

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

**For The Fiscal Year Ended
June 30, 2016**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

The enclosed report prepared by York, Neel & Associates, LLP, Certified Public Accountants, presents the financial statement of McCracken County, Kentucky, for the year ended June 30, 2016.

We engaged York, Neel & Associates, LLP to perform the audit of this financial statement. We worked closely with the firm during our report review process; York, Neel & Associates, LLP evaluated the McCracken County Fiscal Court's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT OF THE MCCRACKEN COUNTY FISCAL COURT

June 30, 2016

York, Neel & Associates, LLP has completed the audit of the McCracken County Fiscal Court for fiscal year ended June 30, 2016.

They have issued an unmodified opinion, based on their audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCracken County Fiscal Court.

Financial Condition:

The McCracken County Fiscal Court had total receipts of \$29,251,996 and disbursements of \$28,361,111 in fiscal year 2016. This resulted in a total ending fund balance of \$6,533,780, which is an increase of \$1,150,011 from the prior year.

Findings:

- 2016-001 Weak Internal Controls Over Debt And Debt Service Resulted In The Misstatement Of Outstanding Debt Balances
- 2016-002 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets

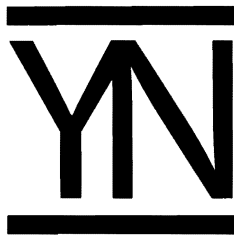
Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

To the People of Kentucky
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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 McCracken County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the McCracken County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the McCracken 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 McCracken County Fiscal Court as of June 30, 2016, 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 McCracken County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2017, on our consideration of McCracken 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 McCracken County Fiscal Court's internal control over financial reporting and compliance.

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

- 2016-001 Weak Internal Controls Over Debt And Debt Service Resulted In The Misstatement Of Outstanding Debt Balances
- 2016-002 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets

Respectfully submitted,



York, Neel & Associates, LLP

June 30, 2017

MCCRACKEN COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

| | |
|----------------|------------------------|
| Bob Leeper | County Judge/Executive |
| Jerry Beyer | Commissioner |
| Bill Bartleman | Commissioner |
| Scott Wathen | Commissioner |

Other Elected Officials:

| | |
|--------------|----------------------------------|
| Sam Clymer | County Attorney |
| Bill Adams | Jailer |
| Julie Griggs | County Clerk |
| Kim Channell | Circuit Court Clerk |
| Jon Hayden | Sheriff |
| Nancy Bock | Property Valuation Administrator |
| Dan Sims | Coroner |

Appointed Personnel:

| | |
|----------------|------------------------|
| Doug Moore | Deputy Judge Executive |
| Angie Brown | County Treasurer |
| Randy Williams | Road Supervisor |

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

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

| | Budgeted Funds | | |
|--|-------------------------|----------------------|----------------------|
| | General Fund | Road Fund | Jail Fund |
| RECEIPTS | | | |
| Taxes | \$ 11,274,661 | \$ | \$ |
| In Lieu Tax Payments | 1,077,202 | | |
| Licenses and Permits | 431,105 | | |
| Intergovernmental | 3,365,409 | 2,664,406 | 3,022,445 |
| Charges for Services | 26,922 | | 137,931 |
| Miscellaneous | 882,888 | | 254,216 |
| Interest | 10,506 | | |
| Total Receipts | <u>17,068,693</u> | <u>2,664,406</u> | <u>3,414,592</u> |
| DISBURSEMENTS | | | |
| General Government | 4,891,894 | | |
| Protection to Persons and Property | 683,247 | | 4,502,798 |
| General Health and Sanitation | 405,804 | | |
| Social Services | 125,869 | | |
| Recreation and Culture | 249,137 | | |
| Roads | | 2,109,382 | |
| Airports | 196,024 | | |
| Bus Services | 8,676 | | |
| Debt Service | 843,700 | 178,879 | |
| Capital Projects | 154,114 | 703,881 | |
| Administration | 2,931,446 | 548,175 | 1,646,307 |
| Total Disbursements | <u>10,489,911</u> | <u>3,540,317</u> | <u>6,149,105</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>6,578,782</u> | <u>(875,911)</u> | <u>(2,734,513)</u> |
| Other Adjustments to Cash (Uses) | | | |
| Lease Purchase | 259,126 | | |
| Transfers from Other Funds | 134,485 | 893,093 | 2,743,880 |
| Transfers to Other Funds | (7,037,077) | | |
| Total Other Adjustments to Cash (Uses) | <u>(6,643,466)</u> | <u>893,093</u> | <u>2,743,880</u> |
| Net Change in Fund Balance | (64,684) | 17,182 | 9,367 |
| Fund Balance - Beginning (Restated) | 3,307,999 | | |
| Fund Balance - Ending | <u>\$ 3,243,315</u> | <u>\$ 17,182</u> | <u>\$ 9,367</u> |
| Composition of Fund Balance | | | |
| Bank Balance | \$ 3,422,941 | \$ 38,106 | \$ 130,146 |
| Less: Outstanding Checks | (179,626) | (20,924) | (120,779) |
| Fund Balance - Ending | <u>\$ 3,243,315</u> | <u>\$ 17,182</u> | <u>\$ 9,367</u> |

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

MCCRACKEN COUNTY
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN FUND BALANCES - REGULATORY BASIS
 For The Year Ended June 30, 2016
 (Continued)

| Budgeted Funds | | | | | |
|--|---------------------------------|-----------------------------------|-------------------------|--------------------------------------|--|
| Local Government Economic Assistance Fund | State Grant Fund | Federal Grant Fund | Sheriff Fund | Juvenile Justice Fund | Transient Room Tax Fund |
| \$ | \$ | \$ | \$ | \$ | \$ 2,209,824 |
| 14,963 | 79,596 | | 1,862,386 | | |
| | | | 2,107 | | 554 |
| <u>14,963</u> | <u>79,596</u> | | <u>1,864,493</u> | | <u>2,210,378</u> |
| | | | 2,709,002 | | |
| | | | | 75,515 | |
| 248,777 | 17,668 | 11,500 | | | 1,465,343 |
| | | | | | 583,318 |
| | | | 1,483,720 | | |
| <u>248,777</u> | <u>17,668</u> | <u>11,500</u> | <u>4,192,722</u> | <u>75,515</u> | <u>2,048,661</u> |
| <u>(233,814)</u> | <u>61,928</u> | <u>(11,500)</u> | <u>(2,328,229)</u> | <u>(75,515)</u> | <u>161,717</u> |
| | | | 2,328,229 | 75,515 | |
| | | | <u>2,328,229</u> | <u>75,515</u> | |
| (233,814) | 61,928 | (11,500) | | | 161,717 |
| 240,396 | 573,439 | 564,030 | | | 395,272 |
| <u>\$ 6,582</u> | <u>\$ 635,367</u> | <u>\$ 552,530</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 556,989</u> |
| \$ 6,582 | \$ 636,622 | \$ 552,530 | \$ 47,166 | \$ 12,864 | \$ 556,989 |
| | (1,255) | | (47,166) | (12,864) | - |
| <u>\$ 6,582</u> | <u>\$ 635,367</u> | <u>\$ 552,530</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 556,989</u> |

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

MCCRACKEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

| | <u>Budgeted Funds</u> | |
|--|--|---------------------------|
| | <u>County Bond Debt Service Fund</u> | <u>Unclaimed Fund</u> |
| RECEIPTS | | |
| Taxes | \$ | \$ |
| In Lieu Tax Payments | | |
| Licenses and Permits | | |
| Intergovernmental | 327,376 | |
| Charges for Services | | |
| Miscellaneous | | |
| Interest | | 7 |
| Total Receipts | <u>327,376</u> | <u>7</u> |
| DISBURSEMENTS | | |
| General Government | | |
| Protection to Persons and Property | | |
| General Health and Sanitation | | |
| Social Services | | |
| Recreation and Culture | | |
| Roads | | |
| Airports | | |
| Bus Services | | |
| Debt Service | 1,055,555 | |
| Capital Projects | | |
| Administration | | |
| Total Disbursements | <u>1,055,555</u> | |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>(728,179)</u> | <u>7</u> |
| Other Adjustments to Cash (Uses) | | |
| Lease purchase | | |
| Transfers From Other Funds | 996,360 | |
| Transfers To Other Funds | <u>(268,181)</u> | <u>(30,005)</u> |
| Total Other Adjustments to Cash (Uses) | <u>728,179</u> | <u>(30,005)</u> |
| Net Change in Fund Balance | | (29,998) |
| Fund Balance - Beginning (Restated) | | 29,998 |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> |
| Composition of Fund Balance | | |
| Bank Balance | \$ | \$ |
| Less: Outstanding Checks | | |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> |

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

MCCRACKEN COUNTY
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN FUND BALANCES - REGULATORY BASIS
 For The Year Ended June 30, 2016
 (Continued)

| <u>Unbudgeted Funds</u> | | | |
|---|---|-------------------------------------|------------------------|
| <u>Public Properties Corporation Fund</u> | <u>Construction Projects Fund</u> | <u>Jail Commissary Fund</u> | <u>Total Funds</u> |
| \$ | \$ | \$ | \$ 13,484,485 |
| | | | 1,077,202 |
| | | | 431,105 |
| 1,481,102 | | | 12,817,683 |
| | | | 164,853 |
| | | 121,821 | 1,261,032 |
| 4,373 | 7 | 189 | 15,636 |
| <u>1,485,475</u> | <u>7</u> | <u>122,010</u> | <u>29,251,996</u> |
| | | | 7,600,896 |
| | | | 5,261,560 |
| | | | 405,804 |
| | | | 403,814 |
| | | 25,848 | 1,740,328 |
| | | | 2,109,382 |
| | | | 196,024 |
| | | | 8,676 |
| 504,532 | | | 3,165,984 |
| | | | 857,995 |
| 1,000 | | | 6,610,648 |
| <u>505,532</u> | | <u>25,848</u> | <u>28,361,111</u> |
| 979,943 | 7 | 96,162 | 890,885 |
| | | | 259,126 |
| 268,181 | | | 7,439,743 |
| | (104,480) | | (7,439,743) |
| <u>268,181</u> | <u>(104,480)</u> | | <u>259,126</u> |
| 1,248,124 | (104,473) | 96,162 | 1,150,011 |
| 2,041 | 104,473 | 166,121 | 5,383,769 |
| <u>\$ 1,250,165</u> | <u>\$ 0</u> | <u>\$ 262,283</u> | <u>\$ 6,533,780</u> |
| \$ 1,250,165 | \$ | \$ 262,283 | \$ 6,916,394 |
| | | | (382,614) |
| <u>\$ 1,250,165</u> | <u>\$ 0</u> | <u>\$ 262,283</u> | <u>\$ 6,533,780</u> |

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

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MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

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

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

Sheriff Fund - The primary purpose of this fund is to account for the sheriff's receipts and disbursements. The primary source of receipts for this fund is the sheriff's excess fees.

Juvenile Justice Fund - The primary purpose of this fund is to account for housing expenses of the county's juvenile offenders. The primary source of receipts for this fund is transfers from the general fund.

Transient Room Tax Fund - The primary purpose of this fund is to account for collection and distribution of transient room tax.

County Bond Debt Service Fund - The purpose of this fund is to account for debt service requirements of the county's general obligation funds.

Unclaimed Fund - The purpose of this fund is to account for monies received by the county attorney when a decedent's estate is settled and there are no survivors. Funds are held for one year and then remitted to the county's general fund.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest of the Public Properties Corporation. The fiscal court budgeted this fund; however, the State Local Finance Officer does not require it to be budgeted, and under the regulatory basis it will be shown as an unbudgeted fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Unbudgeted Funds (Continued)

Construction Projects Fund - The purpose of this fund is to account for the financial resources to be used for the acquisition or construction of county or related facilities.

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 jail commissary fund to be budgeted because the fiscal court does not approve the expenses of these funds.

The State Local Finance Officer does not require the public properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. McCracken County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting McCracken 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 McCracken County Fiscal Court.

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

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

| | General Fund | Unclaimed Fund | Construction Projects Fund | County Bond Debt Service | Total Transfers In |
|------------------------------------|--------------------|-------------------|----------------------------------|-----------------------------|-----------------------|
| General Fund | \$ | \$ 30,005 | \$ 104,480 | \$ | \$ 134,485 |
| Road Fund | 893,093 | | | | 893,093 |
| Jail Fund | 2,743,880 | | | | 2,743,880 |
| Sheriff Fund | 2,328,229 | | | | 2,328,229 |
| Juvenile Justice Fund | 75,515 | | | | 75,515 |
| Public Properties Corporation Fund | | | | 268,181 | 268,181 |
| County Bond Debt Service Fund | 996,360 | | | | 996,360 |
| Total Transfers Out | <u>\$7,037,077</u> | <u>\$ 30,005</u> | <u>\$ 104,480</u> | <u>\$ 268,181</u> | <u>\$7,439,743</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. Agency Trust Funds

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 fund:

Jail Inmate Fund - This fund accounts for inmates' monies that are housed at the McCracken County Jail. The balance in the jail inmate fund as of June 30, 2016, was \$31,688.

Note 5. Health Reimbursement Account/Flexible Spending Account

The McCracken County Fiscal Court established a health reimbursement account on February 11, 2013, to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing funds, determined by health insurance coverage, each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 6. Receivables

A. General Obligation Bonds, Series 2011 - Murray University Project

On November 22, 2011, McCracken County issued \$9,980,000 in General Obligation Bonds, Series 2011 for the purpose of increasing the public higher education opportunities for residents of the Greater Paducah region. On May 31, 2011, a mutual covenant was formed between McCracken County (County), the City of Paducah (Paducah), Murray State University (MSU), and the Greater Paducah Economic Development Council (GPEDC). The County, City, and GPEDC are to provide a combined \$500,000 per year for twenty years to service the debt of the bonds. It is the responsibility of MSU to make a renewable lease payment to the County for the difference in the County and City's \$500,000 a year contribution, as they may allocate towards the debt service, projected payment to be no more the \$290,000 a year. As of June 30, 2016, the debt service requirements have been met.

B. Greater Paducah Economic Development Council

On September 18, 2007, the McCracken County Fiscal Court (County) and the City of Paducah (Paducah) entered into a financing agreement with the Greater Paducah Economic Development Council (GPEDC) for the acquisition of property. As part of the agreement, the GPEDC executed and delivered to the County an interest free promissory note in the amount of \$600,000 for one half of the financing. On December 19, 2008, the County agreed to an additional note of \$311,375 for the GPEDC to purchase property. In December 2013, the County forgave \$500,000 of the \$911,375 loaned to the GPEDC. The entire principal amount of the note for \$411,375 has been extended to June 30, 2020.

C. County Attorney Overcompensation Agreement

On January 7, 2016, the McCracken County Fiscal Court and former County Attorneys entered into Agreements for Repayment of County Attorney Overcompensation in the amount of \$138,659. The fiscal court and the former County Attorneys agreed and settled upon five-year repayment terms. The fiscal court received \$40,700 during the current fiscal year. As of June 30, 2016, the remaining unpaid balance was \$97,959.

Note 7. Long-term Debt

A. First Mortgage Revenue Refunding Bonds Series 2013

On December 17, 2013, the fiscal court sold McCracken County, Kentucky Public Properties Corporation First Mortgage Revenue Refunding Bonds, Series 2013, (Courthouse Project) through the McCracken County, Kentucky Public Properties Corporation. The bonds totaled \$3,165,000, and the proceeds were used for the purposes of, (i) refunding all of the outstanding Series 2004 bonds issued by the McCracken County Public Properties Corporation and (ii) paying the cost of issuance on the bonds, which are dated December 17, 2013, have interest rates of one percent to 3.65 percent and mature beginning in June 2014 through June 2027. As of June 30, 2016, outstanding bond principal was \$2,400,000. Future principal and interest requirements are:

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

A. First Mortgage Revenue Refunding Bonds Series 2013 (Continued)

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|---------------------|-------------------|
| 2017 | \$ 455,000 | \$ 50,006 |
| 2018 | 195,000 | 46,610 |
| 2019 | 200,000 | 43,989 |
| 2020 | 205,000 | 40,439 |
| 2021 | 205,000 | 36,083 |
| 2022-2026 | 1,115,000 | 92,019 |
| 2027 | 25,000 | 452 |
| Totals | <u>\$ 2,400,000</u> | <u>\$ 309,598</u> |

B. General Obligation Bonds, Series 2011 (MSU Project)

On November 22, 2011, the fiscal court sold McCracken County, Kentucky General Obligation Bonds, (Murray State University Project), Series 2011. The bonds originally totaled \$9,980,000, and the proceeds will be used for the purposes of (i) constructing an education building and associated streets, parking lots, utilities and infrastructure, and (ii) paying the costs of issuance of the bonds, which are dated November 22, 2011, have interest rates of one percent to 3.50 percent and mature beginning in December 2012 through December 2031. A mutual covenant was formed by McCracken County Fiscal Court (County), the City of Paducah (Paducah), Murray State University (MSU), and the Greater Paducah Economic Development Council (GPEDC). See Note 6A for the receivable. The balance on these bonds as of June 30, 2016 was \$8,310,000. Future principal and interest requirements are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|---------------------|---------------------|
| 2017 | \$ 435,000 | \$ 221,456 |
| 2018 | 440,000 | 214,344 |
| 2019 | 445,000 | 206,044 |
| 2020 | 455,000 | 197,044 |
| 2021 | 465,000 | 187,263 |
| 2022-2026 | 2,515,000 | 754,306 |
| 2027-2031 | 2,910,000 | 357,072 |
| 2032 | 645,000 | 11,286 |
| Totals | <u>\$ 8,310,000</u> | <u>\$ 2,148,815</u> |

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

C. General Obligation Bonds, Series 2013A (TeleTech Project)

On June 17, 2013, the fiscal court sold McCracken County, Kentucky General Obligation Bonds, (TeleTech Project), Series 2013A. The bonds originally totaled \$1,415,000, and the proceeds will be used for the purposes of (i) financing the acquisition, construction, installation, and equipping of an approximately 30,000 square foot building, which will be subleased to TeleTech Services Corporation and (ii) paying the costs of issuance of the bonds, which are dated June 17, 2013, have interest rates of one percent to five percent and mature beginning in December 2013 through December 2032. The balance on these bonds as of June 30, 2016, was \$1,250,000. Future principal and interest requirements are as follows:

| Fiscal Year Ended | | |
|-------------------|---------------------|-------------------|
| June 30 | Principal | Interest |
| 2017 | \$ 55,000 | \$ 50,510 |
| 2018 | 55,000 | 49,438 |
| 2019 | 55,000 | 48,062 |
| 2020 | 60,000 | 46,625 |
| 2021 | 60,000 | 44,900 |
| 2022-2026 | 335,000 | 190,625 |
| 2027-2031 | 425,000 | 106,875 |
| 2032-2033 | 205,000 | 10,375 |
| | <u>\$ 1,250,000</u> | <u>\$ 547,410</u> |
| Totals | | |

D. General Obligation Bonds, Series 2013B (Whitehall/MAACO Project)

On September 10, 2013, the fiscal court sold McCracken County, Kentucky General Obligation Bonds, (Whitehall/MAACO Project), Series 2013B. The bonds originally totaled \$3,015,000 and the proceeds will be used for the purposes of (i) financing improvements to an industrial/distribution facility located within the County (the MAACO Project) to be leased to a Kentucky subsidiary of MAACO Organiques Incorporated, a Canadian corporation, (ii) financing equipment for the use by SRS Industries, LLC d/b/a Whitehall Industries, a Michigan limited liability company, at an industrial/distribution facility located within the county to be leased by such company (the Whitehall Project and together with the MAACO Project, the Project), and (iii) paying the costs of issuing the bonds. The bonds have interest rates of three percent to five percent and mature beginning in March 2014 through September 2033. The fiscal court received a good faith deposit of \$60,300, in September 2013 along with the remainder of the funds. The balance on these bonds as of June 30, 2016, was \$2,620,000. Annual debt service requirements to maturity are as follows:

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

D. General Obligation Bonds, Series 2013B (Whitehall/MAACO Project) (Continued)

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|---------------------|-------------------|
| 2017 | \$ 210,000 | \$ 90,750 |
| 2018 | 215,000 | 84,375 |
| 2019 | 220,000 | 77,850 |
| 2020 | 230,000 | 71,100 |
| 2021 | 235,000 | 64,125 |
| 2022-2026 | 870,000 | 219,100 |
| 2027-2031 | 370,000 | 115,750 |
| 2032-2034 | 270,000 | 20,750 |
| Totals | <u>\$ 2,620,000</u> | <u>\$ 743,800</u> |

E. KaCOLT - Convention Center Renovation

On December 20, 2010, the fiscal court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program (KaCOLT) in the sum of \$4,965,000 at a 4.25 percent effective interest rate. The financing obligation is for the purpose of refinancing the renovation of the Julian Carroll Convention Center. The maturity date of the obligation is January 1, 2029. The balance on the lease as of June 30, 2016, was \$3,732,500. Annual debt service requirements to maturity are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|---------------------|---------------------|
| 2017 | \$ 210,417 | \$ 160,432 |
| 2018 | 239,167 | 165,088 |
| 2019 | 249,166 | 154,325 |
| 2020 | 259,167 | 143,113 |
| 2021 | 271,250 | 131,450 |
| 2022-2026 | 1,549,167 | 461,891 |
| 2027-2029 | 954,166 | 90,260 |
| Totals | <u>\$ 3,732,500</u> | <u>\$ 1,306,559</u> |

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

F. KaCOLT - Jail and Sheriff's Office Expansion

On December 20, 2010, the fiscal court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program (KaCOLT) in the sum of \$4,145,000 at a 4.25 percent effective interest rate. The financing obligation is for the purpose of refinancing the expansion of the jail and the sheriff's office. The maturity date of the obligation is January 1, 2026. The balance on the lease as of June 30, 2016, was \$2,935,000. Annual debt service requirements to maturity are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|---------------------|-------------------|
| 2017 | \$ 233,333 | \$ 122,792 |
| 2018 | 264,166 | 122,944 |
| 2019 | 276,250 | 111,057 |
| 2020 | 289,167 | 98,625 |
| 2021 | 301,250 | 85,613 |
| 2022-2026 | <u>1,570,834</u> | <u>210,203</u> |
| Totals | <u>\$ 2,935,000</u> | <u>\$ 751,234</u> |

G. Notes Payable

1. Convention Center and Four Rivers Centers - City of Paducah

On August 19, 2010, the McCracken County Fiscal Court (County) issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$3,582,500. The note was authorized for the purpose of paying the County's 50 percent portion of the refinancing costs related to the original acquisition, construction, installation and equipping of the expansion to the Julian Carroll Convention Center and the construction of the Four Rivers Center for the Performing Arts (collectively, the Project) and paying the County's 50 percent portion of the costs of issuance by the City of Paducah (the City) of its General Obligation Refunding Bonds, Series 2010 (the City Bonds) being issued to refinance the costs of the Project. The note has interest rates of 1.0 percent to 3.25 percent and interest payments are to be made semi-annually beginning December 1, 2010. Principal payments are to be made annually on June 1 with final payment due June 1, 2026. The balance on the note as of June 30, 2016, was \$2,477,500. Annual debt service requirements to maturity are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|---------------------|-------------------|
| 2017 | \$ 220,000 | \$ 72,358 |
| 2018 | 225,000 | 67,409 |
| 2019 | 227,500 | 61,784 |
| 2020 | 235,000 | 55,869 |
| 2021 | 242,500 | 48,819 |
| 2022-2026 | <u>1,327,500</u> | <u>129,126</u> |
| Totals | <u>\$ 2,477,500</u> | <u>\$ 435,365</u> |

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

G. Notes Payable (Continued)

2. Speculative Building - City of Paducah

On August 23, 2011, the McCracken County Fiscal Court (County) issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$1,955,000. The note was authorized for the purpose of refinancing the May 1, 2004 note payable to the City of Paducah, Kentucky (City). In August 2011, the City issued General Obligation Taxable Refunding Bonds of \$3,910,000 to advance refund General Obligation Public Project Bonds, Series 2004 issued for the purpose of the acquisition, construction and installation of an approximately 100,000 square foot building to be leased by the City and County to the Paducah McCracken Industrial Development Authority. On June 1, 2004, the City of Paducah (City) and County entered into a lease agreement with the Paducah McCracken County Industrial Development Authority. On June 23, 2014, the Paducah McCracken County Industrial Development Authority entered into an agreement with Genova Products, Inc. Genova shall be responsible for the payment of the monthly rent installments for the remainder of the term of the lease. The note has an interest rate of 3.68 percent and interest payments are to be made semiannually beginning December 1, 2011. Principal payments are to be made annually on June 1 with the final payment due on June 1, 2024. The balance on the note as of June 30, 2016, was \$1,265,000. Annual debt service requirements to maturity are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|---------------------|-------------------|
| 2017 | \$ 150,000 | \$ 46,552 |
| 2018 | 155,000 | 41,032 |
| 2019 | 160,000 | 35,328 |
| 2020 | 167,500 | 29,440 |
| 2021 | 172,500 | 23,276 |
| 2022-2025 | 460,000 | 30,636 |
| Totals | <u>\$ 1,265,000</u> | <u>\$ 206,264</u> |

3. Gradall Excavator

On June 22, 2015, the fiscal court committed to purchasing a Gradall Excavator from Southeastern Equipment for the price of \$299,650 by making a down payment of \$40,524. On July 1, 2015, the fiscal court signed a promissory note with Independence Bank for the remaining balance of \$259,126 at a 2.6 percent effective interest rate. The maturity date of the note is December 1, 2017. Annual debt service requirements to maturity are as follows:

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|------------------|-----------------|
| 2017 | <u>\$ 83,311</u> | <u>\$ 3,395</u> |
| Totals | <u>\$ 83,311</u> | <u>\$ 3,395</u> |

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

H. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2016, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-----------------------------|----------------------|-------------|---------------------|---------------------|------------------------|
| Revenue Bonds | \$ 2,850,000 | \$ | \$ 450,000 | \$ 2,400,000 | \$ 455,000 |
| General Obligation Bonds | 12,860,000 | | 680,000 | 12,180,000 | 700,000 |
| Financing Obligations | 7,130,000 | | 462,500 | 6,667,500 | 443,750 |
| Notes Payable | 4,361,626 | | 535,815 | 3,825,811 | 453,311 |
| Total Long-term Debt | \$ 27,201,626 | \$ 0 | \$ 2,128,315 | \$25,073,311 | \$ 2,052,061 |

Note 8. Contingencies

The McCracken County Fiscal Court is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 9. Employee Retirement System

Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible regular full-time members employed in non-hazardous and hazardous duty positions in the county. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.95 percent.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 9. Employee Retirement System (Continued)

Plan Description (Continued)

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 account. Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$2,147,615, FY 2015 was \$2,022,995, and FY 2016 was \$2,023,679.

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.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

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

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

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

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.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 9. Employee Retirement System (Continued)

Plan Description (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

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

Note 10. Deferred Compensation

On November 9, 1982, the McCracken 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 Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 11. Insurance

For the fiscal year ended June 30, 2016, McCracken County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of 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.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 12. Landfill Closure and Post-Closure Costs

The county landfill closed to the public on June 30, 1995. The county must comply with established state and federal landfill closure and post-closure procedures and must perform maintenance and monitoring at the site for thirty years after closure. The 30-year period will begin upon approval from the Commonwealth of Kentucky regarding the environmental condition of the landfill site. As of June 30, 2016, the final approval of the closure had not yet been granted. Closure costs for FYE June 30, 2016 were \$47,104. In June 2016, the City of Paducah's portion of the costs was \$31,279, and the city had not reimbursed the county for its share of landfill expenses paid from April 2015 through April 2016.

Estimated post-closure care costs total \$4,125,000 or \$125,000 per year plus ten percent for inflation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The McCracken County Fiscal Court prepares required financial statements on the regulatory basis of accounting in accordance with the laws of Kentucky, therefore, no liability has been recognized for the closure or post-closure care costs. State and federal laws and regulations require the fiscal court to provide financial assurance that landfill closure and post closure care costs are properly funded. In order to meet financial assurance requirements, the fiscal court entered into an inter-local agreement with the City of Paducah, Kentucky to share equally the post closure costs. The City of Paducah, Kentucky will reimburse the county annually for its share of closure costs incurred during the fiscal year.

Note 13. Prior Period Adjustment

| | |
|--|----------------------------|
| Ending Cash Balance Prior Year - General Fund | \$ 3,255,295 |
| Adjustments: | |
| Car Rental Tax Fund moved to General Fund | 52,107 |
| Prior Year Voided Checks -General Fund | <u>597</u> |
| Beginning Fund Balance - Restated - General Fund | <u><u>\$ 3,307,999</u></u> |

Note 14. Subsequent Event

On July 15, 2016, the county entered into a Master Tax-Exempt Lease/Purchase Agreement between U.S. Bankcorp Government Leasing and Finance for energy performance in the amount of \$3,149,377.

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MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

| | GENERAL FUND | | | |
|--|-------------------------|--------------------|---------------------------------|--|
| | <u>Budgeted Amounts</u> | | Actual | Variance with |
| | Original | Final | Amounts (Budgetary Basis) | Final Budget Positive (Negative) |
| RECEIPTS | | | | |
| Taxes | \$ 10,904,824 | \$ 10,904,824 | \$ 11,274,661 | \$ 369,837 |
| In Lieu Tax Payments | 783,092 | 783,092 | 1,077,202 | 294,110 |
| Licenses and Permits | 384,500 | 384,500 | 431,105 | 46,605 |
| Intergovernmental | 3,081,200 | 3,141,200 | 3,365,409 | 224,209 |
| Charges for Services | 25,500 | 25,500 | 26,922 | 1,422 |
| Miscellaneous | 615,947 | 980,239 | 882,888 | (97,351) |
| Interest | 19,000 | 19,000 | 10,506 | (8,494) |
| Total Receipts | <u>15,814,063</u> | <u>16,238,355</u> | <u>17,068,693</u> | <u>830,338</u> |
| DISBURSEMENTS | | | | |
| General Government | 4,816,248 | 4,925,036 | 4,891,894 | 33,142 |
| Protection to Persons and Property | 931,420 | 708,246 | 683,247 | 24,999 |
| General Health and Sanitation | 554,385 | 425,041 | 405,804 | 19,237 |
| Social Services | 145,000 | 125,869 | 125,869 | |
| Recreation and Culture | 254,518 | 294,259 | 249,137 | 45,122 |
| Airports | 125,000 | 196,025 | 196,024 | 1 |
| Bus Services | 9,000 | 9,000 | 8,676 | 324 |
| Debt Service | 444,659 | 850,213 | 843,700 | 6,513 |
| Capital Projects | | 154,115 | 154,114 | 1 |
| Administration | 4,352,933 | 4,373,237 | 2,931,446 | 1,441,791 |
| Total Disbursements | <u>11,633,163</u> | <u>12,061,041</u> | <u>10,489,911</u> | <u>1,571,130</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>4,180,900</u> | <u>4,177,314</u> | <u>6,578,782</u> | <u>2,401,468</u> |
| Other Adjustments to Cash (Uses) | | | | |
| Borrowed Money | 1,250,000 | 1,250,000 | | (1,250,000) |
| Lease Purchase Agreement | | 259,326 | 259,126 | (200) |
| Transfers from other funds | | 259,326 | 134,485 | (124,841) |
| Transfers to other funds | (8,331,200) | (8,590,526) | (7,037,077) | 1,553,449 |
| Total Other Adjustments to Cash (Uses) | <u>(7,081,200)</u> | <u>(6,821,874)</u> | <u>(6,643,466)</u> | <u>178,408</u> |
| Net Change in Fund Balance | (2,900,300) | (2,644,560) | (64,684) | 2,579,876 |
| Fund Balance Beginning - Restated | <u>2,900,000</u> | <u>2,900,000</u> | <u>3,307,999</u> | <u>407,999</u> |
| Fund Balance - Ending | <u>\$ (300)</u> | <u>\$ 255,440</u> | <u>\$ 3,243,315</u> | <u>\$ 2,987,875</u> |

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

| | ROAD FUND | | | |
|--|--------------------|--------------------|---|---|
| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 6,572,836 | \$ 6,572,836 | \$ 2,664,406 | \$ (3,908,430) |
| Total Receipts | <u>6,572,836</u> | <u>6,572,836</u> | <u>2,664,406</u> | <u>(3,908,430)</u> |
| DISBURSEMENTS | | | | |
| Roads | 2,530,637 | 2,509,695 | 2,109,382 | 400,313 |
| Capital Projects | 4,824,613 | 4,824,613 | 703,881 | 4,120,732 |
| Administration | 512,591 | 550,081 | 548,175 | 1,906 |
| Debt Service | 178,879 | 178,879 | 178,879 | |
| Total Disbursements | <u>8,046,720</u> | <u>8,063,268</u> | <u>3,540,317</u> | <u>4,522,951</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>(1,473,884)</u> | <u>(1,490,432)</u> | <u>(875,911)</u> | <u>614,521</u> |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers from Other Funds | 1,473,884 | 1,473,884 | 893,093 | (580,791) |
| Total Other Adjustments to Cash (Uses) | <u>1,473,884</u> | <u>1,473,884</u> | <u>893,093</u> | <u>(580,791)</u> |
| Net Change in Fund Balance | | (16,548) | 17,182 | 33,730 |
| Fund Balance Beginning | | | | |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ (16,548)</u> | <u>\$ 17,182</u> | <u>\$ 33,730</u> |

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

| JAIL FUND | | | | |
|--|--------------------|--------------------|---|---|
| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 2,684,000 | \$ 2,684,000 | \$ 3,022,445 | \$ 338,445 |
| Charges for Services | 139,000 | 139,000 | 137,931 | (1,069) |
| Miscellaneous | 307,000 | 307,000 | 254,216 | (52,784) |
| Total Receipts | <u>3,130,000</u> | <u>3,130,000</u> | <u>3,414,592</u> | <u>284,592</u> |
| DISBURSEMENTS | | | | |
| Protection to Persons and Property | 4,564,408 | 4,564,408 | 4,502,798 | 61,610 |
| Administration | 1,776,630 | 1,776,630 | 1,646,307 | 130,323 |
| Total Disbursements | <u>6,341,038</u> | <u>6,341,038</u> | <u>6,149,105</u> | <u>191,933</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>(3,211,038)</u> | <u>(3,211,038)</u> | <u>(2,734,513)</u> | <u>476,525</u> |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers from Other Funds | <u>3,211,038</u> | <u>3,211,038</u> | <u>2,743,880</u> | <u>(467,158)</u> |
| Total Other Adjustments to Cash (Uses) | <u>3,211,038</u> | <u>3,211,038</u> | <u>2,743,880</u> | <u>(467,158)</u> |
| Net Change in Fund Balance | | | 9,367 | 9,367 |
| Fund Balance Beginning | | | | |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 9,367</u> | <u>\$ 9,367</u> |

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|------------------|--------------|---|---|
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 5,000 | \$ 5,000 | \$ 14,963 | \$ 9,963 |
| Total Receipts | 5,000 | 5,000 | 14,963 | 9,963 |
| DISBURSEMENTS | | | | |
| Social Services | 6,000 | 248,778 | 248,777 | 1 |
| Total Disbursements | 6,000 | 248,778 | 248,777 | 1 |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | (1,000) | (243,778) | (233,814) | 9,964 |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers from Other Funds | 1,000 | 1,000 | | (1,000) |
| Total Other Adjustments to Cash (Uses) | 1,000 | 1,000 | | (1,000) |
| Net Change in Fund Balance | | (242,778) | (233,814) | 8,964 |
| Fund Balance Beginning | | | 240,396 | 240,396 |
| Fund Balance - Ending | \$ 0 | \$ (242,778) | \$ 6,582 | \$ 249,360 |

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

| | STATE GRANT FUND | | | |
|--|-------------------------|------------------|---|---|
| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 250,000 | \$ 255,000 | \$ 79,596 | \$ (175,404) |
| Total Receipts | <u>250,000</u> | <u>255,000</u> | <u>79,596</u> | <u>(175,404)</u> |
| DISBURSEMENTS | | | | |
| Social Services | 200,000 | 205,000 | 17,668 | 187,332 |
| Total Disbursements | <u>200,000</u> | <u>205,000</u> | <u>17,668</u> | <u>187,332</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>50,000</u> | <u>50,000</u> | <u>61,928</u> | <u>11,928</u> |
| Net Change in Fund Balance | 50,000 | 50,000 | 61,928 | 11,928 |
| Fund Balance Beginning | | | <u>573,439</u> | <u>573,439</u> |
| Fund Balance - Ending | <u>\$ 50,000</u> | <u>\$ 50,000</u> | <u>\$ 635,367</u> | <u>\$ 585,367</u> |

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

| | FEDERAL GRANT FUND | | | |
|--|---------------------------|----------------|---|---|
| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 300,000 | \$ 300,000 | \$ | \$ (300,000) |
| Total Receipts | <u>300,000</u> | <u>300,000</u> | | <u>(300,000)</u> |
| DISBURSEMENTS | | | | |
| Social Services | 300,000 | 300,000 | 11,500 | 288,500 |
| Total Disbursements | <u>300,000</u> | <u>300,000</u> | <u>11,500</u> | <u>288,500</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | | | <u>(11,500)</u> | <u>(11,500)</u> |
| Net Change in Fund Balance | | | (11,500) | (11,500) |
| Fund Balance Beginning | | | <u>564,030</u> | <u>564,030</u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 552,530</u> | <u>\$ 552,530</u> |

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

| SHERIFF FUND | | | | |
|--|--------------------|--------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 1,800,000 | \$ 1,800,000 | \$ 1,862,386 | \$ 62,386 |
| Miscellaneous | | | 2,107 | 2,107 |
| Total Receipts | <u>1,800,000</u> | <u>1,800,000</u> | <u>1,864,493</u> | <u>64,493</u> |
| DISBURSEMENTS | | | | |
| General Government | 2,769,311 | 2,749,538 | 2,709,002 | 40,536 |
| Administration | 1,485,307 | 1,501,494 | 1,483,720 | 17,774 |
| Total Disbursements | <u>4,254,618</u> | <u>4,251,032</u> | <u>4,192,722</u> | <u>58,310</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>(2,454,618)</u> | <u>(2,451,032)</u> | <u>(2,328,229)</u> | <u>122,803</u> |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers from Other Funds | <u>2,454,618</u> | <u>2,454,618</u> | <u>2,328,229</u> | <u>(126,389)</u> |
| Total Other Adjustments to Cash (Uses) | <u>2,454,618</u> | <u>2,454,618</u> | <u>2,328,229</u> | <u>(126,389)</u> |
| Net Change in Fund Balance | | 3,586 | | (3,586) |
| Fund Balance Beginning | | | | |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 3,586</u> | <u>\$ 0</u> | <u>\$ (3,586)</u> |

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

| JUVENILE JUSTICE FUND | | | | |
|--|------------------|------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| DISBURSEMENTS | | | | |
| Protection to Persons and Property Administration | \$ 85,000 | \$ 85,000 | \$ 75,515 | \$ 9,485 |
| | 10,500 | 10,500 | | 10,500 |
| Total Disbursements | 95,500 | 95,500 | 75,515 | 19,985 |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | (95,500) | (95,500) | (75,515) | 19,985 |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers from Other Funds | 92,500 | 92,500 | 75,515 | (16,985) |
| Total Other Adjustments to Cash (Uses) | 92,500 | 92,500 | 75,515 | (16,985) |
| Net Change in Fund Balance | (3,000) | (3,000) | | 3,000 |
| Fund Balance Beginning | | | | |
| Fund Balance - Ending | \$ (3,000) | \$ (3,000) | \$ 0 | \$ 3,000 |

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

TRANSIENT ROOM TAX FUND

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|---|---|
| | Original | Final | | |
| RECEIPTS | | | | |
| Taxes | \$ 2,150,000 | \$ 2,150,000 | \$ 2,209,824 | \$ 59,824 |
| Interest | 500 | 500 | 554 | 54 |
| Total Receipts | <u>2,150,500</u> | <u>2,150,500</u> | <u>2,210,378</u> | <u>59,878</u> |
| DISBURSEMENTS | | | | |
| Recreation and Culture | 2,150,000 | 1,566,682 | 1,465,343 | 101,339 |
| Debt Service | | 583,318 | 583,318 | |
| Total Disbursements | <u>2,150,000</u> | <u>2,150,000</u> | <u>2,048,661</u> | <u>101,339</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>500</u> | <u>500</u> | <u>161,717</u> | <u>161,217</u> |
| Net Change in Fund Balance | 500 | 500 | 161,717 | 161,217 |
| Fund Balance Beginning | | | <u>395,272</u> | <u>395,272</u> |
| Fund Balance - Ending | <u>\$ 500</u> | <u>\$ 500</u> | <u>\$ 556,989</u> | <u>\$ 556,489</u> |

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

COUNTY BOND DEBT SERVICE FUND

| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|------------------|-------------|--|---|
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental Revenue | \$ | \$ | \$ 327,376 | \$ 327,376 |
| Total Receipts | | | 327,376 | 327,376 |
| DISBURSEMENTS | | | | |
| Debt Service | \$ 996,360 | \$ 996,360 | \$ 1,055,555 | \$ (59,195) |
| Administration | 150,000 | 150,000 | | 150,000 |
| Total Disbursements | 1,146,360 | 1,146,360 | 1,055,555 | 90,805 |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | (1,146,360) | (1,146,360) | (728,179) | 418,181 |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers from Other Funds | 418,181 | 418,181 | 996,360 | 578,179 |
| Transfers to Other Funds | 728,179 | 728,179 | (268,181) | (996,360) |
| Total Other Adjustments to Cash (Uses) | 1,146,360 | 1,146,360 | 728,179 | (418,181) |
| Net Change in Fund Balance | | | | |
| Fund Balance Beginning | | | | |
| Fund Balance - Ending | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

| UNCLAIMED FUND | | | | |
|--|------------------|----------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Miscellaneous | \$ 1,000 | \$ 1,000 | \$ | \$ (1,000) |
| Interest | | | 7 | 7 |
| Total Receipts | <u>1,000</u> | <u>1,000</u> | <u>7</u> | <u>(993)</u> |
| DISBURSEMENTS | | | | |
| General Government | | | | |
| Total Disbursements | | | | |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | <u>1,000</u> | <u>1,000</u> | <u>7</u> | <u>(993)</u> |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers to Other Funds | <u>(1,000)</u> | <u>(1,000)</u> | <u>(30,005)</u> | <u>(29,005)</u> |
| Total Other Adjustments to Cash (Uses) | <u>(1,000)</u> | <u>(1,000)</u> | <u>(30,005)</u> | <u>(29,005)</u> |
| Net Change in Fund Balance | | | (29,998) | (29,998) |
| Fund Balance Beginning | | | <u>29,998</u> | <u>29,998</u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

MCCRACKEN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

Debt service disbursements in the county bond debt service fund exceed budgeted appropriations by \$59,195.

MCCRACKEN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

MCCRACKEN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|----------------------------|-----------------------|---------------------|-------------------|-----------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Land and Land Improvements | \$ 1,767,320 | \$ | \$ | \$ 1,767,320 |
| Construction In Progress | 315,000 | 762,432 | | 1,077,432 |
| Buildings | 38,565,927 | | 302,900 | 38,263,027 |
| Vehicles and Equipment | 8,190,985 | 269,008 | 689,916 | 7,770,077 |
| Infrastructure | 88,562,819 | 1,060,342 | | 89,623,161 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Capital Assets | <u>\$ 137,402,051</u> | <u>\$ 2,091,782</u> | <u>\$ 992,816</u> | <u>\$ 138,501,017</u> |

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

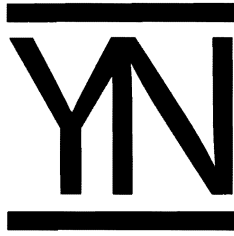
June 30, 2016

Note 1. Capital Assets

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

| | Capitalization Threshold | Useful Life (Years) |
|-------------------------------------|-----------------------------|------------------------|
| Land Improvements | \$ 20,000 | 20 |
| Buildings and Building Improvements | \$ 20,000 | 50 |
| Machinery and Equipment | \$ 10,000 | 10 |
| Vehicles | \$ 10,000 | 5 |
| Office Equipment | \$ 10,000 | 5 |
| Infrastructure | \$ 20,000 | 12-50 |

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



YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Bob Leeper, McCracken County Judge/Executive
Members of the McCracken 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 McCracken County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the McCracken County Fiscal Court's financial statement and have issued our report thereon dated June 30, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002 to be material weaknesses.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCracken 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



York, Neel & Associates, LLP

June 30, 2017

**MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2016

**MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

Fiscal Year Ended June 30, 2016

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2016-001 Weak Internal Controls Over Debt And Debt Service Resulted In The Misstatement Of Outstanding Debt Balances

Material weaknesses exist over the reporting of liabilities and debt of McCracken County. The June 30, 2016 outstanding debt balances reported on the Fourth Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders. This is a repeat finding and was included in the prior year audit report as finding 2015-002.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Because the county failed to have a strong internal control system over liabilities and debt service, these misstatements were able to occur without detection. Therefore, we recommend the county strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Audit comments have been discussed and procedures put in place to address this issue and will be reviewed to strengthen controls of the monitoring of debt service balances.

2016-002 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets

Material weaknesses exist over the reporting of capital assets of McCracken County. This is a repeat finding and was included in the prior year audit report as finding 2015-003. The county's schedule of capital assets for the period of audit failed to recognize all asset purchases that occurred throughout the year. Furthermore, some of these asset additions did not appear to be added to the county's insurance policy. A lack of oversight as well as a breakdown of communication between the jailer and the treasurer caused the county's capital asset schedule to be materially misstated.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. By having weak internal controls over capital assets, those assets are left vulnerable to misappropriation or misstatement.

In order to strengthen the county's internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of each county asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired, as should the county's insurance coverage. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Current procedures will be reviewed to ensure accuracy of capital asset reporting.

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

MCCRACKEN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2016**

Appendix A

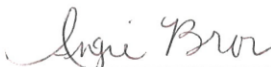
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MCCRACKEN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

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



Bob Leeper
County Judge/Executive



Angie Brown
County Treasurer

