

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

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

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TEDDY MICHAEL PRATER CPA, PLLC
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Telephone (606) 349-8042

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 were engaged to audit 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, 2018, 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.

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Based on our assessment of risk, we determined the risk of fraud and/or material errors to be too high, and we were unable to apply other procedures to overcome this risk. The Wolfe County Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Due to these weaknesses, the risk exists for an individual to manipulate, misappropriate, and/or misdirect funds. Furthermore, the former treasurer did not prepare a fourth quarterly report and did not maintain adequate accounting records to allow us to verify the receipts and disbursements and determine the validity of the transactions for the year ended June 30, 2018.

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

Disclaimer of Opinion on Regulatory Basis of Accounting

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on 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, 2018. Accordingly, we do not express an opinion on the Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis for the fiscal year ended June 30, 2018.

Other Matters

Supplementary Information

We were engaged 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. Due to the unreliability of the underlying financial records, we were unable to conduct required procedures to issue an opinion on the Budgetary Comparison Schedules and Capital Asset Schedule. Accordingly, we do not express an opinion on the accompanying Budgetary Comparison Schedules and Capital Asset Schedule.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 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.

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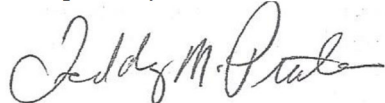
The Honorable Dennis Brooks, Former Wolfe County Judge/Executive

Members of the Wolfe County Fiscal Court

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

- 2018-001 The Fiscal Court Did Not Submit An Accurate, Complete and Timely Fourth Quarter Report
- 2018-002 Disbursement Checks Were Not Signed By The Treasurer
- 2018-003 The Fiscal Court Did Not Follow LGEA Coal Impact Funds Disbursement Requirements
- 2018-004 Road Funds Were Used To Pay The Full Amount of KACo Premiums
- 2018-005 A Schedule Of Expenditures Of Federal Awards (SEFA) Was Not Prepared
- 2018-006 The Fiscal Court Failed To Remit A Share Of The National Forestry Receipts To School District
- 2018-007 An Annual Treasurer's Settlement Was Not Presented To The Fiscal Court
- 2018-008 The Fiscal Court Allowed Claims In Excess Of Budgeted Appropriations
- 2018-009 The Fiscal Court Did Not Budget, Record or Report Funds
- 2018-010 The Fiscal Court Lacks Adequate Controls Over The Payroll Process
- 2018-011 The Fiscal Court Lacks Segregation Of Duties Over Receipts, Transfers And Payroll
- 2018-012 The Fiscal Court Lacks Adequate Controls Over Interfund Transfers
- 2018-013 The Fiscal Court Did Not Report The Public Properties Corporation Debt
- 2018-014 The Fiscal Court Is Not Monitoring The Chop Shop Agreement
- 2018-015 The Fiscal Court Is Not Monitoring The Ambulance Lease Agreement

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

April 11, 2019

WOLFE COUNTY OFFICIALS

For The Year Ended June 30, 2018

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, 2018

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

For The Year Ended June 30, 2018

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	LGEA Fund
RECEIPTS				
Taxes	\$ 714,643	\$	\$	\$
In Lieu Tax Payments	24,371	46,759		
Excess Fees	41,285			
Licenses and Permits	893			
Intergovernmental	227,484	1,171,935	102,005	120,792
Charges for Services	1,953			
Miscellaneous	99,283	153,733		4,592
Interest	69	228	8	82
Total Receipts	<u>1,109,981</u>	<u>1,372,655</u>	<u>102,013</u>	<u>125,466</u>
DISBURSEMENTS				
General Government	711,064			9,984
Protection to Persons and Property	30,704		315,430	
General Health and Sanitation	5,446			12,417
Social Services	1,241			7,600
Recreation and Culture	14,733			22,834
Roads		985,283		50,942
Debt Service		232,146		
Capital Projects				
Administration	325,258	195,170	16,541	11,536
Total Disbursements	<u>1,088,446</u>	<u>1,412,599</u>	<u>331,971</u>	<u>115,313</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>21,535</u>	<u>(39,944)</u>	<u>(229,958)</u>	<u>10,153</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		138,872		
Payroll Revolving Account	(42,040)			
Transfers From Other Funds	162,553	5,197	196,638	
Transfers To Other Funds	(227,315)	(162,553)		
Total Other Adjustments to Cash (Uses)	<u>(106,802)</u>	<u>(18,484)</u>	<u>196,638</u>	
Net Change in Fund Balance	(85,267)	(58,428)	(33,320)	10,153
Fund Balance - Beginning	18,562	405,325	4,826	102,256
Fund Balance - Ending	<u>\$ (66,705)</u>	<u>\$ 346,897</u>	<u>\$ (28,494)</u>	<u>\$ 112,409</u>
Composition of Fund Balance				
Bank Balance	\$ 19,665	\$ 348,384	\$ 714	\$ 114,309
Less: Outstanding Checks Certificates of Deposit	(86,370)	(1,487)	(29,208)	(1,900)
Fund Balance - Ending	<u>\$ (66,705)</u>	<u>\$ 346,897</u>	<u>\$ (28,494)</u>	<u>\$ 112,409</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, 2018
(Continued)

Budgeted Funds					
Area Development Fund	Fire Protection Fund	Solid Waste Fund	Search and Rescue Fund	LGED Fund	E-911 Fund
\$	\$ 2,315	\$	\$	\$	\$ 126,779
6,252		138,588		30,838	21,180
		71,181			
		36,084	1,000		305
1			5		52
<u>6,253</u>	<u>2,315</u>	<u>245,853</u>	<u>1,005</u>	<u>30,838</u>	<u>148,316</u>
	2,317	338,453			71,294
4,034		24,221		16,684	7,221
<u>4,034</u>	<u>2,317</u>	<u>362,674</u>		<u>16,684</u>	<u>78,515</u>
<u>2,219</u>	<u>(2)</u>	<u>(116,821)</u>	<u>1,005</u>	<u>14,154</u>	<u>69,801</u>
		153,916		(16,985)	
		<u>153,916</u>		<u>(16,985)</u>	
2,219	(2)	37,095	1,005	(2,831)	69,801
776	2,459	155,744	7,379	54,306	38,925
<u>\$ 2,995</u>	<u>\$ 2,457</u>	<u>\$ 192,839</u>	<u>\$ 8,384</u>	<u>\$ 51,475</u>	<u>\$ 108,726</u>
\$ 2,995	\$ 2,457	\$ 193,004	\$ 8,384	\$ 51,475	\$ 111,442
		(165)			(2,716)
<u>\$ 2,995</u>	<u>\$ 2,457</u>	<u>\$ 192,839</u>	<u>\$ 8,384</u>	<u>\$ 51,475</u>	<u>\$ 108,726</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, 2018
(Continued)

	<u>Budgeted Funds</u>		<u>Unbudgeted Funds</u>	
	<u>Animal Shelter Fund</u>	<u>Special Projects Fund</u>	<u>Pavilion Fund</u>	<u>Revolving Grant Fund</u>
RECEIPTS				
Taxes	\$	\$	\$	\$
In Lieu Tax Payments				
Excess Fees				
Licenses and Permits				
Intergovernmental			15,000	50,000
Charges for Services	75			
Miscellaneous	4,052			
Interest		262		
Total Receipts	<u>4,127</u>	<u>262</u>	<u>15,000</u>	<u>50,000</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property				92,000
General Health and Sanitation	4,332			
Social Services				
Recreation and Culture			1,500	
Roads				
Debt Service				
Capital Projects				
Administration				
Total Disbursements	<u>4,332</u>	<u></u>	<u>1,500</u>	<u>92,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(205)</u>	<u>262</u>	<u>13,500</u>	<u>(42,000)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds				
Payroll Revolving Account				
Transfers From Other Funds	465			42,000
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)	<u>465</u>	<u></u>	<u></u>	<u>42,000</u>
Net Change in Fund Balance	260	262	13,500	
Fund Balance - Beginning	<u>1,492</u>	<u>352,009</u>	<u></u>	<u></u>
Fund Balance - Ending	<u>\$ 1,752</u>	<u>\$ 352,271</u>	<u>\$ 13,500</u>	<u>\$ 0</u>
Composition of Fund Balance				
Bank Balance	\$ 1,752	\$ 252,271	\$ 13,500	\$
Less: Outstanding Checks				
Certificates of Deposit		100,000		
Fund Balance - Ending	<u>\$ 1,752</u>	<u>\$ 352,271</u>	<u>\$ 13,500</u>	<u>\$ 0</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, 2018
(Continued)

<u>Unbudgeted Funds</u>	
<u>Public</u>	
<u>Properties</u>	
<u>Corporation</u>	<u>Total</u>
<u>Fund</u>	<u>Funds</u>
\$	\$ 843,737
	71,130
	41,285
	893
758,540	2,642,614
	73,209
	299,049
1,687	2,394
<u>760,227</u>	<u>3,974,311</u>
	721,048
	511,745
	360,648
	8,841
	39,067
	1,036,225
757,000	989,146
	20,718
1,540	581,487
<u>758,540</u>	<u>4,268,925</u>
<u>1,687</u>	<u>(294,614)</u>
	292,788
	(42,040)
	406,853
	<u>(406,853)</u>
	250,748
1,687	(43,866)
<u>191,643</u>	<u>1,335,702</u>
\$ <u>193,330</u>	\$ <u>1,291,836</u>
\$ 193,330	\$ 1,313,682
	(121,846)
	100,000
<u>\$ 193,330</u>	<u>\$ 1,291,836</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

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WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2018

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, 2018
(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 funds:

Pavilion Fund - The primary purpose of this fund is to account for a youth agricultural incentive program grant.

Revolving Grant Fund – The primary purpose of this fund is to account for a grant and matching funds to purchase sheriff's vehicles.

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, 2018
(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, 2018
(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, 2018, attributable to Wolfe County is \$1,374,760.

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, 2018
(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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

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

	General Fund	Road Fund	LGED Fund	Total Transfers In
General Fund	\$	\$ 162,553	\$	\$ 162,553
Road Fund			5,197	5,197
Jail Fund	184,850		11,788	196,638
Animal Shelter Fund	465			465
Revolving Grant Fund	42,000			42,000
Total Transfers Out	<u>\$ 227,315</u>	<u>\$ 162,553</u>	<u>\$ 16,985</u>	<u>\$ 406,853</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, 2018
(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, 2018, the principal outstanding is \$2,080,000. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Interest
2019	\$ 495,000	\$ 69,050
2020	510,000	54,200
2021	530,000	37,625
2022	545,000	19,075
Totals	<u>\$ 2,080,000</u>	<u>\$ 179,950</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, 2018, the principal outstanding is \$5,650,000. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Interest
2019	\$	\$ 188,400
2020		188,400
2021		188,400
2022	50,000	188,400
2023	615,000	186,900
2024-2028	3,450,000	559,700
2029-2030	1,535,000	69,450
Totals	<u>\$ 5,650,000</u>	<u>\$ 1,569,650</u>

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(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, 2018, the principal outstanding is \$767,083. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Interest
2019	\$ 57,083	\$ 36,294
2020	62,083	32,441
2021	65,000	27,536
2022	67,083	25,325
2023	70,000	22,921
2024-2028	393,334	69,223
2029	52,500	2,678
Totals	<u>\$ 767,083</u>	<u>\$ 216,418</u>

D. Kentucky Association of Counties – Mack Truck

On July 12, 2017, the Wolfe County Fiscal Court entered into a \$153,916 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 January 20, 2019. As of June 30, 2018, the principal outstanding is \$153,916. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	<u>\$ 153,916</u>	<u>\$ 3,759</u>
Totals	<u>\$ 153,916</u>	<u>\$ 3,759</u>

E. Kentucky Association of Counties – Mack Truck

On April 19, 2018, the Wolfe County Fiscal Court entered into a \$138,872 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 October 20, 2019. As of June 30, 2018, the principal outstanding is \$138,872. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$	\$ 5,485
2020	<u>138,872</u>	<u>1,829</u>
Totals	<u>\$ 138,872</u>	<u>\$ 7,314</u>

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

Note 4. Long-term Debt (Continued)

F. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 8,215,000	\$	\$ 485,000	\$ 7,730,000	\$ 495,000
Financing Obligations	956,718	292,788	189,635	1,059,871	210,999
Total Long-term Debt	<u>\$ 9,171,718</u>	<u>\$ 292,788</u>	<u>\$ 674,635</u>	<u>\$ 8,789,871</u>	<u>\$ 705,999</u>

Note 5. Employee Retirement System

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

The county's contribution for FY 2016 was \$183,090, FY 2017 was \$198,718, and FY 2018 was \$186,372.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 19.18 percent.

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

Note 5. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage – Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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.

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

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

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

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

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

C. Cost of Living Adjustments - Tier 1

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

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

Note 5. Employee Retirement System (Continued)

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 6. 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, 2018, 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, 2018
(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. Payroll Revolving Account

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

Note 11. Deficit Balances and Interfund Receivables and Payables

The general and jail funds had deficit balances at June 30, 2018, which were further reduced by interfund 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	\$ (66,705)	\$ 346,897	\$ (28,494)	\$ 112,409
Interfund Receivable (Payable)	<u>(67,404)</u>	<u>67,404</u>	<u>(116,717)</u>	<u>116,717</u>
Fund Balance - Ending (Restated)	<u>\$ (134,109)</u>	<u>\$ 414,301</u>	<u>\$ (145,211)</u>	<u>\$ 229,126</u>

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WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 719,100	\$ 719,100	\$ 714,643	\$ (4,457)
In Lieu Tax Payments	18,000	18,000	24,371	6,371
Excess Fees	32,000	32,000	41,285	9,285
Licenses and Permits	1,100	1,100	893	(207)
Intergovernmental	223,805	223,805	227,484	3,679
Charges for Services	400	400	1,953	1,553
Miscellaneous	46,000	46,000	99,283	53,283
Interest	50	50	69	19
Total Receipts	<u>1,040,455</u>	<u>1,040,455</u>	<u>1,109,981</u>	<u>69,526</u>
DISBURSEMENTS				
General Government	692,738	692,738	711,064	(18,326)
Protection to Persons and Property	45,307	45,307	30,704	14,603
General Health and Sanitation			5,446	(5,446)
Social Services	4,500	4,500	1,241	3,259
Recreation and Culture			14,733	(14,733)
Administration	367,309	367,309	325,258	42,051
Total Disbursements	<u>1,109,854</u>	<u>1,109,854</u>	<u>1,088,446</u>	<u>21,408</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(69,399)</u>	<u>(69,399)</u>	<u>21,535</u>	<u>90,934</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	162,553	162,553	162,553	
Transfers To Other Funds	<u>(202,500)</u>	<u>(202,500)</u>	<u>(227,315)</u>	<u>(24,815)</u>
Total Other Adjustments to Cash (Uses)	<u>(39,947)</u>	<u>(39,947)</u>	<u>(64,762)</u>	<u>(24,815)</u>
Net Change in Fund Balance	(109,346)	(109,346)	(43,227)	66,119
Fund Balance - Beginning	<u>109,346</u>	<u>109,346</u>	<u>18,562</u>	<u>(90,784)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (24,665)</u>	<u>\$ (24,665)</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 50,000	\$ 50,000	\$ 46,759	\$ (3,241)
Intergovernmental	946,471	946,471	1,171,935	225,464
Miscellaneous	130,000	130,000	153,733	23,733
Interest	400	400	228	(172)
Total Receipts	<u>1,126,871</u>	<u>1,126,871</u>	<u>1,372,655</u>	<u>245,784</u>
DISBURSEMENTS				
Roads	1,128,535	1,128,535	985,283	143,252
Debt Service	250,000	250,000	232,146	17,854
Capital Projects	25,000	25,000		25,000
Administration	247,500	247,500	195,170	52,330
Total Disbursements	<u>1,651,035</u>	<u>1,651,035</u>	<u>1,412,599</u>	<u>238,436</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(524,164)</u>	<u>(524,164)</u>	<u>(39,944)</u>	<u>484,220</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			138,872	138,872
Transfers From Other Funds			5,197	5,197
Transfers To Other Funds	(162,553)	(162,553)	(162,553)	
Total Other Adjustments to Cash (Uses)	<u>(162,553)</u>	<u>(162,553)</u>	<u>(18,484)</u>	<u>144,069</u>
Net Change in Fund Balance	(686,717)	(686,717)	(58,428)	628,289
Fund Balance - Beginning	<u>686,717</u>	<u>686,717</u>	<u>405,325</u>	<u>(281,392)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 346,897</u>	<u>\$ 346,897</u>

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

JAIL FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 106,500	\$ 106,500	\$ 102,005	\$ (4,495)
Miscellaneous	95	95		(95)
Interest	5	5	8	3
Total Receipts	<u>106,600</u>	<u>106,600</u>	<u>102,013</u>	<u>(4,587)</u>
DISBURSEMENTS				
Protection to Persons and Property	406,800	406,800	315,430	91,370
Administration	18,300	18,300	16,541	1,759
Total Disbursements	<u>425,100</u>	<u>425,100</u>	<u>331,971</u>	<u>93,129</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(318,500)</u>	<u>(318,500)</u>	<u>(229,958)</u>	<u>88,542</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	313,500	313,500	196,638	(116,862)
Total Other Adjustments to Cash (Uses)	<u>313,500</u>	<u>313,500</u>	<u>196,638</u>	<u>(116,862)</u>
Net Change in Fund Balance	(5,000)	(5,000)	(33,320)	(28,320)
Fund Balance - Beginning	5,000	5,000	4,826	(174)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (28,494)</u>	<u>\$ (28,494)</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 155,000	\$ 155,000	\$ 120,792	\$ (34,208)
Miscellaneous			4,592	4,592
Interest	33	33	82	49
Total Receipts	<u>155,033</u>	<u>155,033</u>	<u>125,466</u>	<u>(29,567)</u>
DISBURSEMENTS				
General Government	11,200	11,200	9,984	1,216
General Health and Sanitation	18,370	18,370	12,417	5,953
Social Services	7,700	7,700	7,600	100
Recreation and Culture	18,500	18,500	22,834	(4,334)
Roads	100,000	100,000	50,942	49,058
Administration	12,700	12,700	11,536	1,164
Total Disbursements	<u>168,470</u>	<u>168,470</u>	<u>115,313</u>	<u>53,157</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(13,437)</u>	<u>(13,437)</u>	<u>10,153</u>	<u>23,590</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(111,000)</u>	<u>(111,000)</u>		<u>111,000</u>
Total Other Adjustments to Cash (Uses)	<u>(111,000)</u>	<u>(111,000)</u>		<u>111,000</u>
Net Change in Fund Balance	(124,437)	(124,437)	10,153	134,590
Fund Balance - Beginning	<u>124,437</u>	<u>124,437</u>	<u>102,256</u>	<u>(22,181)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 112,409</u>	<u>\$ 112,409</u>

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

	AREA DEVELOPMENT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 3,000	\$ 3,000	\$ 6,252	\$ 3,252
Interest	2	2	1	(1)
Total Receipts	<u>3,002</u>	<u>3,002</u>	<u>6,253</u>	<u>3,251</u>
DISBURSEMENTS				
Capital Projects	4,502	4,502	4,034	468
Total Disbursements	<u>4,502</u>	<u>4,502</u>	<u>4,034</u>	<u>468</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,500)</u>	<u>(1,500)</u>	<u>2,219</u>	<u>3,719</u>
Net Change in Fund Balance	(1,500)	(1,500)	2,219	3,719
Fund Balance - Beginning	<u>1,500</u>	<u>1,500</u>	<u>776</u>	<u>(724)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,995</u>	<u>\$ 2,995</u>

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

	FIRE PROTECTION FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,000	\$ 2,000	\$ 2,315	\$ 315
Total Receipts	<u>2,000</u>	<u>2,000</u>	<u>2,315</u>	<u>315</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>(2,300)</u>	<u>(2,300)</u>	<u>(2)</u>	<u>2,298</u>
Net Change in Fund Balance	(2,300)	(2,300)	(2)	2,298
Fund Balance - Beginning	<u>2,300</u>	<u>2,300</u>	<u>2,459</u>	<u>159</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,457</u>	<u>\$ 2,457</u>

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

SOLID WASTE FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 150,000	\$ 150,000	\$ 138,588	\$ (11,412)
Charges for Services	30,000	30,000	71,181	41,181
Miscellaneous	15,000	15,000	36,084	21,084
Total Receipts	<u>195,000</u>	<u>195,000</u>	<u>245,853</u>	<u>50,853</u>
DISBURSEMENTS				
General Health and Sanitation	199,940	199,940	338,453	(138,513)
Administration	21,700	21,700	24,221	(2,521)
Total Disbursements	<u>221,640</u>	<u>221,640</u>	<u>362,674</u>	<u>(141,034)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(26,640)</u>	<u>(26,640)</u>	<u>(116,821)</u>	<u>(90,181)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			153,916	153,916
Total Other Adjustments to Cash (Uses)			<u>153,916</u>	<u>153,916</u>
Net Change in Fund Balance	(26,640)	(26,640)	37,095	63,735
Fund Balance - Beginning	<u>26,640</u>	<u>26,640</u>	<u>155,744</u>	<u>129,104</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 192,839</u>	<u>\$ 192,839</u>

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

SEARCH AND RESCUE FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 6,000	\$ 6,000	\$	\$ (6,000)
Miscellaneous	1,000	1,000	1,000	
Interest	5	5	5	
Total Receipts	<u>7,005</u>	<u>7,005</u>	<u>1,005</u>	<u>(6,000)</u>
DISBURSEMENTS				
Protection to Persons and Property	13,505	13,505		13,505
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>1,005</u>	<u>7,505</u>
Net Change in Fund Balance	(6,500)	(6,500)	1,005	7,505
Fund Balance - Beginning	<u>6,500</u>	<u>6,500</u>	<u>7,379</u>	<u>879</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,384</u>	<u>\$ 8,384</u>

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

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 17,000	\$ 17,000	\$ 30,838	\$ 13,838
Total Receipts	<u>17,000</u>	<u>17,000</u>	<u>30,838</u>	<u>13,838</u>
DISBURSEMENTS				
Capital Projects	<u>77,000</u>	<u>77,000</u>	<u>16,684</u>	<u>60,316</u>
Total Disbursements	<u>77,000</u>	<u>77,000</u>	<u>16,684</u>	<u>60,316</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(60,000)</u>	<u>(60,000)</u>	<u>14,154</u>	<u>74,154</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			<u>(16,985)</u>	<u>(16,985)</u>
Total Other Adjustments to Cash (Uses)			<u>(16,985)</u>	<u>(16,985)</u>
Net Change in Fund Balance	(60,000)	(60,000)	(2,831)	57,169
Fund Balance - Beginning	<u>60,000</u>	<u>60,000</u>	<u>54,306</u>	<u>(5,694)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 51,475</u>	<u>\$ 51,475</u>

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

	E-911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$		\$	126,779
Intergovernmental		75,000	75,000	21,180
Miscellaneous			305	305
Interest		20	20	52
Total Receipts		<u>75,020</u>	<u>75,020</u>	<u>148,316</u>
DISBURSEMENTS				
Protection to Persons and Property		90,000	90,000	71,294
Administration		9,000	9,000	7,221
Total Disbursements		<u>99,000</u>	<u>99,000</u>	<u>78,515</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(23,980)</u>	<u>(23,980)</u>	<u>69,801</u>
Net Change in Fund Balance		(23,980)	(23,980)	69,801
Fund Balance - Beginning		<u>23,980</u>	<u>23,980</u>	<u>38,925</u>
Fund Balance - Ending	\$	<u>0</u>	\$	<u>108,726</u>
		<u>0</u>		<u>108,726</u>

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

ANIMAL SHELTER FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$	\$	\$ 75	\$ 75
Miscellaneous	10,500	10,500	4,052	(6,448)
Total Receipts	10,500	10,500	4,127	(6,373)
DISBURSEMENTS				
General Health and Sanitation	11,600	11,600	4,332	7,268
Total Disbursements	11,600	11,600	4,332	7,268
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,100)	(1,100)	(205)	895
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			465	465
Total Other Adjustments to Cash (Uses)			465	465
Net Change in Fund Balance	(1,100)	(1,100)	260	1,360
Fund Balance - Beginning	1,100	1,100	1,492	392
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,752	\$ 1,752

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

SPECIAL PROJECTS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 160	\$ 160	\$ 262	\$ 102
Total Receipts	<u>160</u>	<u>160</u>	<u>262</u>	<u>102</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>(220,290)</u>	<u>(220,290)</u>	<u>262</u>	<u>220,552</u>
Net Change in Fund Balance	(220,290)	(220,290)	262	220,552
Fund Balance - Beginning	<u>220,290</u>	<u>220,290</u>	<u>352,009</u>	<u>131,719</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 352,271</u>	<u>\$ 352,271</u>

WOLFE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

Note 1. Budgetary Information

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

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

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

Note 2. Reconciliation of the General Fund

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

Note 3. Excess of Disbursements Over Appropriations

The fiscal court overspent the budget in one fund, and overspent line items in two other funds.

The total disbursements of the solid waste fund exceeded budgeted appropriations by \$141,034 due to the unbudgeted purchase of a mack truck. The general government, general health and sanitation, and recreation and culture line items in the general fund exceeded budgeted appropriations by \$18,326, \$5,446, and \$14,733 respectively. The recreation and culture line item in the LGEA fund exceeded budgeted appropriations by \$4,334.

WOLFE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018

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WOLFE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 1,513,439	\$	\$	\$ 1,513,439
Buildings	12,654,062			12,654,062
Vehicles	974,333	148,000		1,122,333
Equipment	680,907			680,907
Infrastructure	4,845,698	141,155		4,986,853
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 20,668,439</u>	<u>\$ 289,155</u>	<u>\$ 0</u>	<u>\$ 20,957,594</u>

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

June 30, 2018

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land 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 were engaged to audit, 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, 2018, 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 April 11, 2019, wherein we disclaimed an opinion on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis. Because we were unable to place reliance on the accuracy, validity and completeness of the Wolfe County Fiscal Court's Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis and because audit risk is at an unacceptable level, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis for the fiscal year ended June 30, 2018.

Internal Control Over Financial Reporting

In connection with our engagement to audit 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 2018-010 and 2018-011 to be material weaknesses.

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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-012, 2018-013, 2018-014 and 2018-015 to be significant deficiencies.

Compliance and Other Matters

In connection with our engagement to audit the Wolfe County Fiscal Court's financial statement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, 2018-007, 2018-008 and 2018-009. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statement, other instances of noncompliance or other matters may have been identified and reported herein.

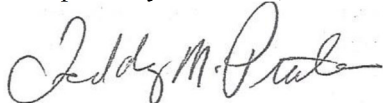
Views of Responsible Official and Planned Corrective Action

The Wolfe County's views and planned corrective action for the findings identified in our engagement are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the engagement to audit 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

April 11, 2019

**WOLFE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**WOLFE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

STATE LAWS AND REGULATIONS:

2018-001 The Fiscal Court Did Not Submit An Accurate, Complete and Timely Fourth Quarter Report

The former treasurer did not prepare a fourth quarter report and did not maintain adequate accounting records for the year ended June 30, 2018. The fiscal court hired a third party in February 2019 to complete ledgers, reconcile bank statements, and prepare the fourth quarter report for fiscal year 2018.

The resulting fourth quarter report was not accurate or complete because the underlying records for receipts and disbursements were not accurate or complete. The former treasurer did not deposit or post receipts on a consistent basis. Well after the fiscal year, claims were found to be unpaid.

The auditor relied on receipt and disbursement records that were available and bank account statements to adjust the fourth quarter report data to produce the Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis and the Budgetary Comparison Schedules, however we were not able to express an opinion on them. We determined the risk for fraud and/or material errors to be too high and that an individual(s) could have manipulated, misappropriated, and/or misdirected funds.

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, the Department for Local Government (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.

We recommend the treasurer prepare and submit accurate, complete and timely quarterly reports 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, 2018
(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2018-002 Disbursement Checks Were Not Signed By The Treasurer

During our testing of disbursements, we noted that sixty-nine (69) checks, totaling \$264,180.72, were not signed by the treasurer.

For a period of time, the finance officer signed checks on various fund bank accounts. The fiscal court had approved, at their September 12, 2017 meeting, to allow the finance officer to sign checks in the absence of the treasurer. However, this was not in compliance with statute.

Disbursements checks were issued without proper signatures.

- KRS 68.020(1) reads, in part, “All warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive.”
- KRS 68.010(4) states “If, at any time, the county treasurer is unable to perform the duties of this office because of illness, physical or mental incapacity, or other cause . . . then the fiscal court shall appoint, at either a regular term or a special term called by the county judge/executive, an acting county treasurer to serve until the current county treasurer is able to resume the performance of his duties . . . “

We recommend the fiscal court ensure that all checks are signed by the treasurer and the county judge/executive.

Views of Responsible Official and Planned Corrective Action:

The former county treasurer was in the hospital for several weeks back and forth. The fiscal court voted and approved for the finance officer to sign the checks in her absence. The fiscal court was not aware that this wouldn't comply with the statute.

2018-003 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 2017-003.

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

The fiscal court received \$76,063 in coal impact funds, however, they did not spend the required amount on repairs/maintenance for the coal haul road system.

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.

The Department for Local Government (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires that “Coal impact counties must expend one hundred percent (100%) of funds in the transportation category.”

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

STATE LAWS AND REGULATIONS: (Continued)

2018-003 The Fiscal Court Did Not Follow LGEA Coal Impact Funds Disbursement Requirements
 (Continued)

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

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.

2018-004 Road Funds Were Used To Pay The Full Amount of KACo Premiums

During fiscal year 2018, the fiscal court expended road funds to pay \$169,537, the full amount of premiums, to the Kentucky Association of Counties (KACo) for the county's liability insurance and workers compensation.

It would be acceptable if the road fund had paid a portion of the KACo invoice, as counties often prorate the premium to participating funds. However, road funds are not permitted to be used for general government purposes and should not pay the full premium for the county.

Road funds are restricted and are required to be expended for road related purposes, except for the amount approved by the Department for Local Government on the road cost allocation worksheet.

We recommend the fiscal court prorate the KACo premium among participating funds, such as the general fund, road fund and other participating funds.

Views of Responsible Official and Planned Corrective Action:

The official did not provide a response.

2018-005 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 2017-005.

The fiscal court received and expended federal grant funds during fiscal year 2018. 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.

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

STATE LAWS AND REGULATIONS: (Continued)

2018-005 A Schedule Of Expenditures Of Federal Awards (SEFA) Was Not Prepared (Continued)

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.

2018-006 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 2017-006.

The fiscal court received four checks totaling \$71,130, in national forestry receipts in fiscal year 2018. A portion of that amount was to be remitted to the Wolfe County Board of Education.

The fiscal court failed to remit a sufficient amount 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 by the finance officer.

2018-007 An Annual Treasurer’s Settlement Was Not Presented To The Fiscal Court

This is a repeat finding and was included in the prior year report as finding 2017-008.

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 the fiscal year 2018.

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.

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

STATE LAWS AND REGULATIONS: (Continued)

2018-007 An Annual Treasurer's Settlement Was Not Presented To The Fiscal Court (Continued)

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.

2018-008 The Fiscal Court Allowed Claims In Excess Of Budgeted Appropriations

The fiscal court overspent the budget in one fund, and overspent line items in two other funds. The fiscal court allowed claims to be paid in excess of the budget for multiple line items in the general, LGEA and solid waste funds.

The total disbursements of the solid waste fund exceeded budgeted appropriations by \$141,034 due to the unbudgeted purchase of a mack truck. The general government, general health and sanitation, and recreation and culture line items in the general fund were overspent by \$18,326, \$5,446, and \$14,733 respectively. The recreation and culture line item in the LGEA fund exceeded budgeted appropriations by \$4,334.

KRS 68.300 states "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable."

The fiscal court also overspent the bank accounts for the general and jail funds, resulting in deficit balances at fiscal yearend. At June 30, 2018, the general and jail fund bank balances, less outstanding checks, were a negative \$24,665 and \$28,494, respectively.

We recommend the fiscal court monitor the budget closely so that should it be necessary, the fiscal court can amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding line item budget amounts. The fiscal court should also monitor the bank account balances to ensure funds are not overspent.

Views of Responsible Official and Planned Corrective Action:

The former treasurer did not do any budget amendments for this fiscal year in order to make the budget balance.

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

STATE LAWS AND REGULATIONS: (Continued)

2018-009 The Fiscal Court Did Not Budget, Record, Or Report Funds

The fiscal court did not budget for two new grant funds, the pavilion fund and the revolving grant fund. The fiscal court maintained separate bank accounts for these funds, but did not include them in the original budget, or any amendment to the budget.

The pavilion fund was included on the fourth quarter report. However, the revolving grant fund was not recorded on the ledgers or reported on the fourth quarter report. The revolving grant fund was added to the financial statement to comply with the regulatory basis of accounting.

The pavilion fund received \$15,000 from the USDA Rural Development for a youth agricultural incentive program. The fund spent \$1,500 and had a bank balance of \$13,500 at the end of the fiscal year.

The revolving grant fund received \$50,000 from the USDA Rural Development, which was matched with \$42,000 of general funds to purchase four sheriff's vehicles. The full amount received was expended during the fiscal year.

The Uniform System of Accounts requires counties to submit quarterly reports to their regulatory agency, the Department for Local Government (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. The *DLG County Budget Preparation and State Local Finance Officer Policy Manual* states "It is necessary to amend the budget to reflect the receipt and expenditure of funds received through a state or federal grant if that grant was not part of the original budget document."

We recommend that new grant funds be included in future budgets and on the fourth quarter report.

Views of Responsible Official and Planned Corrective Action:

The former treasurer did not do any budget amendments to include new funds/grant monies into the budget.

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

INTERNAL CONTROL – MATERIAL WEAKNESSES:

2018-010 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 2017-010.

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.
- Numerous health insurance invoices were not paid timely.
- State income tax withholdings for one pay period was paid late.

As presented in finding 2018-011, 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.

As of June 30, 2018, the reconciled balance in the payroll revolving account was a negative \$42,040. The bank balance was \$21,358, but after considering unpaid liabilities, there were insufficient funds in the payroll account.

The payroll revolving account is a clearing account. The treasurer should transfer sufficient funds to meet the payroll obligations each pay period. The balance should be reconciled to a zero balance, or a minimal carrying balance, at the end of each pay period.

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. We also recommend that the treasurer properly reconcile the payroll revolving account to ensure the account is not over (under) funded.

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.

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

INTERNAL CONTROL – MATERIAL WEAKNESSES: (Continued)

2018-011 The Fiscal Court Lacks Segregation Of Duties Over Receipts, Transfers And Payroll

This is a repeat finding and was included in the prior year report as finding 2017-011.

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 2018-010 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, 2018
(Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2018-012 The Fiscal Court Lacks Adequate Controls Over Interfund Transfers

This is a repeat finding and was included in the prior year report as finding 2017-012.

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.

2018-013 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 2017-013.

The Public Properties Corporation Fund debt principal outstanding of \$7,730,000 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, 2018
(Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-014 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 2017-014.

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 \$14,650 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.

2018-015 The Fiscal Court Is Not Monitoring The Ambulance Lease Agreement

This is a repeat finding and was included in the prior year report as finding 2017-015.

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.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-015 The Fiscal Court Is Not Monitoring The Ambulance Lease Agreement (Continued)

The prior year finding 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. Also, in December 2017, it appears that a KBEMS grant was used to buy a 2007 express 3500 van for \$10,000. The fiscal court was not able to provide the grant agreement or the vehicle title to determine if the purchase was made in compliance with the grant.

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, 2018

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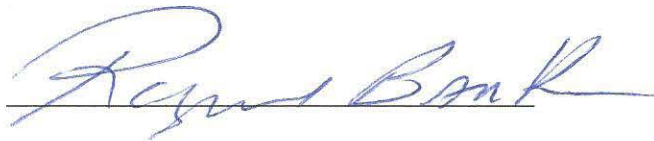
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

WOLFE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2018

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 "Reynolds Bank", written over a horizontal line.

County Judge/Executive

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

County Treasurer