12,604,539
Vehicles and Equipment	1,485,091	88,648		1,573,739
Infrastructure	<u>3,386,474</u>	<u>3,534,066</u>		<u>6,920,540</u>
 Total Capital Assets	 <u>\$ 18,548,715</u>	 <u>\$ 3,654,106</u>	 <u>\$ 0</u>	 <u>\$ 22,202,821</u>

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

June 30, 2014

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 and Land Improvements	\$ 5,000	3-25
Buildings and Building Improvements	\$ 5,000	10
Equipment	\$ 5,000	20-50
Vehicles	\$ 5,000	20-40
Infrastructure	\$ 5,000	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***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Magoffin County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated April 21, 2016.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-006, 2014-007, and 2014-008 to be material weaknesses.



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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-009 and 2014-010 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003, 2014-004, and 2014-005.

County Judge/Executive's Responses to Findings

The Magoffin County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Magoffin County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

April 21, 2016

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

STATE LAWS AND REGULATIONS:

2014-001 The County Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements

The county did not maintain a complete and accurate capital asset schedule for the fiscal year ending June 30, 2014. The Department for Local Government requires counties to track capital assets (i.e. land, buildings, equipment, vehicles, infrastructure, etc.) and maintain a listing of capital assets to be provided to auditors for inclusion in the audit report. This list should include all current year additions/purchases, retirements, disposals/sale of assets, etc. Any related documentation for capital asset additions, retirements, and disposals in the form of invoices, deeds, purchase orders, sales records, titles, liens, etc. should be maintained in a manner that facilitates easy access, retrieval, and verification of capital asset amounts recorded. We recommend the county implement procedures to identify and track capital asset additions, retirements, and disposals in order for capital asset schedules to be complete and accurate. Additionally, we recommend the county perform physical inventories periodically to further ensure the accuracy and completeness of capital asset schedules.

Official's Response: See exit conference for the fiscal year ended June 30, 2013 response number 9.

2014-002 The County Treasurer Did Not Present An Annual Settlement To The Fiscal Court Within The Time Period Required By State Law

The county treasurer did not present an annual settlement to the fiscal court within the time period required by state law. By not timely presenting an annual settlement, the fiscal court did not have timely financial information that could have influenced decisions regarding the county's financial condition. Had the county treasurer reviewed her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the annual settlement may have been presented timely. KRS 68.020(5) requires an annual settlement to be presented to the fiscal court within 30 days after the close of the fiscal year. The annual settlement was presented to the fiscal court on November 10, 2014. We recommend the county treasurer present an annual settlement to the fiscal court within 30 days after the close of the fiscal year as required by KRS 68.020(5).

Official's Response: Recommendation accepted.

2014-003 The County Treasurer Did Not Monitor Fund Cash Balances Which Caused The Road Fund To Have A Negative Balance

The county treasurer did not monitor fund cash balances which caused the Road Fund to have a negative balance of \$9,061 at the end of the fiscal year. By not monitoring the cash balance of the Road Fund, the county is in noncompliance with KRS 68.020 and KRS 68.300. Had the county treasurer performed her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the negative balance in the Road Fund would not have occurred. One of the duties listed requires the county treasurer to countersign checks only when the following three conditions exist: (1) claim is reviewed by the fiscal court, (2) sufficient fund balance, and adequate cash in the bank to cover the check, and (3) adequate free balance in a properly budgeted appropriation account to cover the check. KRS 68.300 states, "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2014-003 The County Treasurer Did Not Monitor Fund Cash Balances Which Caused The Road Fund To Have A Negative Balance (Continued)

fund out of which the warrant is payable.” We recommend the county treasurer monitor the cash balance in each fund and perform her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* to prevent noncompliance with KRS 68.020 and KRS 68.300.

Official's Response: Ok.

2014-004 The County's Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle

The county judge/executive's personal use and commuting mileage of a county vehicle are not being reported as compensation or employee benefit on form W-2 wage and tax statement. The maintenance and fuel costs associated with the personal use of a county vehicle increase costs to taxpayers. The county's administrative code does not address the use of a county vehicle for personal use or commuting travel. Therefore, we were unable to determine if the county judge/executive was authorized to use a county vehicle for any reason other than business related to the county. Personal use of public resources is permitted if the entity has approved such use; however, personal use should be reported as compensation on employees' form W-2 wage and tax statements. Internal Revenue Code Section 61(a) states that the commuting value of a vehicle owned or leased by a public entity represents taxable income to the employee.

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

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

Official's Response: See exit conference for the fiscal year ended June 30, 2013 response number 12.

2014-005 The Fiscal Court Did Not Prepare A Schedule of Expenditures of Federal Awards

The fiscal court did not prepare a Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2014 in accordance with OMB Circular A-133. By not preparing a schedule of expenditures of federal awards, the fiscal court creates the risk of a single audit not being performed, if needed, which could affect the fiscal court's ability to receive federal funding. OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations, Section 310(B)* requires the county to prepare a SEFA from the county's financial records. At a minimum, the SEFA should include the following, if applicable:

- A listing of individual federal programs by federal agency.
- For federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity.

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2014-005 The Fiscal Court Did Not Prepare A Schedule of Expenditures of Federal Awards (Continued)

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

We recommend that the fiscal court ensure that a complete and accurate SEFA is prepared.

Official's Response: See exit conference for fiscal year ended June 30, 2013 response number 13.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2014-006 The Fiscal Court Did Not Have Insurance On A 2013 Mack Truck That Could Not Be Found During A Physical Inventory Test

The fiscal court does not have adequate internal control procedures to ensure all assets are properly tracked and insured. During our fixed asset procedures, we selected a sample of assets to determine if they were properly insured and to determine their actual physical existence and location. A 2013 Mack truck could not be found and after interviewing the county's management, it was determined the truck was missing. We found no evidence in the fiscal court minutes that the fiscal court had discussed this matter in a public meeting or that the Magoffin County Judge/Executive had reported the missing truck to the Kentucky State Police, Office of the Attorney General, or the Auditor of Public Accounts. The county's fixed asset records list the truck as having a historical value of \$35,000. As of the date we performed our test, the truck was not listed as being on the county's list of insured assets. The lack of controls over fixed assets has created a risk that assets may not be properly insured or protected from theft. It has also created a financial loss to the county equal to the value of the truck, which would have been recovered from the insurance provider had the asset been properly listed on their insurance policy. We recommend the fiscal court immediately develop proper controls and procedures that will protect the county's assets and ensure they are properly listed on the county's insurance policy. In addition, because the fiscal court has a fiscal responsibility to the taxpayers of the county, we recommend any time an asset is missing, it should be reported to the proper authorities so the asset can be recovered or an insurance claim can be filed. This matter will be referred to the Kentucky State Police and Office of the Attorney General for further investigation.

Official's Response: Unable to comment due to ongoing investigation.

2014-007 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll

We noted inadequate segregation of duties for payroll. The treasurer is responsible for maintaining timesheets, entering payroll information into the computer system for processing, posting to the payroll ledgers, transferring funds to the revolving payroll account, administering health reimbursement and flex spending programs, preparing pay checks, preparing state and local withholding reports, and reconciling the payroll account. A strong internal control system does not allow one person to perform processing, documentation, and reporting functions. By delegating all these duties to the same individual, the risk that fraud or errors will occur and go undetected for a significant time increases.

**MAGOFFIN COUNTY
 COMMENTS AND RECOMMENDATIONS
 Fiscal Year Ended June 30, 2014
 (Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2014-007 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll (Continued)

In order to strengthen internal controls, we recommend the fiscal court adequately segregate duties related to payroll or implement other controls to compensate for these weaknesses. For example, designate an individual to review the receipts and payroll ledgers, reconciliations, and reports. This individual can document their review by initialing the documents that were reviewed.

Official's Response: See exit conference for fiscal year ended June 30, 2013 response number 5.

2014-008 The Fiscal Court Does Not Have Adequate Internal Controls Over Gravel Inventory

The fiscal court does not have adequate internal controls over gravel purchased and stored at the county's road department. Our review of the controls over gravel stockpiled at the county's road department revealed the county maintains a log for gravel transported out to county roads; however, the log is not updated consistently. In addition, the log does not track the gravel hauled to the road department from the rock quarry, making it impossible to estimate how much gravel should be in the stockpile. During our procedures relating to expenditures, we noted gravel purchases for fiscal years 2013 and 2014 were \$256,821 and \$315,225, respectively. The fiscal court's lack of internal controls has created an opportunity for misappropriation of the county's assets to occur. When controls are not in place to protect the county's resources, there is an increased risk of fraud. We recommend the county maintain a log that tracks the gravel being hauled to the road department and also tracks the gravel hauled from the road department. This would allow an estimate of the gravel on hand and determine if a shortage existed.

Official's Response: See exit conference for the fiscal year ended June 30, 2013 response number 14.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2014-009 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts And Flexible Spending Accounts

The fiscal court does not adequately track health reimbursement account and flexible spending account contributions. The amounts contributed to these accounts are not maintained separately from regular county funds, and payroll funds and cannot be easily identified in the accounting records. These monies do not belong to the county, and good internal controls require that these monies be maintained and/or tracked separately in the accounting system. Failure to track these accounts separately increases the risk that the monies could be misappropriated. We recommend the fiscal court implement procedures to track and identify health reimbursement and flexible spending accounts for all employees who participate in these programs.

Official's Response: See exit conference for the fiscal year ended June 30, 2013 response number 7.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2014-010 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable

The fiscal court does not have proper oversight and controls over notes receivable. In August 2008, the fiscal court loaned the Magoffin County Water District \$20,000 for a water project. The water district has not made any payments to date and the entire amount is still outstanding. In September 2011, the fiscal court gave \$50,000 to the City of Salyersville for water projects related to Salyersville Water Works. The fiscal court minutes indicate this was a loan; however, the county judge/executive and the treasurer stated it was not a loan and is not expected to be paid back. Failure to follow up on outstanding notes receivable and establish payment plans deprives the county of needed funds. We recommend management and the fiscal court review the terms of all notes receivable to determine if the county will pursue collection or alternate disposition (i.e. loan forgiveness) and document those decisions in the fiscal court minutes.

Official's Response: See exit conference for the fiscal year ended June 30, 2013 response number 9.

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

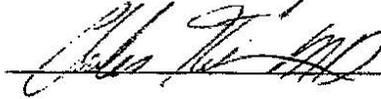
MAGOFFIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MAGOFFIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

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



County Judge/Executive



County Treasurer



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

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 Magoffin County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

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.

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

As described more fully in Note 1, the financial statement is prepared by Magoffin County, Kentucky 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 Magoffin County, Kentucky as of June 30, 2014, 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 Magoffin County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Magoffin County, Kentucky. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule have 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 basic financial statement.

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2016 on our consideration of Magoffin County, Kentucky’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* and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying *comments and recommendations*, which discusses the following report comments:

- 2014-001 The County Did Not Maintain Capital Asset Schedules In Accordance With Regulatory Requirements
- 2014-002 The County Treasurer Did Not Present An Annual Settlement To The Fiscal Court Within The Time Period Required By State Law
- 2014-003 The County Treasurer Did Not Monitor Fund Cash Balances Which Caused The Road Fund To Have A Negative Balance
- 2014-004 The County’s Administrative Code Does Not Address Commuting Mileage Or The Personal Use Of A County Vehicle
- 2014-005 The Fiscal Court Did Not Prepare A Schedule Of Expenditures Of Federal Awards
- 2014-006 The Fiscal Court Did Not Have Insurance On A 2013 Mack Truck That Could Not Be Found During A Physical Inventory Test
- 2014-007 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2014-008 The Fiscal Court Does Not Have Adequate Internal Controls Over Gravel Inventory
- 2014-009 The Fiscal Court Does Not Have Adequate Controls Over Health Reimbursement Accounts And Flexible Spending Accounts
- 2014-010 The Fiscal Court Does Not Have Adequate Controls Over Notes Receivable

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

April 21, 2016

State law requires the Auditor of Public Accounts to annually audit fiscal courts, county clerks, and sheriffs; and print the results in a newspaper having general circulation in the county. The complete audit and any other audit of state agencies, fiscal courts, county clerks, sheriffs, and property valuation administrators may be viewed in the reports section of the Auditor of Public Accounts’ website at www.auditor.ky.gov or upon request by calling 1-800-247-9126.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D

