

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Craig Clymer, McCracken County Judge/Executive
The Honorable Robert J. Leeper, Former McCracken County Judge/Executive
Members of the McCracken 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 McCracken County Fiscal Court, for the year ended June 30, 2017, 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, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the McCracken County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the 2017 financial statement has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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.

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Other Matters (Continued)

Supplementary Information (Continued)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2019, on our consideration of the 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:

- 2017-001 The McCracken County Fiscal Court Lacks Internal Controls Over Financial Reporting
- 2017-002 Material Weaknesses Exist Over The Reporting Of Liabilities And Debt
- 2017-003 Weak Internal Controls Resulted In The Misstatement Of Capital Assets On The County's Schedule Of Capital Assets
- 2017-004 The McCracken County Jail Lacks Adequate Internal Controls Over The Inmate Fund
- 2017-005 The McCracken County Fiscal Court Has Deficiencies In Controls Over Maintaining Records For Bids
- 2017-006 The McCracken County Fiscal Court Did Not Have Adequate Internal Controls Over Receipts
- 2017-007 The McCracken County Fiscal Court Has Deficiencies With Their Purchase Order System And Reporting Of Encumbrances
- 2017-008 The McCracken County Fiscal Court Did Not Approve Cash Transfers Prior To Making Them
- 2017-009 The McCracken County Fiscal Court Lacks Internal Controls Over State And Federal Grant Funds
- 2017-010 The McCracken County Jail Did Not Follow Proper Procedures For The Acquisition Or Disposal Of Assets

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

May 3, 2019

MCCRACKEN COUNTY OFFICIALS**For The Year Ended June 30, 2017****Fiscal Court Members:**

Robert J. Leeper	County Judge/Executive
Jerry Beyer	Commissioner
Bill Bartleman	Commissioner
Scott Wathen	Commissioner

Other Elected Officials:

Sam Clymer	County Attorney
William 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, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds			Local Government Economic Assistance Fund
	General Fund	Road Fund	Jail Fund	
RECEIPTS				
Taxes	\$ 11,622,241	\$	\$	\$
In Lieu Tax Payments	976,744			
Licenses and Permits	451,134			
Intergovernmental	3,742,252	2,320,289	3,612,737	12,198
Charges for Services	18,876		143,631	
Miscellaneous	898,728		300,052	
Interest	21,349			
Total Receipts	<u>17,731,324</u>	<u>2,320,289</u>	<u>4,056,420</u>	<u>12,198</u>
DISBURSEMENTS				
General Government	4,865,779			
Protection to Persons and Property	994,983		4,572,151	
General Health and Sanitation	427,431			
Social Services	90,549			18,779
Recreation and Culture	265,541			
Roads		2,577,914		
Airports	148,000			
Bus Services	33,770			
Debt Service	1,907,886	86,706		
Capital Projects	3,029,411	383,816		
Administration	2,742,841	527,147	1,646,321	
Total Disbursements	<u>14,506,191</u>	<u>3,575,583</u>	<u>6,218,472</u>	<u>18,779</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>3,225,133</u>	<u>(1,255,294)</u>	<u>(2,162,052)</u>	<u>(6,581)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds	3,149,377			
Transfers From Other Funds	1,394,542	1,238,112	2,152,685	
Transfers To Other Funds	(7,958,819)			
Total Other Adjustments to Cash (Uses)	<u>(3,414,900)</u>	<u>1,238,112</u>	<u>2,152,685</u>	
Net Change in Fund Balance	(189,767)	(17,182)	(9,367)	(6,581)
Fund Balance - Beginning (Restated)	4,505,752	17,182	9,367	6,581
Fund Balance - Ending	<u>\$ 4,315,985</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Composition of Fund Balance				
Bank Balance	\$ 4,527,652	\$ 126,543	\$ 100,187	\$
Less: Outstanding Checks	(211,667)	(126,543)	(100,187)	
Fund Balance - Ending	<u>\$ 4,315,985</u>	<u>\$ 0</u>	<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, 2017
(Continued)

Budgeted Funds					
State Grant Fund	Federal Grant Fund	Sheriff Fund	Economic Assistance Fund	Juvenile Justice Fund	Transient Room Tax Fund
\$	\$	\$	\$	\$	\$ 2,172,255
552,246		1,950,434			
			24,708		
<u>552,246</u>		<u>1,950,434</u>	<u>24,708</u>		<u>718</u>
					<u>2,172,973</u>
30,647		3,126,425	550,000		
				86,956	
	475,000				
					1,455,495
					584,717
<u>30,647</u>	<u>475,000</u>	<u>1,613,913</u>	<u>550,000</u>	<u>86,956</u>	<u>2,040,212</u>
<u>521,599</u>	<u>(475,000)</u>	<u>(2,789,904)</u>	<u>(525,292)</u>	<u>(86,956)</u>	<u>132,761</u>
	175,000	2,789,904	1,248,123	86,956	
(1,142,011)	(252,531)				
<u>(1,142,011)</u>	<u>(77,531)</u>	<u>2,789,904</u>	<u>1,248,123</u>	<u>86,956</u>	
(620,412)	(552,531)		722,831		132,761
628,133	567,512				556,989
<u>\$ 7,721</u>	<u>\$ 14,981</u>	<u>\$ 0</u>	<u>\$ 722,831</u>	<u>\$ 0</u>	<u>\$ 689,750</u>
\$ 7,721	\$ 14,981	\$ 67,128	\$ 722,831	\$ 7,066	\$ 689,750
		(67,128)		(7,066)	
<u>\$ 7,721</u>	<u>\$ 14,981</u>	<u>\$ 0</u>	<u>\$ 722,831</u>	<u>\$ 0</u>	<u>\$ 689,750</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, 2017
(Continued)

	<u>Budgeted Fund</u>	<u>Unbudgeted Fund</u>	
	<u>Debt Service Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 13,794,496
In Lieu Tax Payments			976,744
Licenses and Permits			451,134
Intergovernmental	235,924		12,426,080
Charges for Services			162,507
Miscellaneous		180,679	1,404,167
Interest	2	277	22,346
Total Receipts	<u>235,926</u>	<u>180,956</u>	<u>29,237,474</u>
DISBURSEMENTS			
General Government			8,542,204
Protection to Persons and Property			5,684,737
General Health and Sanitation			427,431
Social Services			584,328
Recreation and Culture		199,087	1,920,123
Roads			2,577,914
Airports			148,000
Bus Services			33,770
Debt Service	505,006		3,084,315
Capital Projects			3,413,227
Administration	1,000		6,531,222
Total Disbursements	<u>506,006</u>	<u>199,087</u>	<u>32,947,271</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(270,080)</u>	<u>(18,131)</u>	<u>(3,709,797)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			3,149,377
Transfers From Other Funds	268,039		9,353,361
Transfers To Other Funds			(9,353,361)
Total Other Adjustments to Cash (Uses)	<u>268,039</u>		<u>3,149,377</u>
Net Change in Fund Balance	(2,041)	(18,131)	(560,420)
Fund Balance - Beginning (Restated)	2,043	262,283	6,555,842
Fund Balance - Ending	<u>\$ 2</u>	<u>\$ 244,152</u>	<u>\$ 5,995,422</u>
Composition of Fund Balance			
Bank Balance	\$ 2	\$ 244,152	\$ 6,508,013
Less Outstanding Checks			(512,591)
Ending Fund Balance	<u>\$ 2</u>	<u>\$ 244,152</u>	<u>\$ 5,995,422</u>

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

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**MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2017

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.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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.

Economic Assistance Fund - The primary purpose of this fund is to account for bond funds used for local industrial projects. The primary source of receipts for this fund is bond funds.

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.

Debt Service 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.

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

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

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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 this fund.

The state local finance officer does not require the debt service fund to be budgeted; however, the fiscal court has elected to budget this fund. 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 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

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.

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the 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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	State Grant Fund	Federal Grant Fund	Total Transfers In
General Fund	\$	\$ 1,142,011	\$ 252,531	\$ 1,394,542
Road Fund	1,238,112			1,238,112
Jail Fund	2,152,685			2,152,685
Federal Grant Fund	175,000			175,000
Sheriff Fund	2,789,904			2,789,904
Economic Assistance Fund	1,248,123			1,248,123
Juvenile Justice Fund	86,956			86,956
Debt Service Fund	268,039			268,039
Total Transfers Out	<u>\$ 7,958,819</u>	<u>\$ 1,142,011</u>	<u>\$ 252,531</u>	<u>\$ 9,353,361</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.

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

Note 4. Agency Trust Fund

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 fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2017, was \$58,450.

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 as determined by health insurance coverage, each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll. The balance in the health reimbursement account as of June 30, 2017, was \$8,821.

Note 6. Receivables

A. General Obligation Bonds, Series 2011 - Murray State 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 (City), 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 20 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 than \$290,000 per year. As of June 30, 2017, the debt service requirements have been met.

B. Paducah Economic Development

On September 18, 2007, the McCracken County Fiscal Court (County) and the City of Paducah (City) entered into a financing agreement with the Paducah Economic Development (PED) for the acquisition of property. As part of the agreement, the PED 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 PED to purchase property. In December 2013, the County forgave \$500,000 of the \$911,375. On June 27, 2016, the County approved to extend the \$411,375 County Loan Financing Agreement with PED to June 30, 2020, for economic development of property located in McCracken County and known as Riverport West.

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 \$15,000 during the current fiscal year. As of June 30, 2017, the remaining unpaid balance was \$82,960.

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

Note 7. Long-term Debt

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

On November 22, 2011, the fiscal court 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 1 percent to 3.50 percent and mature beginning in December 2012 through December 2031. A mutual covenant was formed by the McCracken County Fiscal Court, the City of Paducah, Murray State University, and the Greater Paducah Economic Development Council. See Note 6A for the receivable. The balance on these bonds as of June 30, 2017, was \$7,875,000. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 440,000	\$ 214,344
2019	445,000	206,044
2020	455,000	197,044
2021	465,000	187,263
2022	480,000	176,331
2023-2027	2,580,000	685,656
2028-2032	3,010,000	260,678
Totals	<u>\$ 7,875,000</u>	<u>\$ 1,927,360</u>

B. General Obligation Bonds, Series 2013A (Teletch 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 1 percent to 5 percent and mature beginning in December 2013 through December 2032. The balance on these bonds as of June 30, 2017, was \$1,195,000. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 55,000	\$ 49,438
2019	55,000	48,062
2020	60,000	46,625
2021	60,000	44,900
2022	65,000	42,869
2023-2027	345,000	177,381
2028-2032	450,000	85,000
2033	105,000	2,625
Totals	<u>\$ 1,195,000</u>	<u>\$ 496,900</u>

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

Note 7. Long-term Debt (Continued)

C. General Obligation Bonds, Series 2013B (Whitehall/MACCO 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/s 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 3 percent to 5 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 of these bonds as of June 30, 2017, was \$2,410,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 215,000	\$ 84,375
2019	220,000	77,850
2020	230,000	71,100
2021	235,000	64,125
2022	240,000	57,000
2023-2027	695,000	192,475
2028-2032	390,000	96,750
2033-2034	185,000	9,375
Totals	<u>\$ 2,410,000</u>	<u>\$ 653,050</u>

D. 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 1 percent to 3.65 percent and mature beginning in June 2014 through June 2027. As of June 30, 2017, outstanding bond principal was \$1,945,000.

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

Note 7. Long-term Debt (Continued)

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

Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 195,000	\$ 46,610
2019	200,000	43,989
2020	205,000	40,439
2021	205,000	36,082
2022	215,000	30,981
2023-2027	925,000	61,491
Totals	<u>\$ 1,945,000</u>	<u>\$ 259,592</u>

E. KaCOLT Financing Obligation - 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. As of June 30, 2017, outstanding bond principal was \$3,503,333. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 240,000	\$ 164,206
2019	250,000	153,406
2020	260,000	142,156
2021	272,500	130,456
2022	285,000	118,194
2023-2027	1,627,500	384,459
2028-2029	568,333	38,281
Totals	<u>\$ 3,503,333</u>	<u>\$ 1,131,158</u>

F. KaCOLT Financing Obligation - 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. As of June 30, 2017, outstanding bond principal was \$2,680,833.

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

Note 7. Long-term Debt (Continued)

F. KaCOLT Financing Obligation - Jail and Sheriff's Office Expansion (Continued)

Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 265,000	\$ 121,969
2019	277,500	110,044
2020	290,000	97,556
2021	302,500	84,506
2022	317,500	70,894
2023-2026	1,228,333	131,884
Totals	<u>\$ 2,680,833</u>	<u>\$ 616,853</u>

G. U.S. Bank Lease Financing Obligation - Energy Efficiency Project

On July 15, 2016, the fiscal court entered into an agreement with U.S. Bancorp Government Leasing and Finance, Inc. in the sum of \$3,149,377 at a 2.19 percent effective interest rate. The financing obligation is for the purpose of providing upgrades to aging HVAC systems, other facility needs, and reduce operating costs associated with energy efficiency. The maturity date of the obligation is January 1, 2032. As of June 30, 2017, outstanding bond principal was \$3,149,377. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 146,951	\$ 103,224
2019	185,432	64,743
2020	189,516	60,660
2021	193,689	56,487
2022	197,954	52,222
2023-2027	1,057,104	193,775
2028-2032	1,178,731	72,149
Totals	<u>\$ 3,149,377</u>	<u>\$ 603,260</u>

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

Note 7. Long-term Debt (Continued)

H. Notes Payable

1. Convention Center and Four Rivers Center - 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 its General Obligation Refunding Bonds, Series 2010 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 the final payment due June 1, 2026. The balance on the note as of June 30, 2017, was \$2,257,500. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 225,000	\$ 67,409
2019	227,500	61,784
2020	235,000	55,869
2021	242,500	48,819
2022	250,000	41,543
2023-2026	<u>1,077,500</u>	<u>87,581</u>
Totals	<u>\$ 2,257,500</u>	<u>\$ 363,005</u>

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. In August 2011, the City issued General Obligation Taxable Refunding Bonds of \$3,910,000 to advance refund General Obligation Public Projects Bonds, Series 2004 issued for the purpose of 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 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, 2017, was \$1,115,000. Annual debt service requirements to maturity are as follows:

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

Note 7. Long-term Debt (Continued)

H. Notes Payable (Continued)

2. Speculative Building - City of Paducah (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 155,000	\$ 41,032
2019	160,000	35,328
2020	167,500	29,440
2021	172,500	23,276
2022	180,000	16,928
2023-2024	280,000	13,709
Totals	<u>\$ 1,115,000</u>	<u>\$ 159,713</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 2017. As of June 30, 2017, this note had been paid in full.

4. Julian Carroll Convention Center - City of Paducah

On January 1, 2017, the McCracken County Fiscal Court (County) issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$1,500,000. The note was authorized for the purpose of paying the County's 50 percent portion of the lease in order to finance the acquisition, construction, installation, and equipping of improvement to the Julian Carroll Convention Center, which is to be owned by the Paducah-McCracken County Convention Center Corporation, a non-profit, charitable corporation established at the direction of the City and the County. The lease has an interest rate of 1.98 percent. Principal and interest payments are to be made semi-annually beginning July 24, 2017. The maturity date of the lease is January 24, 2032. The balance as of June 30, 2017, was \$1,500,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 21,208	\$ 29,594
2019	24,102	29,160
2020	23,622	28,685
2021	23,821	28,217
2022	24,158	27,743
2023-2027	305,319	130,395
2028-2032	1,077,770	59,484
Totals	<u>\$ 1,500,000</u>	<u>\$ 333,278</u>

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

Note 7. Long-term Debt (Continued)

I. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Assumed Debt	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 12,180,000	\$	\$	\$ 700,000	\$ 11,480,000	\$ 710,000
Revenue Bonds	2,400,000			455,000	1,945,000	195,000
Financing Obligations	6,667,500	3,149,377		483,334	9,333,543	651,952
Notes Payable	3,825,811		1,500,000	453,311	4,872,500	401,208
Total Long-term Debt	\$ 25,073,311	\$ 3,149,377	\$ 1,500,000	\$ 2,091,645	\$ 27,631,043	\$ 1,958,160

*

* McCracken County issued a Note Payable to the City of Paducah for 50% of the debt service associated with the City's General Obligation Lease for the Julian Carrol Convention Center. The County did not receive any funds, therefore this note payable will not be shown on the financial statement.

Note 8. Employee Retirement System

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

The county's contribution for FY 2015 was \$2,022,995, FY 2016 was \$2,023,679, and FY 2017 was \$2,089,573.

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 five 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.

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

Note 8. 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 18.68 percent.

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 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. Hazardous members contribute 8 percent of their annual creditable compensation and 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 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 hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

The county's contribution rate for hazardous employees was 31.06 percent.

Health Insurance Coverage

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

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

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

Note 8. Employee Retirement System (Continued)

Health Insurance Coverage (Continued)

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.

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, the 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>. 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 9. 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.

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

Note 9. Deferred Compensation (Continued)

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

Note 10. Insurance

For the fiscal year ended June 30, 2017, the McCracken 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 11. 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 the 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, 2017, final approval of the closure had not yet been granted. Closure costs for FYE June 30, 2017, were \$33,080. In May 2017, the City of Paducah reimbursed the county \$25,155 and for its share of landfill expenses paid from April 2016 through March 2017.

Estimated post-closure care costs total \$4,125,000 or \$125,000 per year plus 10 percent for inflation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

McCracken County 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 for 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 incurred during the fiscal year.

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

Note 12. Prior Period Adjustments

	General Fund	Local Government Economic Assistance Fund	State Grant Fund	Federal Grant Fund	Debt Service Fund
Ending Fund Balances Prior Year	\$ 3,243,315	\$ 6,582	\$ 635,367	\$ 552,530	\$1,250,165
Adjustments:					
Prior Year Voided Checks	7,079				
Receipt of MACCO Funds from GDEPC	1,248,123				(1,248,123)
Prior Year Adjustment	7,234		(7,234)		
CDBG TeleTech Funds				14,981	
Rounding	1	(1)		1	1
Beginning Fund Balances - Restated	<u>\$ 4,505,752</u>	<u>\$ 6,581</u>	<u>\$ 628,133</u>	<u>\$ 567,512</u>	<u>\$ 2,043</u>

Note 13. Contingencies

The county 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.

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

For The Year Ended June 30, 2017

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MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 10,842,713	\$ 10,842,713	\$ 11,622,241	\$ 779,528
In Lieu Tax Payments	1,050,000	1,050,000	976,744	(73,256)
Licenses and Permits	417,750	417,750	451,134	33,384
Intergovernmental	3,065,900	3,065,900	3,742,252	676,352
Charges for Services	48,000	48,000	18,876	(29,124)
Miscellaneous	700,500	700,500	898,728	198,228
Interest	12,500	12,500	21,349	8,849
Total Receipts	<u>16,137,363</u>	<u>16,137,363</u>	<u>17,731,324</u>	<u>1,593,961</u>
DISBURSEMENTS				
General Government	5,117,438	5,129,837	4,865,779	264,058
Protection to Persons and Property	978,638	1,053,593	994,983	58,610
General Health and Sanitation	441,312	470,841	427,431	43,410
Social Services	90,000	93,825	90,549	3,276
Recreation and Culture	429,158	429,158	265,541	163,617
Airports	135,000	148,000	148,000	
Bus Services	34,000	34,000	33,770	230
Debt Service	1,569,350	1,636,144	1,907,886	(271,742)
Capital Projects	700,000	4,399,377	3,029,411	1,369,966
Administration	3,169,015	2,817,818	2,742,841	74,977
Total Disbursements	<u>12,663,911</u>	<u>16,212,593</u>	<u>14,506,191</u>	<u>1,706,402</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>3,473,452</u>	<u>(75,230)</u>	<u>3,225,133</u>	<u>3,300,363</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			1,394,542	1,394,542
Transfers To Other Funds	(7,638,452)	(7,638,452)	(7,958,819)	(320,367)
Bond Sales Proceeds	700,000	1,250,000		(1,250,000)
Financing Obligation Proceeds		3,699,377	3,149,377	(550,000)
Total Other Adjustments to Cash (Uses)	<u>(6,938,452)</u>	<u>(2,689,075)</u>	<u>(3,414,900)</u>	<u>(725,825)</u>
Net Change in Fund Balance	(3,465,000)	(2,764,305)	(189,767)	2,574,538
Fund Balance - Beginning (Restated)	<u>3,465,000</u>	<u>3,465,000</u>	<u>4,505,752</u>	<u>1,040,752</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 700,695</u>	<u>\$ 4,315,985</u>	<u>\$ 3,615,290</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 5,307,188	\$ 5,335,093	\$ 2,320,289	\$ (3,014,804)
Total Receipts	<u>5,307,188</u>	<u>5,335,093</u>	<u>2,320,289</u>	<u>(3,014,804)</u>
DISBURSEMENTS				
Roads	2,895,389	2,834,878	2,577,914	256,964
Debt Service		86,706	86,706	
Capital Projects	4,000,000	4,000,000	383,816	3,616,184
Administration	548,767	550,477	527,147	23,330
Total Disbursements	<u>7,444,156</u>	<u>7,472,061</u>	<u>3,575,583</u>	<u>3,896,478</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,136,968)</u>	<u>(2,136,968)</u>	<u>(1,255,294)</u>	<u>881,674</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>2,136,968</u>	<u>2,136,968</u>	<u>1,238,112</u>	<u>(898,856)</u>
Total Other Adjustments to Cash (Uses)	<u>2,136,968</u>	<u>2,136,968</u>	<u>1,238,112</u>	<u>(898,856)</u>
Net Change in Fund Balance			(17,182)	(17,182)
Fund Balance - Beginning			<u>17,182</u>	<u>17,182</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 3,456,000	\$ 3,456,000	\$ 3,612,737	\$ 156,737
Charges for Services	97,400	97,400	143,631	46,231
Miscellaneous	268,000	268,000	300,052	32,052
Total Receipts	<u>3,821,400</u>	<u>3,821,400</u>	<u>4,056,420</u>	<u>235,020</u>
DISBURSEMENTS				
Protection to Persons and Property	5,186,037	5,283,842	4,572,151	711,691
Administration	1,745,843	1,648,038	1,646,321	1,717
Total Disbursements	<u>6,931,880</u>	<u>6,931,880</u>	<u>6,218,472</u>	<u>713,408</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,110,480)</u>	<u>(3,110,480)</u>	<u>(2,162,052)</u>	<u>948,428</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>2,510,480</u>	<u>2,510,480</u>	<u>2,152,685</u>	<u>(357,795)</u>
Total Other Adjustments to Cash (Uses)	<u>2,510,480</u>	<u>2,510,480</u>	<u>2,152,685</u>	<u>(357,795)</u>
Net Change in Fund Balance	(600,000)	(600,000)	(9,367)	590,633
Fund Balance - Beginning	<u>600,000</u>	<u>600,000</u>	<u>9,367</u>	<u>(590,633)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 12,000	\$ 12,000	\$ 12,198	\$ 198
Total Receipts	12,000	12,000	12,198	198
DISBURSEMENTS				
Social Services	6,000	18,779	18,779	
Total Disbursements	6,000	18,779	18,779	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	6,000	(6,779)	(6,581)	198
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(6,000)	(6,000)		6,000
Total Other Adjustments to Cash (Uses)	(6,000)	(6,000)		6,000
Net Change in Fund Balance		(12,779)	(6,581)	6,198
Fund Balance - Beginning (Restated)			6,581	6,581
Fund Balance - Ending	\$ 0	\$ (12,779)	\$ 0	\$ 12,779

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

	STATE GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 200,000	\$ 200,000	\$ 552,246	\$ 352,246
Total Receipts	<u>200,000</u>	<u>200,000</u>	<u>552,246</u>	<u>352,246</u>
DISBURSEMENTS				
Protection to Persons and Property	200,000	200,000	30,647	169,353
Total Disbursements	<u>200,000</u>	<u>200,000</u>	<u>30,647</u>	<u>169,353</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>521,599</u>	<u>521,599</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(1,142,011)	(1,142,011)
Total Other Adjustments to Cash (Uses)			<u>(1,142,011)</u>	<u>(1,142,011)</u>
Net Change in Fund Balance			(620,412)	(620,412)
Fund Balance - Beginning (Restated)			<u>628,133</u>	<u>628,133</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,721</u>	<u>\$ 7,721</u>

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

	FEDERAL GRANT FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 800,000	\$ 800,000	\$	\$ (800,000)
Total Receipts	<u>800,000</u>	<u>800,000</u>		<u>(800,000)</u>
DISBURSEMENTS				
Social Services	800,000	800,000	475,000	325,000
Total Disbursements	<u>800,000</u>	<u>800,000</u>	<u>475,000</u>	<u>325,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(475,000)</u>	<u>(475,000)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			175,000	175,000
Transfers To Other Funds			<u>(252,531)</u>	<u>(252,531)</u>
Total Other Adjustments to Cash (Uses)			<u>(77,531)</u>	<u>(77,531)</u>
Net Change in Fund Balance			(552,531)	(552,531)
Fund Balance - Beginning (Restated)			<u>567,512</u>	<u>567,512</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,981</u>	<u>\$ 14,981</u>

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

SHERIFF FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,100,000	\$ 2,136,000	\$ 1,950,434	\$ (185,566)
Total Receipts	<u>2,100,000</u>	<u>2,136,000</u>	<u>1,950,434</u>	<u>(185,566)</u>
DISBURSEMENTS				
General Government	3,027,336	3,126,425	3,126,425	
Administration	1,539,086	1,613,913	1,613,913	
Total Disbursements	<u>4,566,422</u>	<u>4,740,338</u>	<u>4,740,338</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,466,422)</u>	<u>(2,604,338)</u>	<u>(2,789,904)</u>	<u>(185,566)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>2,466,422</u>	<u>2,466,422</u>	<u>2,789,904</u>	<u>323,482</u>
Total Other Adjustments to Cash (Uses)	<u>2,466,422</u>	<u>2,466,422</u>	<u>2,789,904</u>	<u>323,482</u>
Net Change in Fund Balance		(137,916)		137,916
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (137,916)</u>	<u>\$ 0</u>	<u>\$ 137,916</u>

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

ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$ 24,708	24,708
Total Receipts			24,708	24,708
DISBURSEMENTS				
General Government		550,000	550,000	
Total Disbursements		550,000	550,000	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(550,000)	(525,292)	24,708
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			1,248,123	1,248,123
Total Other Adjustments to Cash (Uses)			1,248,123	1,248,123
Net Change in Fund Balance		(550,000)	722,831	1,272,831
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 722,831	\$ 1,272,831

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

JUVENILE JUSTICE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$	\$
Total Receipts				
DISBURSEMENTS				
Protection to Persons and Property	95,000	95,000	86,956	8,044
Administration	10,500	10,500		10,500
Total Disbursements	105,500	105,500	86,956	18,544
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(105,500)	(105,500)	(86,956)	18,544
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	105,500	105,500	86,956	(18,544)
Total Other Adjustments to Cash (Uses)	105,500	105,500	86,956	(18,544)
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, 2017
(Continued)

TRANSIENT ROOM TAX FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,300,000	\$ 2,300,000	\$ 2,172,255	\$ (127,745)
Interest	500	500	718	218
Total Receipts	<u>2,300,500</u>	<u>2,300,500</u>	<u>2,172,973</u>	<u>(127,527)</u>
DISBURSEMENTS				
Recreation and Culture	2,300,000	1,715,283	1,455,495	259,788
Debt Service		584,717	584,717	
Total Disbursements	<u>2,300,000</u>	<u>2,300,000</u>	<u>2,040,212</u>	<u>259,788</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>500</u>	<u>500</u>	<u>132,761</u>	<u>132,261</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(500)</u>	<u>(500)</u>		<u>500</u>
Total Other Adjustments to Cash (Uses)	<u>(500)</u>	<u>(500)</u>		<u>500</u>
Net Change in Fund Balance			132,761	132,761
Fund Balance - Beginning			<u>556,989</u>	<u>556,989</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 689,750</u>	<u>\$ 689,750</u>

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

DEBT SERVICE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$	\$ 235,924	\$ 235,924
Interest			2	2
Total Receipts			<u>235,926</u>	<u>235,926</u>
DISBURSEMENTS				
Debt Service	269,082	269,082	505,006	(235,924)
Administration	150,000	150,000	1,000	149,000
Total Disbursements	<u>419,082</u>	<u>419,082</u>	<u>506,006</u>	<u>(86,924)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(419,082)</u>	<u>(419,082)</u>	<u>(270,080)</u>	<u>149,002</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	419,082	419,082	268,039	(151,043)
Total Other Adjustments to Cash (Uses)	<u>419,082</u>	<u>419,082</u>	<u>268,039</u>	<u>(151,043)</u>
Net Change in Fund Balance			(2,041)	(2,041)
Fund Balance - Beginning (Restated)			<u>2,043</u>	<u>2,043</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2</u>	<u>\$ 2</u>

MCCRACKEN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2017

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

General fund debt service disbursements and debt service fund debt service disbursements exceeded budgeted appropriations by \$271,742 and \$235,924, respectively.

**MCCRACKEN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2017

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MCCRACKEN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements*	\$ 1,819,820	\$ 20,028	\$	\$ 1,839,848
Construction In Progress	1,077,432	3,451,228	58,551	4,470,109
Buildings*	38,293,447	691,553		38,985,000
Vehicles and Equipment	7,770,077	756,058	191,502	8,334,633
Infrastructure*	89,632,984	931,793	119,180	90,445,597
 Total Capital Assets	 \$ 138,593,760	 \$ 5,850,660	 \$ 369,233	 \$ 144,075,187

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

June 30, 2017

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 20,000	20
Buildings and Building Improvements	\$ 20,000	50
Equipment	\$ 10,000	10
Vehicles	\$ 10,000	5
Infrastructure	\$ 20,000	
Unpaved Roadways		15
Paved Roadways, Subdivision Streets		25
Resurfacing		12
Bridges (all types)		50
Sidewalks (all types)		30
Office Equipment	\$ 10,000	5

Note 2. Restatement of Capital Assets Beginning Balance

	Land	Buildings	Infrastructure
Ending Balance Prior Year	\$ 1,767,320	\$38,263,027	\$ 89,623,161
Adjustments:			
Omission of Prior Year Additions	52,500	30,420	
Misstatement of Prior Year Additions			9,823
Beginning Balance - Restated	\$ 1,819,820	\$38,293,447	\$ 89,632,984

**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 Craig Clymer, McCracken County Judge/Executive
The Honorable Robert J. Leeper, Former 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, 2017, 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 May 3, 2019.

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 opinion 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 and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, and 2017-004 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 Responses as items 2017-003, 2017-005, 2017-006, 2017-007, 2017-008, 2017-009, and 2017-010 to be significant deficiencies.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-005.

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,



Mike Harmon
Auditor of Public Accounts

May 3, 2019

**MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The McCracken County Fiscal Court Lacks Internal Controls Over Financial Reporting

The McCracken County Fiscal Court lacks internal controls over financial reporting. The fiscal court's Fourth Quarter Financial Statement did not agree to the original budget passed for fiscal year 2017. During fiscal year 2017, the fiscal court created a separate economic development fund with money that was accounted for in the public properties fund in the prior year. The fiscal court minutes did not reflect authorization for this new fund, nor was this fund budgeted during fiscal year 2017. The monies that the economic development fund was created with were accounted for as receipts in the current fiscal year. Those funds were included in the prior year as fund balance. The economic development fund receipts were overstated by \$1,248,123. Additionally, these monies were from prior year bonded debt and there was no documented action of the fiscal court to utilize the bond funds for a new purpose.

This was due to improper oversight by the fiscal court and a lack of awareness by the former treasurer of what is required to start new funds, and make cash and budget transfers. It is the fiscal court's responsibility to ensure that all changes are approved before action is taken, and to verify all reports are accurate before approving them.

Due to these errors that were made, the budget was not accurate and the Fourth Quarter Financial Statement was materially misstated. Also, a new fund was created during the year and transfers were made without fiscal court's approval. This led to county funds having an increased risk of misappropriation during the year because of poor oversight.

Strong internal controls require the county to follow correct procedures when creating funds and making transfers between funds. Fiscal court approval should be made before the transactions occur and this approval should be documented in the fiscal court minutes.

We recommend the fiscal court approve and document their approval of all creation of funds and all cash and budget transfers between funds before those actions are executed. We further recommend the fiscal court review all of the financial reports and ensure they are accurate before giving final approval.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: Current Treasurer is aware that approval is required by the fiscal court before the creation of any new funds and is taking corrective action.

2017-002 Material Weaknesses Exist Over The Reporting Of Liabilities And Debt

This is a repeat finding and was included in prior year audit report as finding 2016-001. Material weaknesses exist over the reporting of liabilities and debt of McCracken County. No outstanding debt balances were reported on the Fourth Quarter Financial Report as of June 30, 2017.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. By not including the outstanding debt balances, the McCracken County Fiscal Court's Fourth Quarter Financial Report was materially misstated. This was an oversight due to a turnover in the treasurer position at the end of the 2016-2017 fiscal year.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 Material Weaknesses Exist Over The Reporting Of Liabilities And Debt (Continued)

We recommend the McCracken County Fiscal Court 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 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 the proper amounts are reported.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: Current Treasurer will compare payment amounts and outstanding balances to amortization and payment schedules.

2017-003 Weak Internal Controls Resulted In The Misstatement Of Capital Assets On The County's Schedule Of Capital Assets

This is a repeat finding and was included in the prior year audit report as finding 2016-002. The fiscal court failed to periodically conduct physical inspections of all assets to make comparisons to the capital asset list. The fiscal court's beginning balance for capital assets required restatements because of errors involving prior year additions. The fiscal court's ending balance of the schedule of capital assets for the period of audit was misstated by \$29,909. However, numerous misstatement were noted involving asset additions and deletions because fiscal court failed to recognize all asset acquisitions and disposals that occurred during the year.

Additions were misstated overall by \$58,994 because some additions were excluded from the county's capital asset schedule while some items that did not meet the threshold for capitalization had been included. Deletions were misstated overall by \$14,627. Vehicle deletions were misstated by \$104,553 because several vehicles were shown on the county's capital asset schedule as being disposed because titles were not available for them; however, it was not known at the time of audit if the county still owned the vehicles. Infrastructure deletions were misstated by \$119,180 because a road that the fiscal court had approved to remove from the county road system was not shown as a deletion. It was also noted that the fiscal court had titles to vehicles that had been sold in prior years. Also, some asset additions and disposals were not properly authorized in the fiscal court minutes and were not added to the county's insurance.

These misstatements occurred because the fiscal court failed to emphasize strong internal controls over the reporting of capital assets and instead relied on a single employee without sufficient supervision. Due to these weak internal controls, capital assets are left vulnerable to misappropriation or misstatement. In this case, misstatements were able to occur without detection. Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation.

In order to strengthen the fiscal court's internal controls over capital assets, we recommend the fiscal court establish a detailed inventory system. This system should include a detailed description of each fiscal court 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. This system should be applied consistently in accordance with the county's capitalization policy. Also, all asset additions and retirements

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 Weak Internal Controls Resulted In The Misstatement Of Capital Assets On The County's Schedule Of Capital Assets (Continued)

should be properly authorized by fiscal court and documented in the fiscal court minutes. 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 inventoried assets.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: Current Treasurer will update capital asset listing throughout the year. This is being done with a coordinating effort from department heads and elected officials. Annual physical inspections by all departments will be reported to the Finance Office in order to keep records current.

2017-004 The McCracken County Jail Lacks Adequate Internal Controls Over The Inmate Fund

The McCracken County Jail contracts with a third party commissary company to oversee and maintain the inmate fund. The inmate fund is maintained solely by the commissary company. The commissary company receives cash, makes the deposits, posts transactions to the inmates' accounts, posts to the ledgers, prepares checks, and reconciles the account. Employees of the jail do not have access to any accounting records of the inmate fund, including resident transaction reports and bank statements.

Rather than implement internal controls over the inmate fund, the McCracken County Jail relies on the commissary company to oversee all accounting functions of the fund. This lack of adequate internal controls increases the risk of undetected fraud and errors.

Because the jailer is responsible for the inmates of the county, it is imperative for the jailer to provide sufficient oversight of all accounts associated with the inmates, including the inmate fund.

We recommend that the McCracken County Jailer implement internal controls over the inmate fund. These controls should include the jailer or designee reviewing the inmates' accounts to ensure correct fees are being charged, deposits are being posted correctly, and inmate balances are being refunded properly upon release of the inmates.

Views of Responsible Official and Planned Corrective Action:

Former County Jailer's Response: No say in future use of jail funds.

2017-005 The McCracken County Fiscal Court Has Deficiencies In Controls Over Maintaining Records For Bids

The McCracken County Fiscal Court has deficiencies in controls over maintaining records for bids. During the 2017 fiscal year, there were six disbursements tested that required bids. Records could not be found for those six disbursements that show that the bid process was followed. Due to inadequate record management, bid documents were not kept with the disbursement invoices, and could not be found. Without proper documentation or detailed minutes that discuss the bid process, it cannot be verified that the bid process was followed. Maintaining records is an important part of the bid process as it provides assurance that the county is receiving the best rate. A relaxed attitude towards the bid process has resulted in records not being kept for these transactions or potentially the bid process not being followed at all.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The McCracken County Fiscal Court Has Deficiencies In Controls Over Maintaining Records For Bids (Continued)

Because bid documentation was not maintained for six disbursements, it is possible that the county did not follow competitive bid procedures or obtain the best value. Lack of supporting documentation for management review and for an audit trail puts the county at higher risk for potential fraudulent purchases.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with bid laws, and to keep good records of all bid transactions. KRS 424.260 states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreements for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

We recommend the fiscal court monitor all disbursements to ensure that bidding procedures are followed for all qualifying disbursements. We further recommend the fiscal court document these procedures in the fiscal court minutes.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive’s Response: Current Treasurer is aware of procurement process outlined in the Administrative Code and is taking corrective action.

2017-006 The McCracken County Fiscal Court Did Not Have Adequate Internal Controls Over Receipts

The McCracken County Fiscal Court has internal control deficiencies and non-compliances regarding the collection of receipts. The following findings were noted with McCracken County Fiscal Court’s collection of receipts:

- Triplicate receipts were not issued for applicable receipt transactions, as required by KRS 64.840.
- Receipts collected for the day and posted to the receipts ledger are not reviewed and checked for accuracy.
- Pre-numbered, triplicate receipts are not issued for funds collected at Carson Park.
- Receipts collected at Carson Park are not secured in a safe location.
- At Carson Park, collected receipts are not reviewed by someone independent of the collection function.

The findings listed above are due to the lack of effective internal controls, which left receipts vulnerable to misappropriation and loss.

Strong internal controls over the collection of receipts are vital in ensuring that receipts are accounted for properly. Strong internal controls are also important in safeguarding the county’s assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-006 The McCracken County Fiscal Court Did Not Have Adequate Internal Controls Over Receipts
(Continued)

KRS 64.840(1) states,

all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid:

- (a) In cash;
- (b) By a party appearing in person to pay; or
- (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt.

(2) One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit.

To address these issues, we recommend the following.

- Pre-numbered, triplicate receipts should be issued for applicable transactions according to KRS 64.840.
- Someone independent of the collection of receipts process should review the process (deposit, posting to the ledgers, etc.) to check for accuracy.
- Carson Park should obtain a bank bag to keep receipts in during the day. This bag should be locked and stored in a safe location during the day.
- An individual independent of receipts collection at Carson Park should create a ledger of all receipts received each day. This ledger should match the monies received and receipts issued for the day.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: Carson Park now has pre-numbered triplicate receipts. Carson Park now has a fire proof lock box to hold payments until they are delivered daily to finance. All receipts received daily by Judge/Executive Secretary are now being logged.

2017-007 The McCracken County Fiscal Court Has Deficiencies With Their Purchase Order System
And Reporting Of Encumbrances

The McCracken County Fiscal Court's purchase order system does not work as designed. Throughout the fiscal year, purchase orders were created after invoices were received, as opposed to before the purchase was made. The county uses the purchase order system's outstanding list as their list of encumbrances. According to the treasurer, that list is not accurate as there are often encumbrances listed that have already been paid.

Department heads are often allowed to make orders and purchases without obtaining purchase orders from the finance office. Due to the system not working as designed, risk of misappropriation is elevated, and control over expenditures is reduced. Encumbrances are also misstated on the Fourth Quarter Financial Statement, and are not tracked properly.

A purchase order system that is properly designed and working effectively creates strong internal controls over expenditures and will aid in correctly reporting encumbrances.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-007 The McCracken County Fiscal Court Has Deficiencies With Their Purchase Order System And Reporting Of Encumbrances (Continued)

We recommend the fiscal court strengthen internal controls over the purchase order system. Purchase orders should be acquired from the finance office before making any order or purchase. Invoices should then be matched to purchase orders and then claims can be made. Once fiscal court approves the claims, payment can be made.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: Current Treasurer is working on enforcing a Purchase Order System county wide. Our goal is to have this accomplished by the end of FY18/19.

2017-008 The McCracken County Fiscal Court Did Not Approve Cash Transfers Before They Were Made

Throughout fiscal year 2017, cash transfers were made prior to being approved by fiscal court. They were then later recognized by the fiscal court in future fiscal court meetings. The former treasurer was responsible for all cash transfers, and the fiscal court did not require prior approval for them to be made.

Due to the lack of controls over cash transfers, the county's funds were at an increased risk of misappropriation. Strong internal controls require oversight over the movement of funds in order to decrease risk. The fiscal court is responsible for providing oversight of the treasurer and making the county's financial decisions.

We recommend that all cash transfers be approved and documented in the fiscal court minutes before the transfers take place.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: Current Treasurer is working on a process where cash transfers are approved by fiscal court prior to those cash transfers being made.

2017-009 The McCracken County Fiscal Court Lacks Internal Controls Over State And Federal Grant Funds

The McCracken County Fiscal Court lacks internal controls over state and federal grant funds. During the 2017 fiscal year, a federal pass through grant was deposited into the state grant fund, and was subsequently paid out of the federal grant fund. There were also three transfers in the amount of \$1,394,542 to the general fund from the state grant fund and federal grant funds in order to reimburse the general fund for prior year FEMA, CDBG, and reimbursement grants. Since these grants had been sitting in the state grant fund and federal grant fund for multiple years, it was difficult to determine what specific grants those funds were for, and whether or not they were restricted.

The McCracken County Fiscal Court did not have the proper oversight or organization over the state and federal grant accounts to ensure all money was properly classified. Money was not kept in the appropriate fund, and due to poor recordkeeping, the fiscal court was put at risk of transferring restricted grant funds to non-restricted accounts.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-009 The McCracken County Fiscal Court Lacks Internal Controls Over State And Federal Grant Funds (Continued)

Strong internal controls require the fiscal court to keep accurate records of grant money received and to keep that money separate if it is for a restricted purpose. Strong internal controls also require reimbursement grants to be transferred timely to the funds that the disbursement was made from.

We recommend the fiscal court keep accurate records and documentation for grant funds received, and if those grants are a reimbursement for disbursements previously made, transfers should be made timely to the fund from which those disbursements were made.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: Current Treasurer is aware of the requirement to keep state and federal grants accounted for separately and is taking corrective action.

2017-010 The McCracken County Jail Did Not Follow Proper Procedures For The Acquisition Or Disposal Of Assets

The McCracken County Jail did not follow proper bidding procedures for two assets totaling \$70,538 in which the purchase price exceeded \$20,000. The Jail paid \$32,696 to one vendor for the purchase of a compact utility tractor and loading equipment, and paid \$37,842 to another vendor for a Chevy Tahoe without advertising the purchases for bidding. Furthermore, the Jail sold \$7,239 in retired assets at auction that were not declared surplus by the McCracken County Fiscal Court before disposal and the proceeds from the sale of retired assets was improperly deposited into the commissary account rather than being transferred to the general fund of the county as required by statute. These assets included a 2004 Chevy pickup, a 2007 Crown Victoria, and corn hole games.

According to jail staff, it was believed that proper procedures had been followed for the acquisition and disposal of assets. However, supporting documentation for bids was not available and the fiscal court minutes did not show that retired assets had been declared surplus property. Also, jail staff was unaware of the statute which requires proceeds from the sale of assets be transferred to the general fund of the county.

Because the McCracken County Jail did not follow proper bidding procedures for assets in which the purchase price exceeded \$20,000, the jailer is not in compliance with KRS 424.260. Because retired assets were not declared surplus by the fiscal court before they were disposed, the jailer is not in compliance with KRS 67.0802.

KRS 424.260 states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district...may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids."

KRS 67.0802(2) states, "[b]efore selling or otherwise disposing of any real or personal property, the county shall make a written determination setting forth and fully describing:

- (a) The real or personal property;
- (b) Its intended use at the time of acquisition;

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-010 The McCracken County Jail Did Not Follow Proper Procedures For The Acquisition Or Disposal Of Assets (Continued)

- (c) The reasons why it is in the public interest to dispose of it; and
- (d) The method of disposition to be used.

KRS 67.0802(3) states, “[r]eal or personal property may be:

- (a) Transferred, with or without compensation, to another governmental agency;
- (b) Sold at public auction following publication of the auction in accordance with KRS 424.130(1)(b);
- (c) Sold by electronic auction following publication of the auction...; or
- (d) Sold by sealed bids in accordance with the procedure for sealed bids under KRS 45A.365(3) and (4).”

KRS 67.0802(5) states, “[a]ny compensation resulting from the disposal of this real or personal property shall be transferred to the general fund of the county.”

We recommend the McCracken County Jail follow proper procedures when acquiring or disposing of assets. We further recommend the proceeds from the sale of the retired assets be turned over to the county treasurer and deposited into the general fund of the county.

Views of Responsible Official and Planned Corrective Action:

Former County Jailer’s Response: No say in future jail funds.

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

MCCRACKEN COUNTY FISCAL COURT

For The Year Ended June 30, 2017

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CERTIFICATION OF COMPLIANCE


LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MCCRACKEN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

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.



County Judge/Executive



County Treasurer