

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

**For The Year Ended  
June 30, 2019**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary, Finance and Administration Cabinet  
The Honorable Colby Kirk, Martin County Judge/Executive  
The Honorable William Davis, Former Martin County Judge/Executive  
Members of the Martin County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Martin County Fiscal Court, for the year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Martin County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

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

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



To the People of Kentucky

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Members of the Martin County Fiscal Court

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Martin County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Martin County Fiscal Court as of June 30, 2019, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Martin County Fiscal Court as of June 30, 2019, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Supplementary Information and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Martin County Fiscal Court. The Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards (supplementary information), as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Schedule of Capital Assets (other information) 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 Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky  
 The Honorable Andy Beshear, Governor  
 Holly M. Johnson, Secretary, Finance and Administration Cabinet  
 The Honorable Colby Kirk, Martin County Judge/Executive  
 The Honorable William Davis, Former Martin County Judge/Executive  
 Members of the Martin County Fiscal Court

**Other Matters (Continued)**

*Supplementary and Other Information (Continued)*

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2021, on our consideration of the Martin County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Martin County Fiscal Court's internal control over financial reporting and compliance.

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

- 2019-001 The Martin County Fiscal Court Did Not Prepare An Accurate SEFA
- 2019-002 The Martin County Fiscal Court's Overall Design And Operation Of The Control Environmental Needs Improvement
- 2019-003 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements
- 2019-004 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Receipts
- 2019-005 The Martin County Fiscal Court Did Not Have A Policy To Address Reimbursements To The Coroner's Office For Transports
- 2019-006 The Martin County Fiscal Court Does Not Maintain An Accurate Capital Asset Schedule Or Insurance Listing
- 2019-007 The Martin County Fiscal Court Did Not Have Effective Internal Controls Over Federal Expenditures
- 2019-008 The Martin County Fiscal Court Has \$75,000 Of Questioned HUD Funds
- 2019-009 The Martin County Fiscal Court Failed To Implement Adequate Internals Controls Over Cash Management Of Federal Funds
- 2019-010 The Martin County Fiscal Court Failed To Implement Adequate Internals Controls Over Special Tests And Provisions - Davis Bacon Requirements

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

November 30, 2021

**MARTIN COUNTY OFFICIALS****For The Year Ended June 30, 2019****Fiscal Court Members:**

William Davis	County Judge/Executive
Jared Goforth	Magistrate
Joseph Hunt Jr.	Magistrate
Roger D. Preece	Magistrate
Victor Slone	Magistrate
Derek Stepp	Magistrate

**Other Elected Officials:**

Melissa F. Phelps	County Attorney
Boone Mahon	Jailer
Karen Susie Skyles	County Clerk
Denise M. Guaze	Circuit Court Clerk
John Kirk	Sheriff
Bobby Hale	Property Valuation Administrator
Christopher Todd	Coroner

**Appointed Personnel:**

Susan Hale	County Treasurer
Christina Frazier	Chief Financial Officer



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

**For The Year Ended June 30, 2019**

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

**For The Year Ended June 30, 2019**

	<b>Budgeted Funds</b>			
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>RECEIPTS</b>				
Taxes	\$ 597,991	\$	\$	\$
Excess Fees	10,720			
Licenses and Permits				
Intergovernmental	258,768	1,211,411	76,559	326,151
Charges for Services				
Miscellaneous	329,447	7,090		286
Interest	47	150	12	22
Total Receipts	<u>1,196,973</u>	<u>1,218,651</u>	<u>76,571</u>	<u>326,459</u>
<b>DISBURSEMENTS</b>				
General Government	995,288	23,944		28,200
Protection to Persons and Property			268,020	9,721
General Health and Sanitation				28,193
Social Services	4,200			
Recreation and Culture				
Roads		750,604		
Other Transportation Facilities and Services				
Debt Service		29,687		
Administration	403,875	208,468	31,570	12,547
Total Disbursements	<u>1,403,363</u>	<u>1,012,703</u>	<u>299,590</u>	<u>78,661</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(206,390)</u>	<u>205,948</u>	<u>(223,019)</u>	<u>247,798</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	249,119		293,296	
Transfers To Other Funds		(179,119)		(220,000)
Total Other Adjustments to Cash (Uses)	<u>249,119</u>	<u>(179,119)</u>	<u>293,296</u>	<u>(220,000)</u>
Net Change in Fund Balance	42,729	26,829	70,277	27,798
Fund Balance - Beginning	62,003	90,834	10,693	19,527
Fund Balance - Ending	<u>\$ 104,732</u>	<u>\$ 117,663</u>	<u>\$ 80,970</u>	<u>\$ 47,325</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 121,817	\$ 118,800	\$ 81,744	\$ 47,325
Less: Outstanding Checks	(17,085)	(1,137)	(774)	
Fund Balance - Ending	<u>\$ 104,732</u>	<u>\$ 117,663</u>	<u>\$ 80,970</u>	<u>\$ 47,325</u>

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

**MARTIN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2019**  
**(Continued)**

Budgeted Funds						
State Grant Fund	Federal Grant Fund	Forestry Fund	Solid Waste Fund	Occupational Tax Fund	Local Government Economic Development Fund	HUD Fund
\$	\$	\$	\$	\$ 816,689	\$	\$
			43,538			
657,090	1,125,307					10,690
<u>2</u>					<u>1</u>	<u>51</u>
<u>657,092</u>	<u>1,125,307</u>		<u>43,538</u>	<u>816,689</u>	<u>1</u>	<u>10,741</u>
875				51,267		
71,164		1,704		22,346		
3,300	1,043,016		28,940	39,331		
				50,000		
				149,069		
						75,000
666,038			1,679	258,036		
<u>741,377</u>	<u>1,043,016</u>	<u>1,704</u>	<u>30,619</u>	<u>570,049</u>		<u>75,000</u>
(84,285)	82,291	(1,704)	12,919	246,640	1	(64,259)
		1,704				
<u>(10,000)</u>				<u>(135,000)</u>		
<u>(10,000)</u>		<u>1,704</u>		<u>(135,000)</u>		
(94,285)	82,291		12,919	111,640	1	(64,259)
289,747	3,304		46,099	58,578	6,610	174,782
<u>\$ 195,462</u>	<u>\$ 85,595</u>	<u>\$ 0</u>	<u>\$ 59,018</u>	<u>\$ 170,218</u>	<u>\$ 6,611</u>	<u>\$ 110,523</u>
\$ 195,462	\$ 120,254	\$	\$ 59,018	\$ 175,874	\$ 6,611	\$ 110,523
	(34,659)			(5,656)		
<u>\$ 195,462</u>	<u>\$ 85,595</u>	<u>\$ 0</u>	<u>\$ 59,018</u>	<u>\$ 170,218</u>	<u>\$ 6,611</u>	<u>\$ 110,523</u>

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

**MARTIN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	Budgeted Funds			Unbudgeted	Total
	Emergency Dispatch 911 Fund	Volunteer Fire Department Fund	Sheriff's Office Fund	Fund Public Properties Corporation Bond Fund	
<b>RECEIPTS</b>					
Taxes	\$	\$	\$	\$	\$ 1,414,680
Excess Fees					10,720
Licenses and Permits					43,538
Intergovernmental			22,140		3,677,426
Charges for Services	290,506				290,506
Miscellaneous					347,513
Interest					285
Total Receipts	<u>290,506</u>	<u></u>	<u>22,140</u>	<u></u>	<u>5,784,668</u>
<b>DISBURSEMENTS</b>					
General Government					1,099,574
Protection to Persons and Property	230,464		19,429		622,848
General Health and Sanitation					1,142,780
Social Services					54,200
Recreation and Culture					149,069
Roads					750,604
Other Transportation Facilities and Services					75,000
Debt Service					695,725
Administration	74,660		10,700		1,001,535
Total Disbursements	<u>305,124</u>	<u></u>	<u>30,129</u>	<u></u>	<u>5,591,335</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(14,618)</u>	<u></u>	<u>(7,989)</u>	<u></u>	<u>193,333</u>
<b>Other Adjustments to Cash (Uses)</b>					
Transfers From Other Funds					544,119
Transfers To Other Funds					(544,119)
Total Other Adjustments to Cash (Uses)					
Net Change in Fund Balance	(14,618)		(7,989)		193,333
Fund Balance - Beginning	112,328	15	10,753	25	885,298
Fund Balance - Ending	<u>\$ 97,710</u>	<u>\$ 15</u>	<u>\$ 2,764</u>	<u>\$ 25</u>	<u>\$ 1,078,631</u>
<b>Composition of Fund Balance</b>					
Bank Balance	\$ 102,101	\$ 15	\$ 2,764	\$ 25	\$ 1,142,333
Less: Outstanding Checks	(4,391)				(63,702)
Fund Balance - Ending	<u>\$ 97,710</u>	<u>\$ 15</u>	<u>\$ 2,764</u>	<u>\$ 25</u>	<u>\$ 1,078,631</u>

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

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TO THE FINANCIAL STATEMENT**

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**MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2019**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

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

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting 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.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

**Budgeted Funds (Continued)**

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

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

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

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

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

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

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

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

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

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

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

Volunteer Fire Department Fund - The primary purpose of this fund is to account for the receipts and expense of the Warfield Volunteer Fire Department. The primary source of receipts for this fund is from fire services fees.

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

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

**Unbudgeted Fund**

The fiscal court reports the following unbudgeted funds:

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

**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 bond fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**Martin County Elected Officials**

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

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



**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. 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).

**F. Long-term Obligations**

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

**Note 2. Deposits**

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

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. On August 31, 2018, the fiscal court's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$63,422

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2019.

	Road Fund	LGEA Fund	Occupational Tax Fund	State Grant Fund	Total Transfers In
General Fund	\$ 179,119	\$	\$ 70,000	\$	\$ 249,119
Jail Fund		218,296	65,000	10,000	293,296
Forestry Fund		1,704			1,704
Total Transfers Out	<u>\$ 179,119</u>	<u>\$ 220,000</u>	<u>\$ 135,000</u>	<u>\$ 10,000</u>	<u>\$ 544,119</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.

**Note 4. Receivables**

**A. Martin County Water District**

In July 2005, the Martin County Fiscal Court issued financing obligations of \$200,000 to the Martin County Water District. The financing proceeds were paid directly to the water district. The water district makes the lease payments directly to the trustee of the lease to pay the principal and interest. The receivable reflects the principal amount due from the Martin County Water District of \$86,222 outstanding as of June 30, 2019. (See Note 5.A.1.)

**B. Inez Fire District**

In February 2007, the Martin County Fiscal Court issued financing obligations of \$152,000 to the Martin County Inez Fire District. The financing proceeds were paid directly to the fire district. The financing proceeds were paid directly to the fire district. The fire district makes the lease payment directly to the trustee of the lease to pay the principal and interest. This lease was paid in full on January 20, 2019. (See Note 5.A.2.)

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 5. Long-term Debt**

**A. Direct Borrowings and Direct Placements**

**1. Martin County Water District - Financing Obligations**

In July 2005, the Martin County Fiscal Court entered into a lease agreement with Kentucky Association of counties (KACO) and then issued financing obligations of \$200,000 to the Martin County Water District. (See Note 4) The financing proceeds were paid directly to the water district. The water district makes the lease payments directly to the trustee of the lease to pay principal and interest. The note requires an annual interest and principal payment due March 20 of each year with a final payment due in March 2025.

The lease contains provisions that in an event of default the following (a) terminate the lease term and give notice to the lessee to vacate or surrender the project within 60 days from the date of such notice (b) sell or re-lease the project or any portion thereof (c) recover from the fiscal court the lease rental payments which would otherwise have been payable during the lease, occupy or retain possession of the project (d) take whatever action at law or in equity may appear necessary or desirable to enforce its right in and to the project under this lease (including, without limitation, the right to possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law); and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreement of lessee under the lessee under this lease (subject, however, to the limitations thereon contained in this lease) and to recover damages for the breach thereof.

As of June 30, 2019, the principal balance amount outstanding corresponds to the receivable due to the county (as outlined in Note 4.A). Principal of \$10,000 and interest of \$5,375 were paid as of June 30, 2019. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 15,000	\$ 4,761
2021	15,000	3,934
2022	15,000	3,109
2023	15,000	2,283
2024-2025	<u>26,222</u>	<u>2,089</u>
Totals	<u>\$ 86,222</u>	<u>\$ 16,176</u>

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

**2. Martin County Inez Fire District - Financing Obligation**

In February 2007, the Martin County Fiscal Court entered into a lease agreement with KACO and then issued financing obligations of \$152,000 to the Martin County Inez Fire District (See Note 4.B). The financing proceeds were paid directly to the fire district. The fire district makes the lease payments directly to the trustee of the lease to pay principal and interest. The note requires variable monthly payments with a final payment due in December 2018.

The lease contains provisions that in an event of default the following (a) terminate the lease term and give notice to the lessee to vacate or surrender the project within 60 days from the date of such notice (b) sell or re-lease the project or any portion thereof (c) recover from the fiscal court the lease rental payments which would otherwise have been payable during the lease, occupy or retain possession of the project (d) take whatever action at law or in equity may appear necessary or desirable to enforce its right in and to the project under this lease (including, without limitation, the right to possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law); and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreement of lessee under the lessee under this lease (subject, however, to the limitations thereon contained in this lease) and to recover damages for the breach thereof. Principal of \$11,199 and interest of \$223 were paid as of June 30, 2019. The lease was paid in full on January 20, 2019.

**3. Caterpillar - Financing Obligations**

On November 24, 2014, the Martin County Fiscal Court entered into a lease agreement to finance the purchase of a track type tractor. In the event of default, CAT Financial will have all rights and remedies available under applicable law. In addition, they may declare all lease payments due or to become due during the fiscal year in which the event of default occurs to be immediately due and payable and/or we may repossess the units by giving written notice to deliver the units to CAT Financial in the manner provided, or in the event of failure to do so within (10) days after receipt of such notice, and subject to all applicable laws, CAT Financial may enter upon the premises and take possession of the units. The principal amount of the lease was \$128,190. The agreement requires variable monthly payments for five years to be paid in full December 14, 2019.

As of June 30, 2019, the principal amount outstanding was \$13,460. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 13,460	\$ 86
Totals	<u>\$ 13,460</u>	<u>\$ 86</u>

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

**4. Lease Agreement - Government Center Building and Refinancing of KACO Leases (Revenue Bonds 2014A)**

On March, 2014, the Martin County Fiscal Court obtained financing program revenue bonds, 2014A through KACO for the construction of their government center building and the refinancing of existing KACO leases. The principal amount of the lease was \$10,000,000. The agreement requires variable monthly payments for 24 years to be paid in full December 20, 2038. In case of default, the lessor may (a) by appropriate court action, enforce the pledge set forth in this lease so that during the remaining lease term there is levied on all the taxable property of the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to the pay the lease rental payments when and as due, (b) take legal title to, and sell or re-lease the project or any portion thereof, or (c) take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease (including, without limitation, the right to possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law); and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreements of the lessee under this lease (subject, however, to the limitations thereon contained in this lease) and to recover damages for the breach thereof. As of June 30, 2019, the principal amount outstanding was \$8,717,500. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 310,000	\$ 334,044
2021	320,000	324,744
2022	330,000	315,144
2023	340,000	305,244
2024-2028	1,897,500	1,348,618
2029-2033	2,327,500	943,944
2034-2038	2,872,500	431,153
2039	320,000	13,200
Totals	<u>\$ 8,717,500</u>	<u>\$ 4,016,091</u>

**B. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	<u>\$ 9,167,042</u>		<u>\$ 349,860</u>	<u>\$ 8,817,182</u>	<u>\$ 338,460</u>
Total Long-term Debt	<u>\$ 9,167,042</u>	<u>\$ 0</u>	<u>\$ 349,860</u>	<u>\$ 8,817,182</u>	<u>\$ 338,460</u>

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**C. Aggregate Debt Schedule**

Fiscal Year Ending June 30	Direct Borrowings and Direct Placements	
	Principal	Scheduled Interest
2020	\$ 338,460	\$ 338,891
2021	335,000	328,678
2022	345,000	318,253
2023	355,000	307,527
2024-2028	1,923,722	1,350,707
2029-2033	2,327,500	943,944
2034-2038	2,872,500	431,153
2039	320,000	13,200
Totals	<u>\$ 8,817,182</u>	<u>\$ 4,032,353</u>

**Note 6. Employee Retirement System**

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

The county's contribution for FY 2017 was \$311,090, FY 2018 was \$316,110, and FY 2019 was \$252,894

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.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Nonhazardous (Continued)

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

The county's contribution rate for nonhazardous employees was 21.48 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

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, they 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 percent. 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.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous (Continued)

The monthly insurance benefit has been increased annually as a 1.5 percent 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 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

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

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

E. Death Benefit

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

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.



**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 7. Deferred Compensation**

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

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

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

**Note 8. Insurance**

For the fiscal year ended June 30, 2019, the Martin County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Agency Trust Funds**

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust funds:

Non Structural Flood Control - The primary purpose of this fund is to account for the Martin County Fiscal Court writing checks for the City of Inez. Since this fund is a fiduciary fund in nature, it is not represented in the financial statements. The balance in the non structural flood control fund as of June 30, 2019 was \$113,211.

Local Emergency Planning Committee - The primary purpose of this fund is to provide emergency planning to protect public health and the environment. This account is for the activity of local emergency planning committee. Since this fund is a fiduciary fund in nature, it is not represented in the financial statements. The balance in the local emergency planning committee fund as of June 30, 2019 was \$245.

**Note 10. Related Party Transaction**

For fiscal year ending June 30, 2019, the fiscal court did business with a cleaning service that employs one of the magistrates. The fiscal court spent \$42,441 to this cleaning service for this fiscal year.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
(Continued)

**Note 11. Interfund Receivable and Liability**

As of July 10, 2018, the Martin County Fiscal Court transferred \$75,000 from the HUD fund which is a restricted fund to the sheriff's office fund. The table below reflects fund balances after accounting for the receivable and liability that are not included on the financial statements prepared in accordance with the regulatory basis of accounting.

	Cash Balance	Interfund Transfers	Ending Cash Balance
Sheriff's Office Fund	\$ 2,764	\$ (75,000)	\$ (72,236)
HUD Fund	\$ 110,523	\$ 75,000	\$ 185,523

**Note 12. Settlement Agreements**

In January 2017, the Martin County Fiscal Court entered into settlement agreements with numerous parties in regard to outstanding payments owed on the work performed by these parties on the Marin County Government Center project. Most agreements called for the county to make an initial payment to the parties by February 2017, and the remaining balances paid in two semiannual payments over 48 months. Two agreements called for the county to make annual payments over 4 years. The total outstanding balance of these agreements as of June 30, 2019 was \$284,033.

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

**For The Year Ended June 30, 2019**

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

**For The Year Ended June 30, 2019**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 480,500	\$ 480,500	\$ 597,991	\$ 117,491
In Lieu Tax Payments	5	5		(5)
Excess Fees	60,000	60,000	10,720	(49,280)
Intergovernmental	186,622	186,622	258,768	72,146
Charges for Services	3,000	3,000		(3,000)
Miscellaneous	343,175	343,175	329,447	(13,728)
Interest	50	50	47	(3)
Total Receipts	<u>1,073,352</u>	<u>1,073,352</u>	<u>1,196,973</u>	<u>123,621</u>
<b>DISBURSEMENTS</b>				
General Government	1,030,515	1,112,664	995,288	117,376
Protection to Persons and Property	200	191		191
Social Services	4,300	4,300	4,200	100
Debt Service	2,500	1,700		1,700
Administration	423,193	425,860	403,875	21,985
Total Disbursements	<u>1,460,708</u>	<u>1,544,715</u>	<u>1,403,363</u>	<u>141,352</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(387,356)</u>	<u>(471,363)</u>	<u>(206,390)</u>	<u>264,973</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>322,356</u>	<u>322,356</u>	<u>249,119</u>	<u>(73,237)</u>
Total Other Adjustments to Cash (Uses)	<u>322,356</u>	<u>322,356</u>	<u>249,119</u>	<u>(73,237)</u>
Net Change in Fund Balance	(65,000)	(149,007)	42,729	191,736
Fund Balance - Beginning	<u>65,000</u>	<u>65,000</u>	<u>62,003</u>	<u>(2,997)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (84,007)</u>	<u>\$ 104,732</u>	<u>\$ 188,739</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,272,982	\$ 1,272,982	\$ 1,211,411	\$ (61,571)
Miscellaneous	3,500	3,500	7,090	3,590
Interest	260	260	150	(110)
Total Receipts	<u>1,276,742</u>	<u>1,276,742</u>	<u>1,218,651</u>	<u>(58,091)</u>
<b>DISBURSEMENTS</b>				
General Government	24,000	24,000	23,944	56
Roads	682,162	867,184	750,604	116,580
Debt Service	27,090	30,290	29,687	603
Administration	464,371	276,149	208,468	67,681
Total Disbursements	<u>1,197,623</u>	<u>1,197,623</u>	<u>1,012,703</u>	<u>184,920</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>79,119</u>	<u>79,119</u>	<u>205,948</u>	<u>126,829</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(179,119)</u>	<u>(179,119)</u>	<u>(179,119)</u>	
Total Other Adjustments to Cash (Uses)	<u>(179,119)</u>	<u>(179,119)</u>	<u>(179,119)</u>	
Net Change in Fund Balance	(100,000)	(100,000)	26,829	126,829
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>90,834</u>	<u>(9,166)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 117,663</u>	<u>\$ 117,663</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 82,050	\$ 82,050	\$ 76,559	\$ (5,491)
Miscellaneous	500	500		(500)
Interest	20	20	12	(8)
Total Receipts	<u>82,570</u>	<u>82,570</u>	<u>76,571</u>	<u>(5,999)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property Administration	352,967	352,967	268,020	84,947
Administration	40,584	40,584	31,570	9,014
Total Disbursements	<u>393,551</u>	<u>393,551</u>	<u>299,590</u>	<u>93,961</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(310,981)</u>	<u>(310,981)</u>	<u>(223,019)</u>	<u>87,962</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>310,481</u>	<u>310,481</u>	<u>293,296</u>	<u>(17,185)</u>
Total Other Adjustments to Cash (Uses)	<u>310,481</u>	<u>310,481</u>	<u>293,296</u>	<u>(17,185)</u>
Net Change in Fund Balance	(500)	(500)	70,277	70,777
Fund Balance - Beginning	<u>500</u>	<u>500</u>	<u>10,693</u>	<u>10,193</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 80,970</u>	<u>\$ 80,970</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 317,000	\$ 317,000	\$ 326,151	\$ 9,151
Miscellaneous	295	295	286	(9)
Interest	65	65	22	(43)
Total Receipts	<u>317,360</u>	<u>317,360</u>	<u>326,459</u>	<u>9,099</u>
<b>DISBURSEMENTS</b>				
General Government	29,345	30,171	28,200	1,971
Protection to Persons and Property	6,500	14,151	9,721	4,430
General Health and Sanitation	38,670	36,854	28,193	8,661
Social Services	1,300	1,230		1,230
Roads	8,000	3,570		3,570
Administration	15,978	15,978	12,547	3,431
Total Disbursements	<u>99,793</u>	<u>101,954</u>	<u>78,661</u>	<u>23,293</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>217,567</u>	<u>215,406</u>	<u>247,798</u>	<u>32,392</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(220,067)</u>	<u>(220,067)</u>	<u>(220,000)</u>	<u>67</u>
Total Other Adjustments to Cash (Uses)	<u>(220,067)</u>	<u>(220,067)</u>	<u>(220,000)</u>	<u>67</u>
Net Change in Fund Balance	(2,500)	(4,661)	27,798	32,459
Fund Balance - Beginning	<u>2,500</u>	<u>2,500</u>	<u>19,527</u>	<u>17,027</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (2,161)</u>	<u>\$ 47,325</u>	<u>\$ 49,486</u>



**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>STATE GRANT FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 852,000	\$ 852,000	\$ 657,090	\$ (194,910)
Interest			2	2
Total Receipts	<u>852,000</u>	<u>852,000</u>	<u>657,092</u>	<u>(194,908)</u>
<b>DISBURSEMENTS</b>				
General Government		875	875	
Protection to Persons and Property		215,000	71,164	143,836
General Health and Sanitation		4,000	3,300	700
Debt Service	666,038	666,038	666,038	
Administration	303,962	84,087		84,087
Total Disbursements	<u>970,000</u>	<u>970,000</u>	<u>741,377</u>	<u>228,623</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(118,000)</u>	<u>(118,000)</u>	<u>(84,285)</u>	<u>33,715</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds			(10,000)	(10,000)
Total Other Adjustments to Cash (Uses)			<u>(10,000)</u>	<u>(10,000)</u>
Net Change in Fund Balance	(118,000)	(118,000)	(94,285)	23,715
Fund Balance - Beginning	118,000	118,000	289,747	171,747
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 195,462</u>	<u>\$ 195,462</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>FEDERAL GRANT FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,279,000	\$ 1,279,000	\$ 1,125,307	\$ (153,693)
Total Receipts	<u>1,279,000</u>	<u>1,279,000</u>	<u>1,125,307</u>	<u>(153,693)</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation		1,323,213	1,043,016	280,197
Administration	1,345,354			
Total Disbursements	<u>1,345,354</u>	<u>1,323,213</u>	<u>1,043,016</u>	<u>280,197</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(66,354)</u>	<u>(44,213)</u>	<u>82,291</u>	<u>126,504</u>
Net Change in Fund Balance	(66,354)	(44,213)	82,291	126,504
Fund Balance - Beginning	<u>66,354</u>	<u>66,354</u>	<u>3,304</u>	<u>(63,050)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 22,141</u>	<u>\$ 85,595</u>	<u>\$ 63,454</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>FORESTRY FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	\$ 1,650	\$ 1,704	\$ 1,704	\$
Total Disbursements	<u>1,650</u>	<u>1,704</u>	<u>1,704</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,650)</u>	<u>(1,704)</u>	<u>(1,704)</u>	
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			1,704	1,704
Total Other Adjustments to Cash (Uses)			<u>1,704</u>	<u>1,704</u>
Net Change in Fund Balance	(1,650)	(1,704)		1,704
Fund Balance - Beginning	<u>1,650</u>	<u>1,650</u>		<u>(1,650)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (54)</u>	<u>\$ 0</u>	<u>\$ 54</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>SOLID WASTE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Licenses and Permits	\$ 45,125	\$ 45,125	\$ 43,538	\$ (1,587)
Total Receipts	45,125	45,125	43,538	(1,587)
<b>DISBURSEMENTS</b>				
General Health and Sanitation	50,929	51,969	28,940	23,029
Administration	14,196	13,156	1,679	11,477
Total Disbursements	65,125	65,125	30,619	34,506
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(20,000)	(20,000)	12,919	32,919
Net Change in Fund Balance	(20,000)	(20,000)	12,919	32,919
Fund Balance - Beginning	20,000	20,000	46,099	26,099
Fund Balance - Ending	\$ 0	\$ 0	\$ 59,018	\$ 59,018

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>OCCUPATIONAL TAX FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 850,000	\$ 850,000	\$ 816,689	\$ (33,311)
Total Receipts	<u>850,000</u>	<u>850,000</u>	<u>816,689</u>	<u>(33,311)</u>
<b>DISBURSEMENTS</b>				
General Government	72,933	53,769	51,267	2,502
Protection to Persons and Property	20,400	28,297	22,346	5,951
General Health and Sanitation	57,500	55,122	39,331	15,791
Social Services	50,000	50,000	50,000	
Recreation and Culture	190,000	185,726	149,069	36,657
Administration	265,516	283,435	258,036	25,399
Total Disbursements	<u>656,349</u>	<u>656,349</u>	<u>570,049</u>	<u>86,300</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>193,651</u>	<u>193,651</u>	<u>246,640</u>	<u>52,989</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(233,651)</u>	<u>(233,651)</u>	<u>(135,000)</u>	<u>98,651</u>
Total Other Adjustments to Cash (Uses)	<u>(233,651)</u>	<u>(233,651)</u>	<u>(135,000)</u>	<u>98,651</u>
Net Change in Fund Balance	(40,000)	(40,000)	111,640	151,640
Fund Balance - Beginning	<u>40,000</u>	<u>40,000</u>	<u>58,578</u>	<u>18,578</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 170,218</u>	<u>\$ 170,218</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Interest	\$ 1	\$ 1	\$ 1	\$
Total Receipts	<u>1</u>	<u>1</u>	<u>1</u>	
<b>DISBURSEMENTS</b>				
General Government	<u>6,611</u>	<u>6,611</u>		<u>6,611</u>
Total Disbursements	<u>6,611</u>	<u>6,611</u>		<u>6,611</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(6,610)</u>	<u>(6,610)</u>	<u>1</u>	<u>6,611</u>
Net Change in Fund Balance	(6,610)	(6,610)	1	6,611
Fund Balance - Beginning	<u>6,610</u>	<u>6,610</u>	<u>6,610</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,611</u>	<u>\$ 6,611</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>HUD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Miscellaneous	\$ 8,000	\$ 8,000	\$ 10,690	\$ 2,690
Interest	85	85	51	(34)
Total Receipts	<u>8,085</u>	<u>8,085</u>	<u>10,741</u>	<u>2,656</u>
<b>DISBURSEMENTS</b>				
Social Services	163,366	959		959
Other Transportation Facilities and Services		75,000	75,000	
Administration	59,760	59,760		59,760
Total Disbursements	<u>223,126</u>	<u>135,719</u>	<u>75,000</u>	<u>60,719</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(215,041)</u>	<u>(127,634)</u>	<u>(64,259)</u>	<u>63,375</u>
Net Change in Fund Balance	(215,041)	(127,634)	(64,259)	63,375
Fund Balance - Beginning	<u>215,041</u>	<u>215,041</u>	<u>174,782</u>	<u>(40,259)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 87,407</u>	<u>\$ 110,523</u>	<u>\$ 23,116</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

**EMERGENCY DISPATCH 911 FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Charges for Services	\$ 250,000	\$ 250,000	\$ 290,506	\$ 40,506
Total Receipts	<u>250,000</u>	<u>250,000</u>	<u>290,506</u>	<u>40,506</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	272,642	270,427	230,464	39,963
Administration	97,358	97,358	74,660	22,698
Total Disbursements	<u>370,000</u>	<u>367,785</u>	<u>305,124</u>	<u>62,661</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(120,000)</u>	<u>(117,785)</u>	<u>(14,618)</u>	<u>103,167</u>
Net Change in Fund Balance	(120,000)	(117,785)	(14,618)	103,167
Fund Balance - Beginning	<u>120,000</u>	<u>120,000</u>	<u>112,328</u>	<u>(7,672)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 2,215</u>	<u>\$ 97,710</u>	<u>\$ 95,495</u>



**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

**VOLUNTEER FIRE DEPARTMENT FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>DISBURSEMENTS</b>				
Administration	\$ 15	\$ 15	\$	\$ 15
Total Disbursements	15	15		15
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(15)	(15)		15
Net Change in Fund Balance	(15)	(15)		15
Fund Balance - Beginning	15	15	15	
Fund Balance - Ending	\$ 0	\$ 0	\$ 15	\$ 15

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

<b>SHERIFF'S OFFICE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$	\$	\$ 22,140	\$ 22,140
Total Receipts			22,140	22,140
<b>DISBURSEMENTS</b>				
Protection to Persons and Property Administration		22,141	19,429	2,712
Total Disbursements		32,841	30,129	2,712
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(32,841)	(7,989)	24,852
Net Change in Fund Balance		(32,841)	(7,989)	24,852
Fund Balance - Beginning			10,753	10,753
Fund Balance - Ending	\$	0	\$ 2,764	\$ 35,605

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

**June 30, 2019**

**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.

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

**For The Year Ended June 30, 2019**

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

**For The Year Ended June 30, 2019**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 660,770	\$ 20,250	\$	\$ 681,020
Land Improvements	370,770			370,770
Construction In Progress		61,246		61,246
Building and Building Improvements	12,494,424	9,972		12,504,396
Vehicle and Equipment	3,036,591			3,036,591
Infrastructure	2,505,250			2,505,250
 Total Capital Assets	 <u>\$ 19,067,805</u>	 <u>\$ 91,468</u>	 <u>\$ 0</u>	 <u>\$ 19,159,273</u>

**MARTIN COUNTY**  
**NOTES TO OTHER INFORMATION – REGULATORY BASIS**  
**SCHEDULE OF CAPITAL ASSETS**

**June 30, 2019**

**Note 1. Capital Assets**

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

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



**MARTIN COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2019**

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**MARTIN COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2019**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<b><u>U. S. Department of Defense</u></b>				
<i>Passed-Through Kentucky Department of Military Affairs:</i>				
Southern and Eastern Kentucky Environmental Infrastructure	12.127		\$ 1,127,138	\$ 1,195,338
<b>Total U.S. Department of Defense</b>			<u>1,127,138</u>	<u>1,195,338</u>
<b><u>U. S. Department of Homeland Security</u></b>				
<i>Passed-Through Kentucky Department of Military Affairs</i>				
Emergency Management Performance Grant	97.042		12,500	7,753
DR-4428 - KY Disaster Assistance Flooding	97.036			10,477
DR-4428 - KY Disaster Assistance Flooding	97.036			11,346
DR-4428 - KY Disaster Assistance Flooding	97.036			1,414
DR-4428 - KY Disaster Assistance Flooding	97.036			2,933
<b>Total U.S. Department of Homeland Security</b>			<u>12,500</u>	<u>33,923</u>
<b><u>U. S. Department of Housing and Urban Development</u></b>				
<i>Passed-Through Kentucky Department for Local Government:</i>				
Fair Housing Act (VIII)	14.U01	083-35278		75,000
<b>Total U.S. Department of Housing and Urban Development</b>				<u>75,000</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,139,638</u>	<u>\$ 1,304,261</u>

The accompanying notes are an integral part of this schedule

**MARTIN COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**June 30, 2019**

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Martin County, Kentucky under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Martin County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Martin County, Kentucky.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**Note 3. Indirect Cost Rate**

Martin County has not adopted an indirect cost rate and has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Martin County Fiscal Court for the fiscal year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Martin County Fiscal Court's financial statement and have issued our report thereon dated November 30, 2021.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, 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 Questioned Costs as items 2019-001, 2019-002, 2019-003, and 2019-004 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 Questioned Costs as items 2019-005 and 2019-006 to be significant deficiencies.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Martin County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001, 2019-002, 2019-003, and 2019-004.

**Views of Responsible Official and Planned Corrective Action**

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

**Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

November 30, 2021



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH UNIFORM GUIDANCE**

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

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

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With Uniform Guidance

Independent Auditor's Report

**Report on Compliance for Each Major Federal Program**

We have audited Martin County Fiscal Court's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Martin County Fiscal Court's major federal programs for the year ended June 30, 2019. Martin County Fiscal Court's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Martin County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Martin County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Martin County Fiscal Court's compliance.



Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With The Uniform Guidance  
(Continued)

**Basis for Qualified Opinion on CFDA 12.127 Southern and Eastern Environmental Infrastructure**

As described in the accompanying schedule of findings and questioned costs, Martin County Fiscal Court did not comply with requirements regarding CFDA 12.127 Southern and Eastern Environmental Infrastructure as described in finding numbers 2019-009 for Cash Management and 2019-010 for Davis Bacon. Compliance with such requirements is necessary, in our opinion, for Martin County Fiscal Court to comply with the requirements applicable to that program.

**Qualified Opinion on CFDA 12.127 Southern and Eastern Environmental Infrastructure**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Martin County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 12.127 Southern and Eastern Environmental Infrastructure for the year ended June 30, 2019.

**Report on Internal Control over Compliance**

Management of Martin County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Martin County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Martin County Fiscal Court's internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2019-007, 2019-008, 2019-009 and 2019-010 to be material weaknesses.

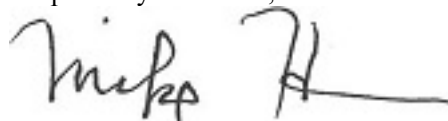
Martin County Fiscal Court's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. Martin County Fiscal Court's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With The Uniform Guidance  
(Continued)

**Report on Internal Control over Compliance (Continued)**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts

November 30, 2021

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**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2019**

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**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2019**

**Section I: Summary of Auditor's Results**

***Financial Statement***

Type of report auditor issued: Adverse on GAAP and Unmodified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any noncompliances material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

***Federal Awards***

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs: Qualified		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
12.127	Southern and Eastern Environmental Infrastructure

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2019  
(Continued)**

**Section II: Financial Statement Findings**

2019-001 The Martin County Fiscal Court Did Not Prepare An Accurate SEFA

The original Schedule of Expenditures of Federal Awards (SEFA) provided to auditors was materially incorrect and grants were not adequately identified. The SEFA did not contain the Catalog of Federal Domestic Assistance (CFDA) numbers for the HUD and ARRA grants. In addition, HUD expenditures of \$75,000 were not included on the original SEFA.

The fiscal court did not implement sufficient internal controls to ensure county personnel could prepare an accurate SEFA. As stated in 2 CFR §200.510(b), “the auditee must also prepare a schedule of expenditures of federal awards for the period covered by the auditee’s financial statement which must include the total federal awards expended.”

Failure to maintain an accurate SEFA with the required information such as the Catalog of Federal Domestic Assistance (CFDA) numbers could result in a failure to properly obtain a single audit in accordance with Uniform Guidance. This could endanger future federal awards per 2 CFR §200.501(a), “a non-federal entity that expends \$750,000 or more during the non-federal entity’s fiscal year in federal awards must have a single or program-specific audit conducted for that year in accordance with the provision of this part.”

The auditee shall per 2 CFR §200.510(b) (3), “provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number with the CFDA information is not available.”

We recommend the Martin County Fiscal Court implement internal controls to immediately recognize all federal awards and keep track of federal grant information including the identifying CFDA number. We recommend an employee be assigned to track federal expenditures while maintaining an accurate SEFA.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive Victor Slone’s Response: This is specifically related to the 2019-008, and pertains to the previous administration.*

2019-002 The Martin County Fiscal Court’s Overall Design And Operation Of The Control Environment Needs Improvement

This is a repeat finding and was included in the prior year audit report as finding 2018-001. Internal controls over the accounting process did not operate as designed resulting in procedures not being followed and creating an overall weak internal control environment. These numerous weaknesses significantly increase the risk of fraud, misappropriation of funds, and the fiscal court’s ability to ensure that financial data is recorded, processed, and reported in accurate and reliable manner.

The items noted during the audit show the accounting process did not operate as designed due to poor internal controls and are discussed further in detail in the following findings:

- The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements
- The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Receipts
- The Martin County Fiscal Court Did Not Have A Policy To Address Reimbursements To The Coroner’s Office For Transports
- The Martin County Fiscal Court Does Not Maintain An Accurate Capital Asset Schedule Or Insurance Listing
- The Martin County Fiscal Court Has \$75,000 Of Questioned HUD Funds

**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2019  
(Continued)**

**Section II: Financial Statement Findings (Continued)**

2019-002 The Martin County Fiscal Court's Overall Design And Operation Of The Control Environment Needs Improvement (Continued)

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Management has a responsibility to implement internal controls that provide reasonable assurance regarding the reliability of financial reporting. Internal control is a management process for keeping an entity on course in achieving its business objectives. These controls should ensure resources are protected from waste, loss, and misuse and ensure reliable data is obtained, maintained, and fairly disclosed. Entities are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management system.

We recommend the fiscal court implement internal controls over the financial accounting system that ensure an adequate internal control structure, that includes management oversight, provides reasonable assurance that assets are safeguarded and transactions are processed in accordance with applicable laws and regulations.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive Victor Slone's Response: This summarizes 2019-002, -004, -005, -007, and -009. Please refer to the responses provided.*

2019-003 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements

---

This is a repeat finding and was included in the prior year audit report as finding 2018-004. The fiscal court's controls over disbursements were not operating as intended. Based on items tested, disbursements were not properly authorized, supporting documentation was not maintained, and appropriate and proper procedures were not followed.

The deficiencies listed below were able to occur due to lack of monitoring of controls, which diminish the effectiveness of the controls put in place over disbursements by fiscal court. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets.

As a result, the following exceptions were noted:

- Sixteen disbursements were not paid within 30 days.
- Fourteen settlement agreements remained unpaid as of the fiscal year end.
- Four transactions totaling \$69,266 were prior year expenditures not paid within 30 days.
- Four transactions did not have adequate documentation.
- The county did not provide proper bid documentation for two transactions that exceed the county's administrative code bid threshold of \$10,000.
- The county issued purchase orders when they did not have the cash balance to cover. The county reported encumbrances for the jail fund of \$301,434 and federal grant fund \$127,306 at June 30, 2019; however, the ending cash balance in these funds was only \$80,970 and \$85,595, respectively.

**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2019  
(Continued)**

**Section II: Financial Statement Findings (Continued)**

2019-003 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements  
(Continued)

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Proper internal controls over disbursements are important to ensure purchase orders are created with sufficient funds available, include proper supporting documentation, and are paid in a timely manner. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, "purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head."

In addition, according to the fiscal court's administrative code, "all purchases of items of like or similar nature in excess of \$10,000 in a fiscal year shall be advertised for bids, except otherwise provided in this administrative code. Items normally supplied as a unit shall not be artificially divided for the purpose of avoiding the competitive bidding procedure of this administrative code." Furthermore, KRS 65.140 requires invoices to be paid within 30 days of being received.

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive Victor Slone's Response: The previous administration left the court with several unpaid invoices from both the current and prior years. The current administration issued a bank franchise tax and doubled the occupational tax. The court updated their purchasing policy which increased the bid threshold from \$10,000 to \$30,000 to match the states guideline.*

2019-004 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Receipts

---

This is a repeat finding and was included in the prior year audit report as finding 2018-005. The Martin County Treasurer prepared and deposited receipts, posted receipts to the accounting system, prepared monthly reports for the fiscal court and quarterly reports for the Department for Local Government, made cash transfers between funds and bank accounts, and performed bank reconciliations. There was no review by another person to ensure daily deposits agree to the receipts ledger.

The lack of adequate segregation of duties and too much control by one individual could result in the undetected misappropriation of assets and errors, and inaccurate financial reporting to occur.

Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the county cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system.

We recommend the fiscal court strengthen internal controls by segregating the duties involved in receiving, recording, reconciling and reporting receipts. If segregation is not possible, we recommend compensating controls, such as a receipt listing prepared by another person to compare to deposit tickets and ledger posting and documentation of oversight and review by a second person.

**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2019  
(Continued)**

**Section II: Financial Statement Findings (Continued)**

2019-004 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Receipts  
(Continued)

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Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive Victor Slone's Response: This item is related to the previous administration. When the current administration took office in January 2019, changes were implemented. The Judge's Administrative Assistant opens all incoming mail and receipts all funds. Invoices and funds received are reviewed by either the Judge or Deputy Judge prior to routing to the Finance Office. The invoices are processed by the Finance Officer, Occupational Taxes are routed to the Occupational Tax Director who prepares and makes the deposits, all other receipts are recorded and deposited by the Treasurer. The Finance Officer reconciles the accounts.*

2019-005 The Martin County Fiscal Court Did Not Have A Policy To Address Reimbursements To The Coroner's Office For Transports

---

This is a repeat finding and was included in the prior year audit report as finding 2018-007. The corner bills the fiscal court \$300 for reimbursement of expenses to include payments for the transportation of bodies to the chief medical examiner's office in Frankfort. These flat fee transports are performed by either the corner or one of his deputies and whoever performs the transport receives the \$300 and \$150. All other county employees are reimbursed for actual expenses per the county's administrative code. These \$300 and \$150 lump sum reimbursements totaling \$2,100 are not included on the employees W-2's.

The county did not follow their administrative code which states, "(1) Officials and employees of the Court may be reimbursed for personal expenses incurred while performing their duties as an employee of the Court. Personal expenses shall include food, lodging and travel. (3) Receipts shall be required for hotel bills, airline tickets, and automobile expense where travel is by court-owned vehicle. The use of court owed vehicles is encouraged while on court business. Employees shall be reimbursed \$4.00 for breakfast, \$5.00 for lunch, and \$12.00 for dinner without a receipt. Request for reimbursements in excess of these amounts shall be accompanied by a receipt." The corner and his deputies are receiving lump sum payments as a fee for services provided, instead of a reimbursement of actual expenses for the corners office. Also since the reimbursements are for flat rate and not actual expenses the amounts are taxable; however, they were not included on their W-2's.

KRS 64.410(2) states, in part, "[n]o officer shall demand or receive any fee for his services:...(b) any fee for services rendered when the law has not fixed compensation therefor[.]" Furthermore, KRS 64.530(4) allows the fiscal court to provide a salary for county officers and their deputies and assistants to be fixed no later the first Monday in May in the officer was elected. The elected officer's compensation may not be changed but the deputies or assistants may be reviewed and adjusted by the fiscal court no later than the first Monday in May in any successive year upon written request by the officer.

KRS 64.710 states, "[n]o public officer or employee shall receive or be allowed or paid any lump sum expense allowance or contingent fund for personal or official expenses, except where such allowance or fund either is expressly provided for by statute or is specially appropriated by the General Assembly."

KRS 64.185 addresses monthly coroner and deputy coroner salaries based on county population as well allows for a per month expense allowance up to \$300/month.

**MARTIN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended June 30, 2019**  
**(Continued)**

**Section II: Financial Statement Findings (Continued)**

2019-005 The Martin County Fiscal Court Did Not Have A Policy To Address Reimbursements To the Coroner's Office For Transports (Continued)

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We recommend the fiscal court follow their county's adopted policies and procedures, applicable statutes, and IRS regulations.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive Victor Slone's Response: The previous administration paid the Coroner and Deputy Coroner in this manner. When this concern was pointed out, the current administration immediately stopped the payments (April 2020).*

2019-006 The Martin County Fiscal Court Does Not Maintain An Accurate Capital Asset Schedule Or Insurance Listing

---

This is a repeat finding and was included in the prior year audit report as finding 2018-008. The county's capital asset listing and insurance listing are inaccurate. The capital asset listing did not include all items that meet the county's capital asset threshold. Controls are not in place to ensure that capital assets are being added and removed from the capital asset listing and/or insurance listing.

Not maintaining an accurate list of capital assets or insurance policy could cause capital assets to be uninsured or result in paying for insurance for an asset the county no longer owns. It also leaves capital assets vulnerable to misappropriation and misstatement.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. Additionally, good internal controls dictate management oversight of capital assets to prevent misappropriation or theft.

We recommend insurance policies must be updated timely in order for the county to avoid unnecessary costs associated with insurance coverage on assets no longer owned by the county and to ensure that all county assets are properly insured in the event of loss. The county should also conduct a physical inspection of county assets at the end of each year and make comparisons to the county's list of inventoried assets and insurance policy.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive Victor Slone's Response: The previous administration did not maintain an accurate Capital Assets Schedule. Currently, we have an accurate insurance listing that is confirmed for the insurance company annually in January. The Capital Assets Schedule is currently being updated. We will have an accurate Capital Assets Schedule by March 31, 2022.*

**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2019  
(Continued)**

**Section III: Federal Award Findings And Questioned Costs**

2019-007    The Martin County Fiscal Court Did Not Have Effective Internal Controls Over Federal Expenditures

---

Federal Program: CFDA 12.127 Southern and Eastern Environmental Infrastructure

Award Number and Year: 2016

Name of Federal Agency and Pass-Through Agency: U.S. Department of Defense and Kentucky Department of Military Affairs

Compliance Requirements: Procurement, Suspension, and Debarment

Type of Finding: Material Weakness

Amount of Questioned Costs: \$0

The Martin County Fiscal Court failed to implement effective internal controls over federal expenditures. Program expenditures totaling \$1,195,338 were tested giving 100% coverage. Numerous weaknesses were noted which significantly increase the risk of fraud, misappropriation of funds, and noncompliance with federal funds.

During testing the following was noted:

- The fiscal court used restricted federal funds to operate the county. (See Finding 2019-008)
- No purchase orders were maintained for federal expenditures for the 14 transactions that were tested.
- Seven of the 14 transactions tested were not paid within 30 working days.
- The fiscal court was advanced funds; however, waited 18 months to make full payment to the vendor. (See Finding 2019-009)
- The fiscal court did not monitor the contractor for Davis Bacon requirements. (See Finding 2019-010)
- The fiscal court did not monitor for the suspension and debarment requirement.

The fiscal court has not sufficiently overseen the expenditure of federal funds and did not prioritize implementation of an effective internal control system.

An inaccurate implementation of controls and lack of management oversight and involvement can cause noncompliance with federal requirements and jeopardize the fiscal court's future funding.

Uniform Guidance 2 CFR §200.303 states "the non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

We recommend the fiscal court implement adequate internal controls to ensure federal compliance requirements are met.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive Victor Slone's Response: This addresses 2019-004, 2019-008, 2019-009, 2019-010. Please refer to the detailed responses for these items.*

**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2019  
(Continued)**

**Section III: Federal Award Findings And Questioned Costs (Continued)**

2019-008 The Martin County Fiscal Court Has \$75,000 Of Questioned HUD Funds

---

Federal Program: CFDA 14.U01 Fair Housing Act (VIII)

Award Number and Year: 1996

Name of Federal Agency and Pass-Through Agency: Department of Housing and Urban Development and Kentucky Department for Local Government

Compliance Requirements: Activities Allowed/Unallowed

Type of Finding: Material Weakness

Amount of Questioned Costs: \$75,000

On July 10, 2018, the fiscal court wrote a check from the HUD escrow account to the Martin County Sheriff's office in the amount of \$75,000 for a police contract. The funds that are deposited into the HUD escrow account are the rental payments from tenants that have received housing. The CFDA number for this federal program was not provided by the fiscal court. Additional time and research from the auditors was done to obtain the CFDA number.

The fiscal court has cash flow issues and decided to use restricted federal funds to operate the county.

The sheriff's fund owes the HUD fund \$75,000 increasing the deficit fund balance to \$267,951 as of June 30, 2019.

According to Section 3 of the HUD grant agreement, these funds are to be spent on replacing existing roofing material and sheathing, installation of permanent block foundation, doors and windows, exterior siding, insulation, replacement of damaged sheetrock, heating and cooling systems, replacement of existing plumbing and electrical system, installation of a potable drinking water supply and septic system, and renovations for handicapped accessibility.

We recommend the fiscal court not spend restricted funds to operate the county. In addition, we recommend the fiscal court immediately transfer these funds back to the HUD fund.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive Victor Slone's Response: This action was taken by the previous administration. After the exit for this audit, an emergency court meeting was called to transfer the funds back to the HUD account. The meeting was held on December 7, 2021, and the transfer was completed on December 8, 2021.*



**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2019  
(Continued)**

**Section III: Federal Award Findings And Questioned Costs (Continued)**

2019-009 The Martin County Fiscal Court Failed To Implement Adequate Internal Controls Over Cash Management Of Federal Funds

---

Federal Program: CFDA 12.127 Southern and Eastern Environmental Infrastructure

Award Number and Year: 2016

Name of Federal Agency and Pass-Through Agency: U.S. Department of Defense and Kentucky Department of Military Affairs

Compliance Requirements: Cash Management

Type of Finding: Material Weakness, Noncompliance

Amount of Questioned Cost: \$0

Opinion Modification: Qualified

During the test of federal awards, we found that an invoice was reimbursed before the contractor was paid. The invoice was dated February 28, 2017, in the amount of \$92,750. On October 26, 2017, the fiscal court approved a payment to the vendor in the amount of \$92,750. The fiscal court made the first payment for this invoice on May 31, 2018, in the amount of \$63,049.89, leaving an unpaid balance of \$29,700.11, which was paid on September 6, 2018. The check stub is dated October 26, 2017; however, the check isn't dated until May 31, 2018, which shows the check was originally dated the day of the fiscal court meeting approved payment for the invoice.

The first reimbursement from the federal agency was received and deposited in August 2017, in the amount of \$63,049.89. Therefore, according to documentation, the fiscal court received reimbursement for an expenditure 18 months before the vendor was paid in full.

After the fiscal court approved the payment, the treasurer chose to withhold the payment to the vendor for seven months and did not pay the invoice in full at that time. However, reimbursement for the payment to the vendor was requested and received from the federal agency. It is not clear why the payment was withheld.

The county was not in compliance with federal cash management requirements. These delays in payment of invoices could create errors in recording or allow for the possibility of misappropriation of assets. In addition, internal control weaknesses and noncompliance with grant agreements could affect the county receiving federal funds in the future.

Per the grant agreement for the county to receive reimbursement of funds, they must submit a "sufficient invoice". A "sufficient invoice" per the agreement must contain the following (1) a written certification by the Non-Federal Sponsor (county) to the Government that it has made specified payments to contractors, suppliers, or employees for performance of work in accordance with this Agreement, or a written certification by the Non-Federal Sponsor (county) to the Government that it has received bills from contractors, suppliers, or employees for performance of work in accordance with this Agreement; (2) copies of all relevant invoices and evidence of such payments or bills received; (3) written identification of such costs that have been paid with Federal program funds and a copy of the written verification from the Federal agency that provided the funds; and (4) a written request for reimbursement for the amount of such specified payments or bills received.

Uniform Guidance 2 CFR §200.303 states "the non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2019  
(Continued)**

**Section III: Federal Award Findings And Questioned Costs (Continued)**

2019-009 The Martin County Fiscal Court Failed To Implement Adequate Internal Controls Over Cash Management Of Federal Funds (Continued)

---

We recommend the fiscal court implement procedures to comply with all federal compliance requirements and all Federal and State laws regarding grant agreements.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive Victor Slone's Response: The concern happened under the previous administration. When the new administration took office, the concern was found, the new treasurer documented the concern. The Corp of Engineers was contacted and informed of the issue (undocumented).*

*Currently, projects are tracked on spreadsheets that show the date work was completed/invoice date, date paid, cancelled check received, and the request for reimbursement date.*

2019-010 The Martin County Fiscal Court Failed To Implement Adequate Internal Controls Over Special Tests and Provisions - Davis Bacon Requirements

---

Federal Program: CFDA 12.127 Southern and Eastern Environmental Infrastructure

Award Number and Year: 2016

Name of Federal Agency and Pass-Through Agency: U.S. Department of Defense and Kentucky Department of Military Affairs

Compliance Requirements: Special Tests and Provisions

Type of Finding: Material Weakness, Noncompliance

Amount of Questioned Cost: None

Opinion Modification: Qualified

The fiscal court failed to implement adequate internal controls over the Special Tests and Provisions - Davis Bacon requirements. The fiscal court contracted with a third party that oversaw the planning, design, inspection services, environmental services, and construction administration for the project. The agreement with this third party does not state the construction of this project is subject to the wage rate requirements and the Department of Labor regulations. These items are federal government requirements. In addition, the contractor did not submit weekly, when work was performed, a copy of the payroll and a statement of compliance to the fiscal court. When payrolls were recalculated, immaterial discrepancies were found.

The fiscal court did not monitor the third party contractor as required to ensure that the federal requirement was met and did not ensure the contract contained the required Davis Bacon provision. When grantees do not follow federal requirements, they cannot ensure that charges to the federal grant are accurate and federal compliance requirements are adhered to.

Without good internal controls, the fiscal court cannot ensure that resources are protected from waste, loss, and misuse. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets. In addition, internal control weaknesses and noncompliance with grant agreements could affect the county's ability to receive federal funds.

**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2019  
(Continued)**

**Section III: Federal Award Findings And Questioned Costs (Continued)**

2019-010 The Martin County Fiscal Court Failed To Implement Adequate Internal Controls Over Special Tests and Provisions - Davis Bacon Requirements (Continued)

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Uniform Guidance 2 CFR §200.303 states “the non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

It is the fiscal court’s responsibility to monitor the third party contractor to ensure that the federal requirement was being met.

According to 29 CFR part 5 “non-federal entities shall include in their construction contracts subject to the Wage Rate Requirements a provision that the contractor or subcontractor comply with those requirements and the Department of Labor (DOL) regulations. This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payroll).”

We recommend the fiscal court implement adequate internal controls over federal programs to ensure compliance with applicable federal, state, and local laws.

Views of Responsible Official and Planned Corrective Action:

*Former County Judge/Executive Victor Slone’s Response: A procedure will be developed a procedure to ensure the provisions of Davis Bacon are met. The procedure will be written and in place by March 31, 2022 and will also include the Suspension and Debarment requirement.*

**Section IV: Summary Schedule of Prior Audit Findings**

Not applicable.

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

**MARTIN COUNTY FISCAL COURT**

**For The Year Ended June 30, 2019**

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CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

COUNTY FISCAL COURT

For The Year Ended June 30, 2019

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



County Judge/Executive



County Treasurer