

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

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

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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
WOLFE COUNTY OFFICIALS.....	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS	6
NOTES TO FINANCIAL STATEMENT	10
BUDGETARY COMPARISON SCHEDULES	22
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES	34
SCHEDULE OF CAPITAL ASSETS	37
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS	38
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>	41
SCHEDULE OF FINDINGS AND RESPONSES	45
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM	

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To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Raymond Banks, Wolfe County Judge/Executive

The Honorable Dennis Brooks, Former Wolfe County Judge/Executive

Members of the Wolfe 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 Wolfe County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Wolfe 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 Wolfe 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 Wolfe 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 Wolfe 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 Wolfe 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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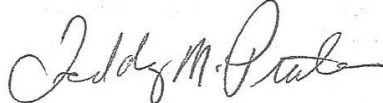
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2019 on our consideration of the Wolfe 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 Wolfe 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 Did Not Approve and Pay All Disbursements Timely
- 2017-002 The Fiscal Court Did Not Approve A Salary Schedule
- 2017-003 The Fiscal Court Did Not Follow LGEA Coal Impact Funds Disbursement Requirements
- 2017-004 The General Fund Owes the Road Fund \$67,404; the Jail Fund Owes LGEA Fund \$116,717
- 2017-005 A Schedule Of Expenditures Of Federal Awards (SEFA) Was Not Prepared
- 2017-006 The Fiscal Court Failed To Remit A Share Of The National Forestry Receipts To School District
- 2017-007 The Fiscal Court Did Not Submit Accurate Quarterly Reports to DLG
- 2017-008 An Annual Treasurer's Settlement Was Not Presented To The Fiscal Court
- 2017-009 The Fiscal Court Did Not Maintain A Complete and Accurate Capital Asset Schedule
- 2017-010 The Fiscal Court Lacks Adequate Controls Over The Payroll Process
- 2017-011 The Fiscal Court Lacks Segregation Of Duties Over Receipts, Transfers And Payroll
- 2017-012 The Fiscal Court Lacks Adequate Controls Over Interfund Transfers
- 2017-013 The Fiscal Court Did Not Report The Public Properties Corporation Debt
- 2017-014 The Fiscal Court Is Not Monitoring The Chop Shop Agreement
- 2017-015 The Fiscal Court Is Not Monitoring The Ambulance Lease Agreement

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

March 12, 2019

WOLFE COUNTY OFFICIALS

For The Year Ended June 30, 2017

Fiscal Court Members:

Dennis Brooks	County Judge/Executive
Brendon Rose	Magistrate
James Dean	Magistrate
Garrett Denniston	Magistrate

Other Elected Officials:

Stephen Johnson	County Attorney
Greg Banks	Jailer
Steve Oliver	County Clerk
Debbie Sparks	Circuit Court Clerk
Chris Carson	Sheriff
Justina Smith	Property Valuation Administrator
James Frank Porter	Coroner

Appointed Personnel:

Rebecca Long	County Treasurer
Kelli Ratliff Evans	Chief Financial Officer

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	LGFA Fund
RECEIPTS				
Taxes	\$ 709,168	\$	\$	\$
In Lieu Tax Payments	22,617			
Excess Fees	34,217			
Licenses and Permits	1,761			
Intergovernmental	223,331	1,134,310	105,795	137,111
Charges for Services	339			
Miscellaneous	78,782	170,035	1,101	
Interest	81	555	5	50
Total Receipts	<u>1,070,296</u>	<u>1,304,900</u>	<u>106,901</u>	<u>137,161</u>
DISBURSEMENTS				
General Government	769,148			10,200
Protection to Persons and Property	21,608		346,454	
General Health and Sanitation	6,528			15,726
Social Services	2,267			7,600
Recreation and Culture				18,651
Roads		1,316,671		
Debt Service		232,041		
Capital Projects				
Administration	401,789	200,931	17,499	12,998
Total Disbursements	<u>1,201,340</u>	<u>1,749,643</u>	<u>363,953</u>	<u>65,175</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(131,044)</u>	<u>(444,743)</u>	<u>(257,052)</u>	<u>71,986</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		134,635		
Refunding Bond Proceeds				
Net Bond Premium/ Cost of Issuance				
Payment to Refunded Bond Escrow				
Transfers From Other Funds	197,576		255,160	
Transfers To Other Funds	(231,060)	(197,576)		(24,100)
Total Other Adjustments to Cash (Uses)	<u>(33,484)</u>	<u>(62,941)</u>	<u>255,160</u>	<u>(24,100)</u>
Net Change in Fund Balance	(164,528)	(507,684)	(1,892)	47,886
Fund Balance - Beginning (Restated)	183,090	913,009	6,718	54,370
Fund Balance - Ending	<u>\$ 18,562</u>	<u>\$ 405,325</u>	<u>\$ 4,826</u>	<u>\$ 102,256</u>
Composition of Fund Balance				
Bank Balance	\$ 75,710	\$ 613,720	\$ 30,429	\$ 104,905
Plus: Deposits In Transit	60		492	
Less: Outstanding Checks	(57,208)	(208,395)	(26,095)	(2,649)
Certificates of Deposit				
Fund Balance - Ending	<u>\$ 18,562</u>	<u>\$ 405,325</u>	<u>\$ 4,826</u>	<u>\$ 102,256</u>

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

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

Budgeted Funds					
Area Development Fund	Fire Protection Fund	Solid Waste Fund	Search and Rescue Fund	LGED Fund	E-911 Fund
\$	\$ 2,301	\$	\$	\$	\$
3,718		195,634		56,652	114,600
		39,399			
35		33,407	1,000		
1			4		22
<u>3,754</u>	<u>2,301</u>	<u>268,440</u>	<u>1,004</u>	<u>56,652</u>	<u>114,622</u>
	2,317	130,522			96,961
4,969				59,793	
5		13,530			18,615
<u>4,974</u>	<u>2,317</u>	<u>144,052</u>		<u>59,793</u>	<u>115,576</u>
<u>(1,220)</u>	<u>(16)</u>	<u>124,388</u>	<u>1,004</u>	<u>(3,141)</u>	<u>(954)</u>
(1,220)	(16)	124,388	1,004	(3,141)	(954)
1,996	2,475	31,356	6,375	57,447	39,879
<u>\$ 776</u>	<u>\$ 2,459</u>	<u>\$ 155,744</u>	<u>\$ 7,379</u>	<u>\$ 54,306</u>	<u>\$ 38,925</u>
\$ 776	\$ 2,459	\$ 165,222	\$ 7,379	\$ 54,306	\$ 45,326
		(9,478)			(6,401)
<u>\$ 776</u>	<u>\$ 2,459</u>	<u>\$ 155,744</u>	<u>\$ 7,379</u>	<u>\$ 54,306</u>	<u>\$ 38,925</u>

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

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

	<u>Budgeted Funds</u>		<u>Unbudgeted Fund</u>	
	<u>Animal Shelter Fund</u>	<u>Special Projects Fund</u>	<u>Public Properties Corporation Fund</u>	<u>Total Funds</u>
RECEIPTS				
Taxes	\$	\$	\$	\$ 711,469
In Lieu Tax Payments				22,617
Excess Fees				34,217
Licenses and Permits				1,761
Intergovernmental	10,335		682,803	2,664,289
Charges for Services				39,738
Miscellaneous	60	5,303		289,723
Interest		177	211	1,106
Total Receipts	<u>10,395</u>	<u>5,480</u>	<u>683,014</u>	<u>3,764,920</u>
DISBURSEMENTS				
General Government				779,348
Protection to Persons and Property				467,340
General Health and Sanitation	10,335			163,111
Social Services				9,867
Recreation and Culture				18,651
Roads				1,316,671
Debt Service			681,263	913,304
Capital Projects				64,762
Administration			1,540	666,907
Total Disbursements	<u>10,335</u>	<u></u>	<u>682,803</u>	<u>4,399,961</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>60</u>	<u>5,480</u>	<u>211</u>	<u>(635,041)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds				134,635
Refunding Bond Proceeds			5,650,000	5,650,000
Net Bond Premium/ Cost of Issuance			386,902	386,902
Payment to Refunded Bond Escrow			(6,036,902)	(6,036,902)
Transfers From Other Funds				452,736
Transfers To Other Funds				(452,736)
Total Other Adjustments to Cash (Uses)	<u></u>	<u></u>	<u></u>	<u>134,635</u>
Net Change in Fund Balance	60	5,480	211	(500,406)
Fund Balance - Beginning (Restated)	<u>1,432</u>	<u>346,529</u>	<u>191,432</u>	<u>1,836,108</u>
Fund Balance - Ending	<u>\$ 1,492</u>	<u>\$ 352,009</u>	<u>\$ 191,643</u>	<u>\$ 1,335,702</u>
Composition of Fund Balance				
Bank Balance	\$ 1,492	\$ 252,009	\$ 191,643	\$ 1,545,376
Plus: Deposits In Transit				552
Less: Outstanding Checks				(310,226)
Certificates of Deposit		100,000		100,000
Fund Balance - Ending	<u>\$ 1,492</u>	<u>\$ 352,009</u>	<u>\$ 191,643</u>	<u>\$ 1,335,702</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.....	14
NOTE 3.	TRANSFERS	14
NOTE 4.	LONG-TERM DEBT.....	15
NOTE 5.	EMPLOYEE RETIREMENT SYSTEM	17
NOTE 6.	DEFERRED COMPENSATION	18
NOTE 7.	INSURANCE	18
NOTE 8.	NOTE RECEIVABLE – THE CHOP SHOP.....	19
NOTE 9.	LEASE AND SUBLEASE	19
NOTE 10.	INTERFUND RECEIVABLES AND PAYABLES	19
NOTE 11.	PRIOR PERIOD ADJUSTMENT.....	19

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

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

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

Area Development Fund - The primary purpose of this fund is to account for grants and related disbursements for the purpose of area development.

Fire Protection Fund - The primary purpose of this fund is to account for the receipts of fire acres tax paid and disbursements for fire protection due to the state government.

Solid Waste Fund - The primary purpose of this fund is to account for the expenses related to recycling and landfill. The primary sources of receipts for this fund are grants from the state and federal governments.

Search and Rescue Fund - The primary purpose of this fund is to account for the expenses related to search and rescue. Donations are the primary source of receipts.

Local Government Economic Development (LGED) 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.

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

Animal Shelter Fund - The primary purpose of this fund is to account for grants and related disbursements to construct an animal shelter. The primary sources of receipts for this fund are grants from the state and federal governments.

Special Projects 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.

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service requirements of revenue bonds and refunding revenue bonds that were issued to fund the construction of the Wolfe County Judicial Center.

WOLFE 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 properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Wolfe County Elected Officials

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

WOLFE 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.

H. Joint Ventures

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

Three Forks Regional Jail

On October 6, 2000, the Counties of Lee, Owsley, and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance, and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 First Mortgage Revenue Bonds, Series 2000. In 2012, the bonds were refunded with \$5,570,000 of the Kentucky Bond Corporation Financing Program Revenue Bonds, 2012 First Series D that are scheduled to mature on February 2032.

The 2012 First Series D Bonds are not general obligations of the issuer or any participant, except to the extent of a participant's obligations under its financing agreement, but are special and limited obligations payable solely from the Trust Estate.

Under the terms of the financing agreements, repayment schedules are established to enable the issuer to meet the principal and interest requirements of the related bonds. No participant is, however, responsible for the failure of any other participant to pay its obligations under a financing agreement. Each participating county covenants to meet its proportionate share of the debt service requirements on the bonds as follows: 40% for Lee County, 22% for Owsley County, and 38% for Wolfe County. The principal amount outstanding at June 30, 2017, attributable to Wolfe County is \$1,469,760.

Also, on December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping, and operation of the Three Forks Regional Jail.

The Three Forks Regional Jail Authority and the Three Forks Public Properties Corporation are comprised of an eight (8) member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee County Jailer is a required member of the board.

A copy of the Three Forks Regional Jail Authority's most recent audit report may be obtained at Three Forks Regional Jail, 2475 Center Street, Beattyville, Kentucky 41311.

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

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Ventures (Continued)

Wolfe-Morgan Multi-County Industrial Development Authority

In April 2011, Wolfe and Morgan Counties entered into an interlocal agreement creating the Wolfe-Morgan Multi-County Industrial Development Authority. The Authority was developed for the acquisition, development and retention of industry in Wolfe and Morgan Counties. The Authority is comprised of a five member board of directors. Wolfe and Morgan Counties appoint one member each. Both the Wolfe County Judge/Executive and the Morgan County Judge/Executive are members. In addition, the counties jointly appoint the remaining member.

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 fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 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	Total Transfers In
General Fund	\$	\$ 197,576	\$	\$ 197,576
Jail Fund	231,060		24,100	255,160
Total Transfers Out	<u>\$ 231,060</u>	<u>\$ 197,576</u>	<u>\$ 24,100</u>	<u>\$ 452,736</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.

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

Note 4. Long-term Debt

A. Public Properties Corporation Revenue Bonds – Judicial Center

On March 18, 2010, the Wolfe County Public Properties Corporation issued \$10,930,000 First Mortgage Revenue Bonds, Series 2010 for the construction of the Wolfe County Judicial Center. The First Mortgage Refunding Revenue Bonds, Series 2016 advance refund certain maturities of the Series 2010 bonds.

The Wolfe County Fiscal Court entered into a lease agreement with the Administrative Office of the Courts (AOC) which is expected to meet the full debt service requirements, payable directly to the bond trustee. The lease does not require the county to make any debt payments, however, the county is obligated to provide for the operation, maintenance, insurance and repair of the judicial center.

Semi-annual interest payments are required on April 1 and October 1 of each year, with annual principal payments on April 1, and a final maturity date of April 1, 2022. As of June 30, 2017, the principal outstanding is \$2,565,000. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Interest
2018	\$ 485,000	\$ 83,600
2019	495,000	69,050
2020	510,000	54,200
2021	530,000	37,625
2022	545,000	19,075
Totals	<u>\$ 2,565,000</u>	<u>\$ 263,550</u>

B. Public Properties Corporation Refunding Revenue Bonds – Judicial Center

On August 24, 2016, the Wolfe County Public Properties Corporation issued \$5,650,000 First Mortgage Refunding Revenue Bonds, Series 2016. The proceeds advance refund on April 1, 2020, the Series 2010 bonds maturing on 2023 and thereafter. Sufficient funds have been deposited in an irrevocable escrow account to pay the interest on the bonds and pay the principal on the bonds at the redemption date.

AOC provides funding, payable directly to the bond trustee, to meet the debt service requirements. Semi-annual interest payments are required on April 1 and October 1 of each year, beginning October 1, 2016. Annual principal payments begin on April 1, 2022, with a final maturity on April 1, 2030. As of June 30, 2017, the principal outstanding is \$5,650,000. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Interest
2018	\$	\$ 188,400
2019		188,400
2020		188,400
2021		188,400
2022	50,000	188,400
2023-2027	3,330,000	678,500
2028-2030	2,270,000	137,550
Totals	<u>\$ 5,650,000</u>	<u>\$ 1,758,050</u>

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

Note 4. Long-term Debt (Continued)

C. Kentucky Association of Counties – Black Top

On October 9, 2013, the Wolfe County Fiscal Court entered into a \$1,000,000 lease with the Kentucky Association of Counties Leasing Trust to blacktop county roads. The lease agreement requires monthly payments, at an interest rate of 3.84% per annum, with a final payment due on January 20, 2029. As of June 30, 2017, the principal outstanding is \$822,083. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Interest
2018	\$ 55,000	\$ 37,829
2019	57,083	36,294
2020	62,083	32,441
2021	65,000	27,536
2022	67,083	25,325
2023-2027	376,251	85,274
2028-2029	139,583	9,548
Totals	<u>\$ 822,083</u>	<u>\$ 254,247</u>

D. Kentucky Association of Counties – Mack Truck

On March 24, 2017, the Wolfe County Fiscal Court entered into a \$134,635 lease with the Kentucky Association of Counties Leasing Trust to purchase a Mack truck. The lease agreement requires monthly interest payments and one principal payment on September 20, 2018. As of June 30, 2017, the principal outstanding is \$134,635. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$	\$ 4,376
2019	<u>134,635</u>	<u>1,094</u>
Totals	<u>\$ 134,635</u>	<u>\$ 5,470</u>

E. 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	\$ 8,290,000	\$ 5,650,000	\$ 5,725,000	\$ 8,215,000	\$ 485,000
Financing Obligations	1,010,455	134,635	188,372	956,718	55,000
Total Long-term Debt	<u>\$ 9,300,455</u>	<u>\$ 5,784,635</u>	<u>\$ 5,913,372</u>	<u>\$ 9,171,718</u>	<u>\$ 540,000</u>

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

Note 5. Employee Retirement System

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

The county's contribution for FY 2015 was \$183,240, FY 2016 was \$183,090, and FY 2017 was \$198,718.

Nonhazardous

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.

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%

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

Note 5. 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, nonhazardous 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 6. Deferred Compensation

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

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

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

Note 7. Insurance

For the fiscal year ended June 30, 2017, the Wolfe 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 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.

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

Note 8. Note Receivable – The Chop Shop

In January 2013, the county entered into a loan agreement of \$475,000 with the J.S.W. Farm, LLC DBA The Chop Shop for the purchase of the land and building pad located in the Wolfe-Morgan Industrial Park. The agreement requires annual payments of \$47,500 to begin in January 2014, payable to the Wolfe County Fiscal Court. The county will forgive the principal and interest payments if The Chop Shop creates and maintains employment at levels equal or greater than fifteen (15) full-time employees for calendar year 2014 and 2015, increasing to thirty (30) full-time employees for the remaining eight (8) years of the agreement. The agreement further defines full-time as working 1,820 hours per year and average wage of at least \$14,560 per year, \$8 per hour average.

Note 9. Lease and Sublease

On December 9, 2014, the Wolfe County Fiscal Court (Lessor) entered into an agreement to lease property located at 166 Wolfe County Elementary School Road, considered surplus to the needs of the fiscal court, to the Wolfe County High School, LLLP (Lessee) for the purpose of creating affordable housing for senior citizens, including a community center within the project. Wolfe County High School, LLLP will lease the property for one (1) dollar per year for fifty (50) years.

The Lessee has agreed that any and all improvements made to the Leased Premises shall become the property of the county upon expiration, cancellation, termination of this Lease Agreement, or upon notice thereof.

Also, on December 9, 2014, the Wolfe County Fiscal Court (Lessee) entered into an agreement to sublease the community center from the Wolfe County High School, LLLP (Lessor) for a base rent of one (1) dollar per year for twenty (20) years. The fiscal court will be responsible for all community center utility expenses which are metered separate from the housing property and prorated amounts for other expenses.

Note 10. Interfund Receivables and Payables

The table below reflects fund balances after accounting for the receivables and payables that are not included on the financial statement prepared in accordance with the regulatory basis of accounting:

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>
Regulatory Basis Fund Balance - Ending	\$ 18,562	\$ 405,325	\$ 4,826	\$ 102,256
Interfund Receivable (Payable)	<u>(67,404)</u>	<u>67,404</u>	<u>(116,717)</u>	<u>116,717</u>
Fund Balance - Ending (Restated)	<u>\$ (48,842)</u>	<u>\$ 472,729</u>	<u>\$ (111,891)</u>	<u>\$ 218,973</u>

Note 11. Prior Period Adjustment

The beginning balance of the road fund was increased by \$800 for prior year voided checks.

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WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

WOLFE 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	\$ 652,100	\$ 652,100	\$ 709,168	\$ 57,068
In Lieu Tax Payments	18,000	18,000	22,617	4,617
Excess Fees	32,500	32,500	34,217	1,717
Licenses and Permits	1,100	1,100	1,761	661
Intergovernmental	249,200	249,200	223,331	(25,869)
Charges for Services	100	100	339	239
Miscellaneous	37,000	37,000	78,782	41,782
Interest	50	50	81	31
Total Receipts	990,050	990,050	1,070,296	80,246
DISBURSEMENTS				
General Government	738,633	738,460	769,148	(30,688)
Protection to Persons and Property	38,125	46,729	21,608	25,121
General Health and Sanitation		6,528	6,528	
Social Services	4,500	6,767	2,267	4,500
Administration	379,475	362,249	401,789	(39,540)
Total Disbursements	1,160,733	1,160,733	1,201,340	(40,607)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(170,683)	(170,683)	(131,044)	39,639
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	201,071	201,071	197,576	(3,495)
Transfers To Other Funds	(210,388)	(210,388)	(231,060)	(20,672)
Total Other Adjustments to Cash (Uses)	(9,317)	(9,317)	(33,484)	(24,167)
Net Change in Fund Balance	(180,000)	(180,000)	(164,528)	15,472
Fund Balance - Beginning	180,000	180,000	183,090	3,090
Fund Balance - Ending	\$ 0	\$ 0	\$ 18,562	\$ 18,562

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

	ROAD FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 45,000	\$ 45,000	\$	\$ (45,000)
Intergovernmental	932,370	932,370	1,134,310	201,940
Miscellaneous	130,000	130,000	170,035	40,035
Interest	250	250	555	305
Total Receipts	<u>1,107,620</u>	<u>1,107,620</u>	<u>1,304,900</u>	<u>197,280</u>
DISBURSEMENTS				
Roads	1,186,997	1,367,685	1,316,671	51,014
Debt Service	234,000	240,963	232,041	8,922
Capital Projects	25,000	885		885
Administration	210,552	47,016	200,931	(153,915)
Total Disbursements	<u>1,656,549</u>	<u>1,656,549</u>	<u>1,749,643</u>	<u>(93,094)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(548,929)</u>	<u>(548,929)</u>	<u>(444,743)</u>	<u>104,186</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			134,635	134,635
Transfers To Other Funds	<u>(201,071)</u>	<u>(201,071)</u>	<u>(197,576)</u>	<u>3,495</u>
Total Other Adjustments to Cash (Uses)	<u>(201,071)</u>	<u>(201,071)</u>	<u>(62,941)</u>	<u>138,130</u>
Net Change in Fund Balance	(750,000)	(750,000)	(507,684)	242,316
Fund Balance - Beginning (Restated)	<u>750,000</u>	<u>750,000</u>	<u>913,009</u>	<u>163,009</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 405,325</u>	<u>\$ 405,325</u>

WOLFE 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	\$ 84,700	\$ 84,700	\$ 105,795	\$ 21,095
Miscellaneous	50	50	1,101	1,051
Interest	2	2	5	3
Total Receipts	<u>84,752</u>	<u>84,752</u>	<u>106,901</u>	<u>22,149</u>
DISBURSEMENTS				
Protection to Persons and Property	433,000	432,699	346,454	86,245
Administration	16,665	16,966	17,499	(533)
Total Disbursements	<u>449,665</u>	<u>449,665</u>	<u>363,953</u>	<u>85,712</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(364,913)</u>	<u>(364,913)</u>	<u>(257,052)</u>	<u>107,861</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	362,913	362,913	255,160	(107,753)
Total Other Adjustments to Cash (Uses)	<u>362,913</u>	<u>362,913</u>	<u>255,160</u>	<u>(107,753)</u>
Net Change in Fund Balance	(2,000)	(2,000)	(1,892)	108
Fund Balance - Beginning	<u>2,000</u>	<u>2,000</u>	<u>6,718</u>	<u>4,718</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,826</u>	<u>\$ 4,826</u>

WOLFE 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	\$ 185,000	\$ 185,000	\$ 137,111	\$ (47,889)
Interest	33	33	50	17
Total Receipts	<u>185,033</u>	<u>185,033</u>	<u>137,161</u>	<u>(47,872)</u>
DISBURSEMENTS				
General Government			10,200	(10,200)
General Health and Sanitation	18,100	18,100	15,726	2,374
Social Services	7,700	7,675	7,600	75
Recreation and Culture	18,500	18,651	18,651	
Roads	55,508	55,508		55,508
Administration	63,200	63,074	12,998	50,076
Total Disbursements	<u>163,008</u>	<u>163,008</u>	<u>65,175</u>	<u>97,833</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>22,025</u>	<u>22,025</u>	<u>71,986</u>	<u>49,961</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(152,525)</u>	<u>(152,525)</u>	<u>(24,100)</u>	<u>128,425</u>
Total Other Adjustments to Cash (Uses)	<u>(152,525)</u>	<u>(152,525)</u>	<u>(24,100)</u>	<u>128,425</u>
Net Change in Fund Balance	(130,500)	(130,500)	47,886	178,386
Fund Balance - Beginning	<u>130,500</u>	<u>130,500</u>	<u>54,370</u>	<u>(76,130)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 102,256</u>	<u>\$ 102,256</u>

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

	AREA DEVELOPMENT FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,500	\$ 2,500	\$ 3,718	\$ 1,218
Miscellaneous			35	35
Interest	2	2	1	(1)
Total Receipts	<u>2,502</u>	<u>2,502</u>	<u>3,754</u>	<u>1,252</u>
DISBURSEMENTS				
Capital Projects	4,502	4,469	4,969	(500)
Administration		33	5	28
Total Disbursements	<u>4,502</u>	<u>4,502</u>	<u>4,974</u>	<u>(472)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,000)</u>	<u>(2,000)</u>	<u>(1,220)</u>	<u>780</u>
Net Change in Fund Balance	(2,000)	(2,000)	(1,220)	780
Fund Balance - Beginning	<u>2,000</u>	<u>2,000</u>	<u>1,996</u>	<u>(4)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 776</u>	<u>\$ 776</u>

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

FIRE PROTECTION FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 1,800	\$ 1,800	\$ 2,301	\$ 501
Total Receipts	<u>1,800</u>	<u>1,800</u>	<u>2,301</u>	<u>501</u>
DISBURSEMENTS				
Protection to Persons and Property	4,300	4,300	2,317	1,983
Total Disbursements	<u>4,300</u>	<u>4,300</u>	<u>2,317</u>	<u>1,983</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,500)</u>	<u>(2,500)</u>	<u>(16)</u>	<u>2,484</u>
Net Change in Fund Balance	(2,500)	(2,500)	(16)	2,484
Fund Balance - Beginning	<u>2,500</u>	<u>2,500</u>	<u>2,475</u>	<u>(25)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,459</u>	<u>\$ 2,459</u>

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

	SOLID WASTE FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 1,000	\$ 1,000	\$	\$ (1,000)
Intergovernmental	202,000	202,000	195,634	(6,366)
Charges for Services			39,399	39,399
Miscellaneous	5,000	5,000	33,407	28,407
Total Receipts	<u>208,000</u>	<u>208,000</u>	<u>268,440</u>	<u>60,440</u>
DISBURSEMENTS				
General Health and Sanitation	258,000	248,211	130,522	117,689
Administration		9,789	13,530	(3,741)
Total Disbursements	<u>258,000</u>	<u>258,000</u>	<u>144,052</u>	<u>113,948</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>124,388</u>	<u>174,388</u>
Net Change in Fund Balance	(50,000)	(50,000)	124,388	174,388
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>31,356</u>	<u>(18,644)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 155,744</u>	<u>\$ 155,744</u>

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

SEARCH AND RESCUE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 6,000	\$ 6,000	\$	\$ (6,000)
Miscellaneous	1,000	1,000	1,000	
Interest	5	5	4	(1)
Total Receipts	<u>7,005</u>	<u>7,005</u>	<u>1,004</u>	<u>(6,001)</u>
DISBURSEMENTS				
Protection to Persons and Property	<u>13,505</u>	<u>13,505</u>		<u>13,505</u>
Total Disbursements	<u>13,505</u>	<u>13,505</u>		<u>13,505</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(6,500)</u>	<u>(6,500)</u>	<u>1,004</u>	<u>7,504</u>
Net Change in Fund Balance	(6,500)	(6,500)	1,004	7,504
Fund Balance - Beginning	<u>6,500</u>	<u>6,500</u>	<u>6,375</u>	<u>(125)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,379</u>	<u>\$ 7,379</u>

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

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 50,000	\$ 50,000	\$ 56,652	\$ 6,652
Total Receipts	<u>50,000</u>	<u>50,000</u>	<u>56,652</u>	<u>6,652</u>
DISBURSEMENTS				
Capital Projects	100,000	100,000	59,793	40,207
Total Disbursements	<u>100,000</u>	<u>100,000</u>	<u>59,793</u>	<u>40,207</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>(3,141)</u>	<u>46,859</u>
Net Change in Fund Balance	(50,000)	(50,000)	(3,141)	46,859
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>57,447</u>	<u>7,447</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 54,306</u>	<u>\$ 54,306</u>

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

	E-911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 75,000	\$ 75,000	\$ 114,600	\$ 39,600
Interest	20	20	22	2
Total Receipts	<u>75,020</u>	<u>75,020</u>	<u>114,622</u>	<u>39,602</u>
DISBURSEMENTS				
Protection to Persons and Property	99,000	94,187	96,961	(2,774)
Administration	21,000	25,813	18,615	7,198
Total Disbursements	<u>120,000</u>	<u>120,000</u>	<u>115,576</u>	<u>4,424</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(44,980)</u>	<u>(44,980)</u>	<u>(954)</u>	<u>44,026</u>
Net Change in Fund Balance	(44,980)	(44,980)	(954)	44,026
Fund Balance - Beginning	<u>44,980</u>	<u>44,980</u>	<u>39,879</u>	<u>(5,101)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 38,925</u>	<u>\$ 38,925</u>

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

ANIMAL SHELTER FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 10,500	\$ 10,500	\$ 10,335	\$ (165)
Miscellaneous			60	60
Total Receipts	<u>10,500</u>	<u>10,500</u>	<u>10,395</u>	<u>(105)</u>
DISBURSEMENTS				
General Health and Sanitation	11,600	11,600	10,335	1,265
Total Disbursements	<u>11,600</u>	<u>11,600</u>	<u>10,335</u>	<u>1,265</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,100)</u>	<u>(1,100)</u>	<u>60</u>	<u>1,160</u>
Net Change in Fund Balance	(1,100)	(1,100)	60	1,160
Fund Balance - Beginning	<u>1,100</u>	<u>1,100</u>	<u>1,432</u>	<u>332</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,492</u>	<u>\$ 1,492</u>

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

SPECIAL PROJECTS FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Miscellaneous	\$	\$	\$ 5,303	\$ 5,303
Interest	450	450	177	(273)
Total Receipts	<u>450</u>	<u>450</u>	<u>5,480</u>	<u>5,030</u>
DISBURSEMENTS				
Capital Projects	<u>220,450</u>	<u>220,450</u>		<u>220,450</u>
Total Disbursements	<u>220,450</u>	<u>220,450</u>		<u>220,450</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(220,000)</u>	<u>(220,000)</u>	5,480	<u>225,480</u>
Net Change in Fund Balance	(220,000)	(220,000)	5,480	225,480
Fund Balance - Beginning	<u>220,000</u>	<u>220,000</u>	346,529	<u>126,529</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 352,009</u>	<u>\$ 352,009</u>

WOLFE 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 Disbursements Over Appropriations

The fiscal court overspent the budget in three funds, and overspent line items in four other funds, because the original budgeted amounts were not updated for the fiscal year in the accounting system. See 2017-007 finding in the Schedule of Findings and Responses.

The total disbursements of the general, road and area development funds exceeded budgeted appropriations in the amounts of \$40,607, \$93,094 and \$472 respectively. The general government line item in the LGEA fund exceeded budgeted appropriations by \$10,200. The protection to persons and property line item in the E-911 fund exceeded budgeted appropriations by \$2,774. And the administration line item in the jail and solid waste funds exceeded budgeted appropriations by \$533 and \$3,741 respectively.

WOLFE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017

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WOLFE 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
Land and Land Improvements	\$ 1,513,439	\$	\$	\$ 1,513,439
Buildings	12,640,338	13,724		12,654,062
Vehicles	1,140,816	52,750	219,233	974,333
Equipment	657,707	23,200		680,907
Infrastructure	4,412,168	433,530		4,845,698
 Total Capital Assets	 <u>\$ 20,364,468</u>	 <u>\$ 523,204</u>	 <u>\$ 219,233</u>	 <u>\$ 20,668,439</u>

WOLFE 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 and Land Improvements	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Vehicles	\$ 2,500	3-25
Equipment	\$ 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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TEDDY MICHAEL PRATER CPA, PLLC
724 Gifford Road
Salyersville, KY 41465
Telephone (606) 349-8042

The Honorable Raymond Banks, Wolfe County Judge/Executive
The Honorable Dennis Brooks, Former Wolfe County Judge/Executive
Members of the Wolfe 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 Wolfe County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Wolfe County Fiscal Court's financial statement and have issued our report thereon dated March 12, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 Schedule of Findings and Responses as items 2017-010 and 2017-011 to be material weaknesses.

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 Schedule of Findings and Responses as items 2017-012, 2017-013, 2017-014 and 2017-015 to be significant deficiencies.

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 Wolfe 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, 2017-005, 2017-006, 2017-007, 2017-008 and 2017-009.

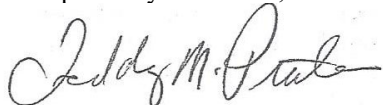
Views of Responsible Official and Planned Corrective Action

The Wolfe 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,



Teddy Michael Prater CPA, PLLC

March 12, 2019

**WOLFE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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**WOLFE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

STATE LAWS AND REGULATIONS:

2017-001 The Fiscal Court Did Not Approve and Pay All Disbursements Timely

This is a repeat finding and was included in the prior year report as finding 2016-001.

During our testing of disbursements, we noted the following:

- Three (3) instances where disbursements were not approved by the fiscal court.
- One (1) instance where an invoice was not paid within 30 days.

The fiscal court did not approve and pay all disbursements timely.

Disbursements may be made without proper authorization and approval.

- KRS 68.275(2) states “The county judge/executive shall present all claims to the fiscal court for review prior to payment...”. Such approval should be documented in the official minutes.
- KRS 65.140(2)(3) requires that “. . . all bills for goods or services shall be paid within thirty working days of receipt of a vendor’s invoice...”. “An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount...”.

We recommend the county ensure that all disbursements are approved by the fiscal court and paid timely.

Views of Responsible Official and Planned Corrective Action:

All invoices are paid when they are received. We only have one meeting a month and sometimes the bill comes after the meeting. Therefore, it cannot be paid until the next month and this causes us to miss the 30-day deadline. Steps have been taken to try to avoid this. This only happens with certain bills and the finance officer makes sure to call and get the bill faxed over or get the amount to be approved for payment.

2017-002 The Fiscal Court Did Not Approve A Salary Schedule

This is a repeat finding and was included in the prior year report as finding 2016-012.

During our testing of payroll, we were provided with salary compensation schedules. However, the fiscal court minutes did not reflect the approval of a salary schedule for county employees for fiscal year 2017.

The compensation, for all hourly and salaried employees, was not approved by the fiscal court. An approved salary schedule gives the county treasurer authority to pay employees. Without an approved salary schedule, the county may incorrectly compensate employees.

KRS 64.530(1) states “the fiscal court of each county shall fix the reasonable compensation of every county officer and employee...”.

We recommend the fiscal court approve an annual salary schedule. The list should include the salary or hourly pay rate for all employees, and the starting pay rates for entry-level positions. The list should be revised as the fiscal court authorizes pay increases.

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

STATE LAWS AND REGULATIONS: (Continued)

2017-002 The Fiscal Court Did Not Approve A Salary Schedule (Continued)

Views of Responsible Official and Planned Corrective Action:

Maximum salary schedule was approved on June 13, 2017. It is reviewed and passed by the fiscal court annually.

Auditor's Reply: Maximum salary schedule and pay rates approved in June and July 2017 were effective July 1, 2017 for the fiscal year 2018, therefore finding will not be repeated in next audit.

2017-003 The Fiscal Court Did Not Follow LGEA Coal Impact Funds Disbursement Requirements

This is a repeat finding and was included in the prior year report as finding 2016-016.

The fiscal court did not follow disbursement requirements for coal impact funds received through the Local Government Economic Assistance (LGEA) program.

The fiscal court did not spend the required amount of coal impact funds on the coal haul road system. The county received \$94,014 in coal impact funds, all of which was required to be spent on the coal haul road system. The fiscal court did not spend any coal impact funds on road repairs/maintenance.

Not spending the LGEA coal impact funds as required, means that adequate infrastructure may not be available for the coal industry. LGEA coal impact funds play a fundamental part in maintaining roads that are used for the transportation of coal. This money is set aside by statute to ensure certain roads are in good condition to provide an efficient mode of transportation for the coal industry.

KRS 42.455(2)(3)(4) specifically prohibits the expenditure of LGEA funds for the administration of government. Coal impact counties must expend one hundred percent (100%) of funds in the transportation category.

We recommend the fiscal court monitor the LGEA coal impact funds received and expended to ensure compliance with statute.

Views of Responsible Official and Planned Corrective Action:

Starting April 2018 until present all Hinkle Contracting purchases for gravel were paid out of the LGEA fund.

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

STATE LAWS AND REGULATIONS: (Continued)

2017-004 The General Fund Owes the Road Fund \$67,404; the Jail Fund Owes LGEA Fund \$116,717

These are repeat findings and were included in the prior year report as finding 2016-007 and 2016-016.

In fiscal year 2017, an excess transfer of \$20,618 was made from the road fund to the general fund, over the amount allowed by the road cost allocation worksheet. The prior year finding reported an excess transfer of \$46,786. The total liability owed by the general fund to the road fund is now \$67,404.

The prior year finding reported that \$116,717 of restricted LGEA funds were transferred to the jail fund in excess of the allowable amount. No coal impact funds were transferred in fiscal year 2017. However, \$24,100 of mineral severance funds were transferred to the jail fund, which is an acceptable use of the funds.

In fiscal year 2017, the excess transfer of road funds occurred because the former treasurer transferred the fiscal year 2016 road cost allocation amount of \$197,576, rather than the fiscal year 2017 amount of \$176,958.

Monies from restricted funds may have been transferred and utilized inappropriately establishing an interfund payable and receivable between the various funds. Under the regulatory basis of accounting, fund balances on the financial statement are not adjusted for the unpaid liability, however the liability is still owed.

Road funds are restricted and are required to be expended for specific purposes. The funds are not permitted to be used for general government purposes. Road funds can only be spent on roads, except for the amount approved by the Department for Local Government on the road cost allocation worksheet.

KRS 42.455(2)(3)(4) specifically prohibits the expenditure of LGEA funds for the administration of government. Coal impact counties must expend one hundred percent (100%) of funds in the transportation category. One hundred percent (100%) of mineral producing funds must be directly related to a priority category such as protection to persons and property.

We recommend the fiscal court repay the road and LGEA funds as money becomes available.

Views of Responsible Official and Planned Corrective Action:

The fiscal court will check on this matter and work on a plan to repay the money as it becomes available.

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

STATE LAWS AND REGULATIONS: (Continued)

2017-005 A Schedule Of Expenditures Of Federal Awards (SEFA) Was Not Prepared

This is a repeat finding and was included in the prior year report as finding 2016-020.

The fiscal court received and expended federal grant funds during fiscal year 2017. A Schedule of Expenditures of Federal Awards (SEFA) detailing these federal grants was not prepared. The fiscal court was aware of the requirement but failed to prepare the SEFA.

Not preparing the SEFA increases the risk that a required separate audit of federal funds will not occur when federal expenditures exceed \$750,000. Not properly reporting federal funds increases the possibility of misappropriation or loss of future federal grant funding.

When federal funds are received and expended, the Uniform Guidance requires a SEFA be maintained. Information required on the SEFA includes the name of the federal program, CFDA numbers, grant numbers, name of programs and amounts received and expended.

We recommend the fiscal court maintain accurate and complete records for all federal grants and then prepare a SEFA at the end of each fiscal year.

Views of Responsible Official and Planned Corrective Action:

Our federal money has been shut down for the last few years. We did not receive any federal money. The former treasurer did not complete this report and the finance officer was not aware of this report.

2017-006 The Fiscal Court Failed To Remit A Share Of The National Forestry Receipts To School District

This is a repeat finding and was included in the prior year report as finding 2016-024.

The fiscal court received \$22,617 in national forestry receipts in fiscal year 2017. One-half of that amount was to be remitted to the Wolfe County Board of Education.

The fiscal court failed to remit one-half of the funds to the board of education therefore the board did not receive their share of the national forestry receipts.

KRS 149.130(3) states “The county treasurer shall place one-half (1/2) of the funds to the credit of the public roads of his county and the other half (1/2) shall be distributed among the school districts in the county according to the area of the reserve in each school district.

We recommend the fiscal court remit the national forestry receipts to the board of education.

Views of Responsible Official and Planned Corrective Action:

This was an oversight due to the finance officer being new. (Appointed: October 2016)

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

STATE LAWS AND REGULATIONS: (Continued)

2017-007 The Fiscal Court Did Not Submit Accurate Quarterly Reports to DLG

The fourth quarter report for the Wolfe County Fiscal Court for the fiscal year 2017 was not accurate. The original budget amounts for receipts and disbursements did not agree with the approved budget. And budget amendment amounts were included for receipts and disbursements in the final budget amounts that were not approved by the fiscal court or the Department for Local Government (DLG).

The former treasurer did not update the original budget amounts in the accounting system for fiscal year 2017. The original budget amounts on the fourth quarter report were the same as the amounts in fiscal year 2016.

The first reading of the one budget amendment was presented and approved by the fiscal court on May 9, 2017. A second reading was not presented or approved by the fiscal court. And the budget amendment was not submitted to DLG for approval.

The fiscal court disbursed funds during the year, in reliance on the incorrect budget amounts in the accounting system. The budgetary comparison schedules in the audit report were restated to agree with the original budget approved by the fiscal court and DLG.

As a result, the total disbursements of the general, road and area development funds exceeded budgeted appropriations in the amounts of \$40,607, \$93,094 and \$472 respectively. The general government line item in the LGEA fund exceeded budgeted appropriations by \$10,200. The protection to persons and property line item in the E-911 fund exceeded budgeted appropriations by \$2,774. And the administration line item in the jail and solid waste funds exceeded budgeted appropriations by \$533 and \$3,741 respectively. Also an excess of road funds was transferred to the general fund.

Accurate quarterly reports are essential for the regulatory agency to be informed of the financial activity of a county. Quarterly reports also provide valuable information to the fiscal court regarding receipts, disbursements, and cash balances and are an essential component of sound financial management practices. Without this valuable information, the fiscal court's decision making capabilities may be adversely affected.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts requires counties to submit quarterly reports to their regulatory agency, DLG. These reports should include all funds of the county, should include all activity within the funds, and should agree to the county's reconciled cash balances.

DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* provides guidance regarding annual budgets adopted on a regulatory basis of accounting. The budget is prepared by fund, and disbursements may not exceed budgeted appropriations.

We recommend the treasurer enter the budget and amendments into the accounting system, once they are approved, to ensure that accurate quarterly reports are submitted to DLG.

Views of Responsible Official and Planned Corrective Action:

Current office personnel did not have control over these matters as they occurred. However, the new personnel are looking into matters to prevent any future occurrences or discrepancies.

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

STATE LAWS AND REGULATIONS: (Continued)

2017-008 An Annual Treasurer's Settlement Was Not Presented To The Fiscal Court

The minutes of the fiscal court do not reflect the presentation or approval of an annual treasurer's settlement for the fiscal year. A review of fiscal court minutes concluded that the last annual treasurer's settlement presented to the fiscal court was for the fiscal year 2014. The former treasurer failed to present an annual treasurer's settlement to the fiscal court for fiscal year 2017.

The treasurer's settlement provides valuable information to the fiscal court regarding receipts, disbursements, and cash balances and is an essential component of sound financial management practices. Without this valuable information, the fiscal court's decision making capabilities may be adversely affected.

The Department for Local Government *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county treasurer to prepare an annual settlement for the fiscal court within 30 days of the close of the fiscal year pursuant to KRS 68.020(5).

We recommend the county treasurer resume the practice of preparing monthly and annual treasurer's settlements to be presented to the fiscal court for approval.

Views of Responsible Official and Planned Corrective Action:

Unaware why the report was not submitted. New treasurer will work to correct the problem and make sure reports are submitted in a timely manner.

2017-009 The Fiscal Court Did Not Maintain A Complete and Accurate Capital Asset Schedule

The fiscal court did not maintain a complete and accurate capital asset schedule for the fiscal year ending June 30, 2017. The former treasurer failed to update the capital asset schedule during the fiscal year. An outdated capital asset schedule was provided. Not all items disposed were marked as deleted and not all items purchased were added to the capital asset records.

A complete capital asset schedule ensures accurate financial reporting and protects assets from misappropriation. Not maintaining an updated list of capital assets could cause capital assets to not be insured or result in paying for insurance for an asset the fiscal court no longer owns.

The Department for Local Government (DLG) requires counties to track capital assets (i.e. land, buildings, equipment, vehicles, infrastructure, etc.). The DLG *County Budget Preparation and State Local Finance Officer Policy Manual* pages 58-63 requires the listing of capital assets to include, at a minimum, a description of the asset, cost, and date of acquisition.

The capital asset schedule should be adjusted for 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.

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

STATE LAWS AND REGULATIONS: (Continued)

2017-009 The Fiscal Court Did Not Maintain A Complete and Accurate Capital Asset Schedule (Continued)

We recommend the fiscal court update the capital asset schedule with additions and deletions, as assets are purchased, sold or retired. Additionally, we recommend the fiscal court perform physical inventories periodically to confirm the existence of assets and further ensure the accuracy and completeness of the capital asset schedule.

Views of Responsible Official and Planned Corrective Action:

Unaware of why the previous treasurer did not complete the capital asset list. New treasurer will work to keep this list up to date.

INTERNAL CONTROL – MATERIAL WEAKNESSES:

2017-010 The Fiscal Court Lacks Adequate Controls Over The Payroll Process

This is a repeat finding and was included in the prior year report as finding 2016-005.

During our testing of payroll, we noted the following:

- All payroll checks were signed by only one (1) individual, either the former judge/executive or the former treasurer but not both.
- One (1) instance where the computed wages did not agree to the reported wages.
- Each month's health insurance invoice is due by the end of month for that month's coverage. The October and November invoices were not paid until January 2017. And the March and May invoices were not paid until April and July 2017, respectively.
- The state income tax withholdings for December 2016 and January 2017 were paid late and were underpaid.

As presented in finding 2017-011, the fiscal court lacks segregation of duties over payroll. The former treasurer handled all aspects of the payroll process and there appeared to be no independent review of payroll by anyone other than the preparer.

The payroll issues noted above could have been prevented, detected, and/or corrected timely had proper controls and segregation of duties existed.

- Good internal controls dictate dual signatures on all checks. KRS 68.020(1) requires that "All warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive."
- One (1) individual should not have sole control over the preparation and reconciliation of payroll.
- Payroll withholdings and invoices should be paid timely.

We recommend that controls and reviews be improved over the payroll process and that payroll checks be signed by the county judge/executive and the county treasurer.

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

INTERNAL CONTROL – MATERIAL WEAKNESSES: (Continued)

2017-010 The Fiscal Court Lacks Adequate Controls Over The Payroll Process (Continued)

Views of Responsible Official and Planned Corrective Action:

The payroll clerk/treasurer was terminated for lack of duties. The payroll process is different now. All department heads are responsible for the timesheets for their workers. The finance officer checks all timesheets for errors and keeps a record of the employee's annual leave and sick leave. The county judge signs and approves the timesheets. The payroll clerk enters the timesheets into QuickBooks and generates the checks. The county judge and new treasurer sign the checks. At this point the finance officer checks the amounts to make sure they match and then the checks are disbursed.

2017-011 The Fiscal Court Lacks Segregation Of Duties Over Receipts, Transfers And Payroll

The fiscal court lacks a segregation of duties over financial and record-keeping functions. The former treasurer posted receipts, transferred funds, reconciled bank statements and prepared payroll. In each area, there does not appear to have been any review or oversight by another individual.

The former treasurer received all monies, made deposits, posted to the ledgers, transferred money between bank accounts, and prepared bank reconciliations.

Likewise, the former treasurer processed payroll, posted to the payroll ledgers, transferred funds to the revolving payroll account, prepared pay checks with her signature only, prepared state and local withholding reports, and reconciled the payroll account.

The payroll issues noted in finding 2017-010 could have been prevented, detected, and/or corrected timely had proper controls and segregation of duties existed.

Adequate segregation of duties increases the ability of the entity to recognize and correct errors in a timely manner. Delegating all duties for an area to one individual, increases the risk that fraud or errors will occur.

The functions of processing, posting, and reconciling should be delegated to separate individuals when possible. Otherwise, when only one person is in charge of a function, then strong compensating controls are needed.

We recommend the fiscal court segregate duties in each area or implement other compensating controls. 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.

Views of Responsible Official and Planned Corrective Action:

The new treasurer along with the finance officer work together to reconcile bank accounts, make transfers and post receipts. As previously stated, we have a new payroll process now.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2017-012 The Fiscal Court Lacks Adequate Controls Over Interfund Transfers

This is a repeat finding and was included in the prior year report as finding 2016-007.

The fiscal court minutes indicate transfers are presented to the court monthly. However, the fiscal court appears to give a blanket approval for transfers each month without reviewing a list of individual transfer amounts.

The fiscal court lacks adequate control over the transfer process. Transfers may be made without the specific approval of the fiscal court.

The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires a court order for all transfers. The funds and amount for each individual transfer should be recorded in the official minutes of the fiscal court.

We recommend the fiscal court review and approve a list of individual transfers.

Views of Responsible Official and Planned Corrective Action:

Going forward there will be a separate column in the accounts payable to list transfers. The savings accounts are now closed so we won't have to move money from savings accounts to checking accounts each month.

2017-013 The Fiscal Court Did Not Report The Public Properties Corporation Debt

This is a repeat finding and was included in the prior year report as finding 2016-008.

The Public Properties Corporation Fund debt principal outstanding of \$8,215,000 was not included on the long-term liabilities schedule submitted with the fourth quarter report. The fiscal court was not aware that the Public Properties Corporation Fund debt, which is paid by the Administrative Office of the Courts, should be included on the quarterly report.

Quarterly reports provide valuable information to the fiscal court and are an essential component of sound financial management practices. Complete and accurate quarterly reports enable the fiscal court to be fully informed of its financial activity and obligations. Without this valuable information, the fiscal court's decision making capabilities may be adversely affected.

The Department for Local Government *County Budget Preparation and State Local Finance Officer Policy Manual* requires counties to submit quarterly financial reports that include a list of liabilities and the principal and interest balances remaining.

We recommend the fiscal court ensure that all liabilities are reported on the quarterly reports.

Views of Responsible Official and Planned Corrective Action:

Unaware of why previous treasurer didn't list these liabilities on the quarterly reports.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2017-014 The Fiscal Court Is Not Monitoring The Chop Shop Agreement

This is a repeat finding and was included in the prior year report as finding 2016-014.

In January 2013, the county entered into a loan agreement with JSW Farm, LLC DBA The Chop Shop for the purchase of the land and building pad located in the Wolfe -Morgan Industrial Park. The agreement requires ten annual payments of \$47,500 beginning January 2014, payable to the Wolfe County Fiscal Court. The county will forgive the principal and interest payments if The Chop Shop creates and maintains employment at levels equal or greater than fifteen (15) full-time employees for calendar year 2014 and 2015, increasing to thirty (30) full-time employees for the remaining eight (8) years of the agreement. The agreement further defines full-time as working 1,820 hours per year and average wage of at least \$14,560 per year, \$8 per hour average.

The prior finding noted that the fiscal court had not determined if The Chop Shop had created and maintained the required employment levels. No evidence was provided that the fiscal court was attempting to monitor The Chop Shop's compliance with the terms of the loan agreement. The fiscal court should be requesting payroll information at least annually to determine compliance with the agreement. The fiscal court may be owed principal and interest.

We recommend the fiscal court review their agreement with The Chop Shop and put in place a process to monitor compliance with the terms of the agreement. We further recommend the fiscal court determine if The Chop Shop owes principal and interest to the fiscal court.

Views of Responsible Official and Planned Corrective Action:

We have a new judge and fiscal court members as of January 2019. They plan to further investigate this agreement to make sure they are in compliance.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2017-015 The Fiscal Court Is Not Monitoring The Ambulance Lease Agreement

These are repeat findings and were included in the prior year report as finding 2016-009, 2016-015 and 2016-017.

In June 2015, the fiscal court signed a lease agreement with Arrow-Med Ambulance for the consideration of payment of \$1 from Arrow-Med to the county, and in further consideration of the service and benefits that an ambulance service provides for the people of Wolfe County. This agreement was to run for six (6) month increments until either party desires to terminate the agreement.

During the time of the agreement:

- Arrow-Med was granted use of a building to house their ambulance equipment. Arrow-Med was to pay all utilities from the building including but not limited to water, electricity, phone and internet.
- Arrow-Med was granted full use of the ambulances (and equipment in the ambulances) which were currently 100% owned by Wolfe County so long as those ambulances were only used to provide services to emergencies or runs that originate in the boundaries of Wolfe County (with certain exceptions).
- All maintenance on the county owned ambulances (and equipment) was the sole responsibility of Arrow-Med so long as they used the county owned ambulances.

The prior year findings noted that the fiscal court lacked adequate control over the ambulance lease agreement. No evidence has been provided that the fiscal court is monitoring the arrangement. The fiscal court cannot be sure that ambulances owned 100% by the county were used within Wolfe County and that costs were paid by the appropriate party.

The agreement does not address KRS 65.710(2)(3)(4) which stipulate items to include in ambulance service contracts.

In addition, the fiscal court should address the concern that \$22,105 of KBEMS grant funds may have been used inappropriately to reimburse Arrow-Med for the purchase of ambulances in fiscal year 2013.

We recommend the fiscal court include the provisions of KRS 65.710 in the lease agreement and monitor the compliance and performance of the ambulance service.

Views of Responsible Official and Planned Corrective Action:

This contract/agreement was made under previous administration.

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

WOLFE COUNTY FISCAL COURT

For The Year Ended June 30, 2017

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CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM


WOLFE COUNTY FISCAL COURT

For The Year Ended June 30, 2017

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

A handwritten signature in blue ink, appearing to read "Gerald Baber", written over a horizontal line.

County Judge/Executive

A handwritten signature in blue ink, appearing to read "Porter Harris", written over a horizontal line.

County Treasurer