

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

**For The Fiscal Year Ended
June 30, 2015**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
MERCER COUNTY FISCAL COURT

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Mercer County Fiscal Court for fiscal year ended June 30, 2015.

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

Financial Condition:

The Mercer County Fiscal Court had total receipts of \$7,048,036 and disbursements of \$7,091,677 in fiscal year 2015. This resulted in a total ending fund balance of \$3,203,521, which is a decrease of \$43,641 from the prior year.

Report Comments:

- 2015-001 The Former County Treasurer Did Not Fulfill Financial Reporting Requirements Associated With The Office
- 2015-002 The Fiscal Court Held Checks To Vendors To Avoid Overdrawing The Road Fund Bank Account
- 2015-003 The Fiscal Court Allowed Claims In Excess Of Budgeted Appropriations
- 2015-004 County Funds Were Not Deposited Daily
- 2015-005 The Fiscal Court Did Not Comply With Bidding Requirements
- 2015-006 The Fiscal Court Did Not Implement Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2015-007 The Fiscal Court Did Not Properly Handle Disbursement Transactions

Deposits:

The fiscal court's deposits as of June 30, 2015, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$226,242

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer 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 Mercer County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Mercer 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 more fully in Note 1 of the financial statement, the financial statement is prepared by the Mercer 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 Mercer County Fiscal Court as of June 30, 2015, 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 Mercer County Fiscal Court as of June 30, 2015, 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 13 and displayed on the Statement of Receipts, Disbursements, And Changes In Fund Balances - Regulatory Basis, the Mercer County Fiscal Court had a negative ending Road Fund balance of \$37,342. 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 Mercer County Fiscal Court. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
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 Honorable Milward Dedman, Mercer County Judge/Executive
 Members of the Mercer County Fiscal Court

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 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 July 29, 2016 on our consideration of the Mercer 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 Mercer County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2015-001 The Former County Treasurer Did Not Fulfill Financial Reporting Requirements Associated With The Office
- 2015-002 The Fiscal Court Held Checks To Vendors To Avoid Overdrawing The Road Fund Bank Account
- 2015-003 The Fiscal Court Allowed Claims In Excess Of Budgeted Appropriations
- 2015-004 County Funds Were Not Deposited Daily
- 2015-005 The Fiscal Court Did Not Comply With Bidding Requirements
- 2015-006 The Fiscal Court Did Not Implement Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2015-007 The Fiscal Court Did Not Properly Handle Disbursement Transactions

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

July 29, 2016

MERCER COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Milward Dedman	County Judge/Executive
Ronnie Simms	Magistrate
Donnie Webb	Magistrate
Wayne T. Jackson	Magistrate
Dennis Holiday	Magistrate
Tim Darland	Magistrate
Jackie Claycomb	Magistrate

Other Elected Officials:

Ted Dean	County Attorney
Bret Chamberlain	Jailer
Chris Horn	County Clerk
Allison Buchanan	Circuit Court Clerk
Ernie Kelty	Sheriff
David Best	Property Valuation Administrator
Sonny Ransdell	Coroner

Appointed Personnel:

Gayle Horn	County Treasurer
Sandra Sanders	Tax Administrator
Billy Humphrey	Road Supervisor

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,669,187	\$	\$
Excess Fees	151,615		
Licenses and Permits	6,341		
Intergovernmental	675,558	1,170,074	111,969
Charges for Services	73,939		
Miscellaneous	178,855	186,161	
Interest	1,409	3,063	891
Total Receipts	<u>2,756,904</u>	<u>1,359,298</u>	<u>112,860</u>
DISBURSEMENTS			
General Government	993,146	14,400	
Protection to Persons and Property	406,866	465	906,856
General Health and Sanitation	155,715	28,503	30
Transportation Facilities and Services		5,069	
Social Services	49,685		
Recreation and Culture	506,483		
Roads		1,405,871	
Other Transportation Facilities and Services		650	
Debt Service	187,559		
Capital Projects			
Administration	1,014,125	190,746	
Total Disbursements	<u>3,313,579</u>	<u>1,645,704</u>	<u>906,886</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(556,675)</u>	<u>(286,406)</u>	<u>(794,026)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	1,373,500		750,000
Transfers To Other Funds	<u>(750,000)</u>	<u>(73,500)</u>	
Total Other Adjustments to Cash (Uses)	<u>623,500</u>	<u>(73,500)</u>	<u>750,000</u>
Net Change in Fund Balance	66,825	(359,906)	(44,026)
Fund Balance - Beginning (Restated)	1,023,391	322,564	658,049
Fund Balance - Ending	<u>\$ 1,090,216</u>	<u>\$ (37,342)</u>	<u>\$ 614,023</u>
Composition of Fund Balance			
Bank Balance	\$ 1,039,035	\$ 327,352	\$ 159,424
Plus: Deposits In Transit	4,147		
Less: Outstanding Checks	(155,794)	(474,694)	(66,214)
Certificates of Deposit	<u>202,828</u>	<u>110,000</u>	<u>520,813</u>
Fund Balance - Ending	<u>\$ 1,090,216</u>	<u>\$ (37,342)</u>	<u>\$ 614,023</u>

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

MERCER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

Budgeted Funds			Unbudgeted Funds	
Local Government Economic Assistance Fund	Landfill Fund	Payroll and Net Profit Tax Fund	Public Facilities Construction Corporation Fund	Total Funds
\$	\$	\$ 1,500,662	\$	\$ 3,169,849
				151,615
				6,341
58,898	152,196		909,674	3,078,369
	170,433			244,372
	12,593	11,295		388,904
227	47	2,949		8,586
<u>59,125</u>	<u>335,269</u>	<u>1,514,906</u>	<u>909,674</u>	<u>7,048,036</u>
30,000		40,046		1,077,592
				1,314,187
	245,491			429,739
				5,069
				49,685
				506,483
				1,405,871
				650
			907,672	1,095,231
	165			165
		134	2,000	1,207,005
<u>30,000</u>	<u>245,656</u>	<u>40,180</u>	<u>909,672</u>	<u>7,091,677</u>
29,125	89,613	1,474,726	2	(43,641)
				2,123,500
		(1,300,000)		(2,123,500)
		(1,300,000)		
29,125	89,613	174,726	2	(43,641)
308,473	53,031	872,738	8,916	3,247,162
<u>\$ 337,598</u>	<u>\$ 142,644</u>	<u>\$ 1,047,464</u>	<u>\$ 8,918</u>	<u>\$ 3,203,521</u>
\$ 337,598	\$ 143,019	\$ 383,004	\$ 8,918	\$ 2,398,350
	143			4,290
	(518)	(1,488)		(698,708)
		665,948		1,499,589
<u>\$ 337,598</u>	<u>\$ 142,644</u>	<u>\$ 1,047,464</u>	<u>\$ 8,918</u>	<u>\$ 3,203,521</u>

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

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TO THE FINANCIAL STATEMENT**

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MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Mercer County includes all budgeted and unbudgeted funds under the control of the Mercer 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 Government 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 and 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.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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

Landfill Fund - This fund includes post closure maintenance and monitoring costs of the landfill after final closure. Also included in this fund is the collection and disposal of garbage and recycling materials from residents of Mercer County.

Payroll and Net Profit Tax Fund - This fund is for the collection of local payroll taxes and net profit tax. The primary sources of receipts for this fund are payment of taxes for annual profit and payment of payroll taxes.

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

Public Facilities Construction Corporation Fund - This fund accounts for the funds used for the construction of the Mercer County Judicial Center. The Public Facilities Construction Corporation is a blended component of the county. The State Local Finance Officer does not require the fiscal court to report or budget this 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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

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

The State Local Finance Officer does not require the Public Facilities Construction Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Mercer County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Mercer 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 Mercer 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 the following, including but not limited to, 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.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(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.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. On June 30, 2015, the fiscal court's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$226,242

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	Payroll and Net Profit Tax Fund	Total Transfers In
General Fund	\$	\$ 73,500	\$ 1,300,000	\$ 1,373,500
Jail Fund	750,000			750,000
Total Transfers Out	<u>\$ 750,000</u>	<u>\$ 73,500</u>	<u>\$ 1,300,000</u>	<u>\$ 2,123,500</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.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-Term Debt

A. First Mortgage Revenue Bonds – Judicial Center

On August 1, 2009, the Mercer County Public Properties Corporation issued \$12,385,000 of First Mortgage Revenue Bonds. The proceeds from this issuance were used to (a) provide financing for the acquisition, development, and construction of a new courthouse facility, located within the city, to be used and leased by the Administrative Office of Courts (AOC); (b) pay the principal and interest of the First Mortgage Revenue Bond Anticipation Note; (c) pay capitalized and/or accrued interest, if any; and (d) pay the cost of issuance incurred with respect to the issuance of bonds. Principal payments are due annually on August 1, and interest, which varies at a rate of 1.2% to 4.125%, is payable semi-annually on February 1 and August 1. The outstanding principal balance as of June 30, 2015, is \$9,780,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 555,000	\$ 354,047
2017	570,000	338,282
2018	585,000	320,957
2019	605,000	302,502
2020	625,000	282,197
2021-2025	3,490,000	1,041,403
2026-2029	3,350,000	283,103
Totals	<u>\$ 9,780,000</u>	<u>\$ 2,922,491</u>

Also on August 1, 2009, the Mercer County Fiscal Court entered into a lease agreement with AOC which states that AOC agrees to pay 100% of the debt service requirements. AOC has an exclusive option to renew this agreement from biennium to biennium (July 1 to June 30) for periods of two years at a time.

B. Gateway Building

In September 2008, the Mercer County Fiscal Court entered into a six-year lease with the Kentucky Association of Counties (KACo) Leasing Trust, in the amount of \$1,700,000 to finance the construction and renovation of an office building to be used by the county. This agreement was scheduled to be paid off on September 20, 2013, but the county refinanced the remaining \$325,000 balance by entering into a two-year lease agreement with KACo. Principal payments are due semi-annually in March and September, and interest at a rate of 3.05% is due monthly. The outstanding principal balance as of June 30, 2015, is \$81,264. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 81,264	\$ 633
Totals	<u>\$ 81,264</u>	<u>\$ 633</u>

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-Term Debt (Continued)

C. Sheriff Vehicles

In March 2013, the Mercer County Fiscal Court entered into a four-year lease agreement with Magnolia Bank to purchase three Dodge Chargers for the sheriff's department. The lease was for \$95,410 at an interest rate of 3.9%. Principal and interest payments are due annually in March. The outstanding principal balance as of June 30, 2015, is \$36,418. Future principal and interest payments are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 17,842	\$ 1,240
2017	18,576	506
Totals	<u>\$ 36,418</u>	<u>\$ 1,746</u>

D. Changes in Long-Term Debt

Long-term debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 10,320,000	\$	\$ 540,000	\$ 9,780,000	\$ 555,000
Financing Obligations	297,310		179,628	117,682	99,106
Total Long-term Debt	<u>\$ 10,617,310</u>	<u>\$ 0</u>	<u>\$ 719,628</u>	<u>\$ 9,897,682</u>	<u>\$ 654,106</u>

Note 5. Interlocal Cooperation Agreement

Mercer County has entered into an interlocal cooperation agreement with Boyle County to share in the cost of a regional jail facility. The facility is owned by Boyle County. Mercer County agreed to pay a percentage, not below 35% and not to exceed 65%, of the yearly costs in exchange for use of the facility for Mercer County prisoners.

Note 6. Solid Waste Landfill

Mercer County Fiscal Court (the County) operated a landfill, which ceased operations on June 30, 1992. The county initiated closure operations in April 1991. Closure costs were estimated to be \$52,700 and the county completed the steps necessary to close the landfill. The county believes that it has met all federal, state, and local laws and regulation in regard to the closure of the landfill. Post-closure care consists primarily of groundwater monitoring and landscape maintenance. The county is required to file reports with the appropriate regulatory agencies regarding the findings and groundwater monitoring activities. Post-closure costs are included in the landfill fund. Mercer County expended \$51,715 for post-closure costs for the fiscal year ended June 30, 2015. Future costs are estimated to be the same as what was expended this fiscal year and have been budgeted in the landfill fund. Inflation, deflation, technology, or applicable laws and regulation could affect these costs.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Employee Retirement System

A. Plan Description

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

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

The county's contribution for FY 2013 was \$357,355, FY 2014 was \$340,711, and FY 2015 was \$317,191.

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.

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

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

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

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, 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.

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.

B. Net Pension Liability

As promulgated by GASB Statement No. 68, the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Mercer County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous Total	<u>\$ 2,726,000</u>	<u>\$ 2,409,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 8. Deferred Compensation

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

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

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 9. Health Reimbursement Account

The Mercer County Fiscal Court established a health reimbursement account to provide employees an additional health benefit. The county has contracted with Febco Inc., a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing \$1,500 each year to pay for qualified medical expenses.

Note 10. Insurance

For the fiscal year ended June 30, 2015, Mercer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to industries in Mercer County for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Mercer County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. Conduit debt has been issued but the amount currently outstanding is not reasonably determinable as of June 30, 2015.

Note 12. Contingencies

The fiscal court has a potential liability from a lawsuit that arose from the normal course of doing business that could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 13. Negative Fund Balance

As of June 30, 2015, the road fund had a negative fund balance in the amount of \$37,342.

Note 14. Prior Period Adjustment

The beginning cash balance for the general fund was adjusted by \$1,900 due to the payroll revolving account.

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MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,515,000	\$ 1,515,000	\$ 1,669,187	\$ 154,187
Excess Fees	72,576	72,576	151,615	79,039
Licenses and Permits	6,000	6,000	6,341	341
Intergovernmental	949,030	949,030	675,558	(273,472)
Charges for Services	75,000	75,000	73,939	(1,061)
Miscellaneous	115,500	115,500	178,855	63,355
Interest	7,500	7,500	1,409	(6,091)
Total Receipts	<u>2,740,606</u>	<u>2,740,606</u>	<u>2,756,904</u>	<u>16,298</u>
DISBURSEMENTS				
General Government	1,037,498	1,064,195	993,146	71,049
Protection to Persons and Property	520,000	520,325	406,866	113,459
General Health and Sanitation	166,200	170,400	155,715	14,685
Social Services	66,675	66,675	49,685	16,990
Recreation and Culture	646,400	646,400	506,483	139,917
Debt Service	272,082	272,082	187,559	84,523
Administration	1,377,789	1,346,567	1,014,125	332,442
Total Disbursements	<u>4,086,644</u>	<u>4,086,644</u>	<u>3,313,579</u>	<u>773,065</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,346,038)</u>	<u>(1,346,038)</u>	<u>(556,675)</u>	<u>789,363</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,525,255	1,525,255	1,373,500	(151,755)
Transfers To Other Funds	(782,491)	(782,491)	(750,000)	32,491
Total Other Adjustments to Cash (Uses)	<u>742,764</u>	<u>742,764</u>	<u>623,500</u>	<u>(119,264)</u>
Net Change in Fund Balance	(603,274)	(603,274)	66,825	670,099
Fund Balance Beginning	<u>603,274</u>	<u>603,274</u>	<u>1,023,391</u>	<u>420,117</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,090,216</u>	<u>\$ 1,090,216</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,678,719	\$ 1,678,719	\$ 1,170,074	\$ (508,645)
Miscellaneous	25,000	25,000	186,161	161,161
Interest	3,000	3,000	3,063	63
Total Receipts	<u>1,706,719</u>	<u>1,706,719</u>	<u>1,359,298</u>	<u>(347,421)</u>
DISBURSEMENTS				
General Government	17,300	17,300	14,400	2,900
Protection to Persons and Property	1,200	1,200	465	735
General Health and Sanitation	29,000	29,000	28,503	497
Transportation Facilities and Services	8,500	8,500	5,069	3,431
Roads	1,653,295	1,664,295	1,405,871	258,424
Other Transportation Facilities	700	700	650	50
Capital Assets	40,000	40,000		40,000
Administration	523,750	512,750	190,746	322,004
Total Disbursements	<u>2,273,745</u>	<u>2,273,745</u>	<u>1,645,704</u>	<u>628,041</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(567,026)</u>	<u>(567,026)</u>	<u>(286,406)</u>	<u>280,620</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(73,500)</u>	<u>(73,500)</u>	<u>(73,500)</u>	
Total Other Adjustments to Cash (Uses)	<u>(73,500)</u>	<u>(73,500)</u>	<u>(73,500)</u>	
Net Change in Fund Balance	(640,526)	(640,526)	(359,906)	280,620
Fund Balance Beginning	640,526	640,526	322,564	(317,962)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (37,342)</u>	<u>\$ (37,342)</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 98,400	\$ 98,400	\$ 111,969	\$ 13,569
Miscellaneous	1,000	1,000		(1,000)
Interest	2,200	2,200	891	(1,309)
Total Receipts	<u>101,600</u>	<u>101,600</u>	<u>112,860</u>	<u>11,260</u>
DISBURSEMENTS				
Protection to Persons and Property	893,891	894,641	906,856	(12,215)
Administration	25,200	24,450	30	24,420
Total Disbursements	<u>919,091</u>	<u>919,091</u>	<u>906,886</u>	<u>12,205</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(817,491)</u>	<u>(817,491)</u>	<u>(794,026)</u>	<u>23,465</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	782,491	782,491	750,000	(32,491)
Total Other Adjustments to Cash (Uses)	<u>782,491</u>	<u>782,491</u>	<u>750,000</u>	<u>(32,491)</u>
Net Change in Fund Balance	(35,000)	(35,000)	(44,026)	(9,026)
Fund Balance Beginning	<u>35,000</u>	<u>35,000</u>	<u>658,049</u>	<u>623,049</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 614,023</u>	<u>\$ 614,023</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 70,000	\$ 70,000	\$ 58,898	\$ (11,102)
Interest	500	500	227	(273)
Total Receipts	<u>70,500</u>	<u>70,500</u>	<u>59,125</u>	<u>(11,375)</u>
DISBURSEMENTS				
General Government	30,000	30,000	30,000	
Social Services	5,000	5,000		5,000
Transportation Facilities and Services	100,000	100,000		100,000
Total Disbursements	<u>135,000</u>	<u>135,000</u>	<u>30,000</u>	<u>105,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(64,500)</u>	<u>(64,500)</u>	<u>29,125</u>	<u>93,625</u>
Net Change in Fund Balance	(64,500)	(64,500)	29,125	93,625
Fund Balance Beginning	<u>64,500</u>	<u>64,500</u>	<u>308,473</u>	<u>243,973</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 337,598</u>	<u>\$ 337,598</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LANDFILL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 92,500	\$ 92,500	\$ 152,196	\$ 59,696
Charges for Services	133,000	133,000	170,433	37,433
Miscellaneous	22,000	22,000	12,593	(9,407)
Interest	200	200	47	(153)
Total Receipts	<u>247,700</u>	<u>247,700</u>	<u>335,269</u>	<u>87,569</u>
DISBURSEMENTS				
Protection to Persons and Property	305,900	311,900	245,491	66,409
Administration	25,500	19,500	165	19,335
Total Disbursements	<u>331,400</u>	<u>331,400</u>	<u>245,656</u>	<u>85,744</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(83,700)</u>	<u>(83,700)</u>	<u>89,613</u>	<u>173,313</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>23,000</u>	<u>23,000</u>		<u>(23,000)</u>
Total Other Adjustments to Cash (Uses)	<u>23,000</u>	<u>23,000</u>		<u>(23,000)</u>
Net Change in Fund Balance	(60,700)	(60,700)	89,613	150,313
Fund Balance Beginning	<u>60,700</u>	<u>60,700</u>	<u>53,031</u>	<u>(7,669)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 142,644</u>	<u>\$ 142,644</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

PAYROLL AND NET PROFIT TAX FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,153,000	\$ 1,153,000	\$ 1,500,662	\$ 347,662
Miscellaneous	21,000	21,000	11,295	(9,705)
Interest	2,500	2,500	2,949	449
Total Receipts	<u>1,176,500</u>	<u>1,176,500</u>	<u>1,514,906</u>	<u>338,406</u>
DISBURSEMENTS				
General Government	57,800	57,800	40,046	17,754
Administration	10,700	10,700	134	10,566
Total Disbursements	<u>68,500</u>	<u>68,500</u>	<u>40,180</u>	<u>28,320</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,108,000</u>	<u>1,108,000</u>	<u>1,474,726</u>	<u>366,726</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(1,474,755)	(1,474,755)	(1,300,000)	174,755
Total Other Adjustments to Cash (Uses)	<u>(1,474,755)</u>	<u>(1,474,755)</u>	<u>(1,300,000)</u>	<u>174,755</u>
Net Change in Fund Balance	(366,755)	(366,755)	174,726	541,481
Fund Balance Beginning	<u>366,755</u>	<u>366,755</u>	<u>872,738</u>	<u>505,983</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,047,464</u>	<u>\$ 1,047,464</u>

MERCER COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

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

Note 2. Excess of Disbursements Over Appropriations

The Jail Fund line item Protection to Persons and Property exceeded budgeted appropriations by \$12,215.

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MERCER COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

MERCER COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Restated Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 319,884	\$	\$	\$ 319,884
Buildings and Building Improvements	16,321,232			16,321,232
Vehicles	734,247		14,750	719,497
Machinery and Equipment	1,221,336	7,500		1,228,836
Infrastructure	6,998,894	638,527		7,637,421
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 25,595,593</u>	<u>\$ 646,027</u>	<u>\$ 14,750</u>	<u>\$26,226,870</u>

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

June 30, 2015

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-45
Buildings and Building Improvements	\$ 25,000	10-60
Machinery and Equipment	\$ 5,000	3-20
Vehicles	\$ 5,000	3-20
Infrastructure	\$ 10,000	10-40

Note 2. Prior Period Adjustment

The beginning balance for Land and Improvement, Buildings, Vehicles, Machinery and Equipment, and Infrastructure were adjusted by \$(90,357), \$1,255,493, \$(11,500), \$(138,104) and \$39,544, respectively, to correct errors noted with prior years.

**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***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer 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 Mercer County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Mercer County Fiscal Court's financial statement and have issued our report thereon dated July 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Mercer 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 Mercer County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mercer 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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-006 and 2015-007 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mercer County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, and 2015-007.

County Judge/Executive's Responses to Findings

The Mercer County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Mercer County Judge/Executive'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

July 29, 2016

**MERCER COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

STATE LAWS AND REGULATIONS:

2015-001 The Former County Treasurer Did Not Fulfill Financial Reporting Requirements Associated With The Office

The former county treasurer did not keep records and make reports as required by statute after the first quarter of fiscal year 2015:

- Monthly financial statements were not produced for the fiscal court or jailer.
- Quarterly financial statements were not produced for submission to the State Local Finance Officer.
- Annual settlement was not prepared for the fiscal court.

The fiscal court was making financial decisions on behalf of the county without reports necessary to make informed decisions.

It appears that after the first quarter of 2015, the former treasurer was unable to reconcile ledgers to cash balances. When the error could not be located, the former treasurer was unable to regain control of the financial situation and did not request assistance.

After the former treasurer left office, the county had to hire a third party to complete ledgers, reconcile bank statements, and prepare financial reports for fiscal year 2015. Neither the fiscal court, nor the State Local Finance Officer, knew the financial position of the county for nine months. Without adequate knowledge of the financial position at any given time, it is impossible for the fiscal court to make sound decisions on behalf of the county. Not having adequate financial information, e.g. ledger balances, contributed to the road fund ending the year with a negative balance. Also, not having budget-to-actual reports for the fiscal court to monitor spending contributed to the fiscal court having many line items overspend their budgeted appropriation.

KRS 68.210 gives the State Local Finance Officer the authority to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines duties of the county treasurer as maintenance of ledgers and journals associated with cash receipts, check distribution, appropriations, and investments. Quarterly financial statements are to be prepared and submitted to the State Local Finance Officer. KRS 68.360 requires the treasurer to balance the books on the first day of the month to show the correct amount on hand belonging to each fund on the day the balance is made. Financial reports are to be prepared monthly for the fiscal court and jailer, pursuant to KRS 68.360 and KRS 441.235. KRS 68.050 requires that upon vacation of office, the outgoing treasurer should make full and complete settlement of his or her accounts.

It is recommended the treasurer comply with all requirements associated with the office. It is further recommended the fiscal court ensure that they are adequately informed of the county's financial position on a monthly basis, as necessary to make prudent decisions on behalf of the county.

Judge/Executive's Response: The Mercer County Fiscal Court was aware of the findings in the 2014-2015 audit and have since made major changes in the way our office operates and conducts our financial reporting. To our knowledge, all issues addressed in this report have been corrected and we look forward to our 2015-2016 audit.

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2015-002 The Fiscal Court Held Checks To Vendors To Avoid Overdrawing The Road Fund Bank Account

The fiscal court issued checks for payment for road paving on June 23, 2015, but the fiscal court did not send the checks to the vendor because funds were not sufficient in the road fund bank account to cover the checks. On July 15, 2015, a cash transfer was made into the road fund to sufficiently cover the amount of checks that had been written from the fund. At that time, the checks were sent to the vendor for payment. In discussion with the judge/executive, it appears that the checks were produced in order to be able to request reimbursement from the Kentucky Transportation Cabinet. We noted that the request for reimbursement sent to the Kentucky Transportation Cabinet was dated July 18, 2015, after the date of transfer and checks being sent to the vendor.

The ledger balance in the fund had not been maintained; therefore, it was impossible to know if sufficient cash funds were available to cover the check. This resulted in checks being produced and held by the county in order to not overdraw the bank account, which is an indicator of cash flow problems.

Aside from being a good business practice, maintaining adequate cash balances for paid claims is required by statutes. KRS 68.210 gives the State Local Finance Officer the authority to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* states that the county treasurer is only to sign checks if there is a sufficient fund balance and adequate cash in the bank to cover the check.

We recommend the fiscal court implement procedures to ensure fund balances are sufficient to cover paid claims. Checks should not be issued and held by the fiscal court, but rather produced and sent timely to vendors for payment.

Judge/Executive's Response: Refer to response in comment 2015-001.

2015-003 The Fiscal Court Allowed Claims In Excess Of Budgeted Appropriations

The fiscal court allowed for claims to be paid in excess of budgeted amounts for multiple line items in the general, road, and jail funds.

- The general fund had 26 line items overspent for a total of \$139,359, with three lines overspent more than \$10,000.
- The road fund had nine line items overspent for a total of \$163,224, with four lines overspent more than \$10,000.
- The jail fund had eight line items overspent for a total of \$61,626, with one line overspent more than \$10,000.

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

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2015-003 The Fiscal Court Allowed Claims In Excess Of Budgeted Appropriations (Continued)

The last time that the former treasurer completed financial statements for the fiscal court to review was as of September 30, 2014, leaving the court without the ability to monitor budget-to-actual amounts when approving claims and contributing to fiscal court allowing claims to be paid in excess of the budgeted amount.

It is recommended the fiscal court and county treasurer monitor the budget closely so that should it be necessary, the fiscal court can amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding line-item budget amounts.

Judge/Executive's Response: Refer to response in comment 2015-001.

2015-004 County Funds Were Not Deposited Daily

Deposits were not prepared or deposited daily. One deposit for \$4,147 for the general fund that was posted to the receipts ledger in June 2015 was not deposited until September 2015. Another deposit for \$143 for the landfill fund was posted to the receipts ledger in March 2015 but was not deposited until September 2015. These funds were not deposited timely because sufficient procedures were not in place to ensure deposits were correct and promptly taken to the bank. When funds are not properly deposited, this could result in loss of receipts or misplaced monies.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* require that deposits be made daily and intact. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. We recommend the county comply with KRS 68.210 and make deposits intact on a daily basis.

Judge/Executive's Response: Refer to response in comment 2015-001.

2015-005 The Fiscal Court Did Not Comply With Bidding Requirements

During testing of disbursements, there were payments to four vendors that should have been bid by the fiscal court. There were no bid packets available for review to determine compliance with KRS 424.260. Of the four, two had evidence in fiscal court minutes of bids being awarded. Payments for a cleaning contract for the judicial center totaling \$54,000 per year, and payments to a general contractor funded by a grant in the amount of \$84,280 had no evidence of bidding. The cleaning contract had been entered into during a prior year, but no bid file or evidence of bidding was maintained.

The Mercer County Fiscal Court appeared to be aware of the requirements of KRS 424.260; however, compliance could not be determined due to a lack of maintained documentation. The lack of properly maintained bid documentation was a breakdown of filing bid documentation. Competitive bidding ensures that the county procures materials and services at the best price available. By limiting competition, the county may not get this benefit. In addition, the lack of proper documentation would make it difficult to prove adherence to the provisions of KRS 424.260 and the county's administrative policy.

**MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2015-005 The Fiscal Court Did Not Comply With Bidding Requirements (Continued)

Documentation should be complete and consistent to ensure adequate records management in terms of providing evidence to demonstrate adherence to applicable laws and regulations. KRS 424.260 states, "Except 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 agreement for materials, supplies except for 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." In addition, the *County Budget Preparation and State Local Finance Officer Policy Manual* states, "All contracts, invoices, purchase orders & authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records."

We recommend the Mercer County Fiscal Court follow the requirements of KRS 424.260 and the county's administrative policy. Purchases of \$20,000 or more should be competitively bid unless the requirements for negotiated procurement have been met. Every purchase should have adequate supporting documentation, which includes bid documentation.

Judge/Executive's Response: Refer to response in comment 2015-001.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2015-006 The Fiscal Court Did Not Implement Adequate Segregation Of Duties Over Receipts And Reconciliations

The fiscal court had inadequately segregated duties over receipts and reconciliations. Receipts were received by the former treasurer, who prepared deposit tickets, recorded to ledgers, took deposits to the bank, and then reconciled the account. Occupational tax receipts are received, processed, and the bank deposit is created by the occupational tax administrator. The deposit is given to the treasurer for review and posting to the receipts ledger. The treasurer performed all reconciliations at the times they were completed.

The fiscal court operates with a limited staff, but the former treasurer chose to handle all aspects of the financial process with minimal interaction from others in the office.

Inadequately segregated duties significantly increase the risk of and provide opportunity for financial misstatement errors or fraud to go undetected.

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. When a proper segregation of duties is not possible due to a limited number of staff, officials can implement compensating controls to mitigate associated risks. Some examples of compensating controls are:

- The judge/executive could review deposits and supporting documentation for accuracy, initialing the deposit ticket to document the review.
- The judge/executive could review bank reconciliations, initialing the reconciliation to document the review.

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2015-006 The Fiscal Court Did Not Implement Adequate Segregation Of Duties Over Receipts And Reconciliations (Continued)

It is recommended that the fiscal court implement a system of adequately segregated duties over receipts and reconciliations. If duties cannot be adequately segregated due to a limited number of staff, we recommend the fiscal court ensure compensating controls are implemented to mitigate risks.

Judge/Executive's Response: Refer to response in comment 2015-001.

2015-007 The Fiscal Court Did Not Properly Handle Disbursement Transactions

Auditors tested over 81 disbursement transactions. Of those transactions, the following exceptions were noted:

- Seventeen invoices were not located.
- Three invoices located were copies, not originals.
- Three invoices were not obtained by the fiscal court prior to payment.
- Eight invoices were not paid timely, resulting in penalties of \$17.31 paid by the fiscal court.
- One invoice documented the county was billed for \$58.76, but the county paid \$60.52.
- One invoice documented that the fiscal court paid \$50 for an employee's spouse to attend a conference.
- None of the six credit card transactions tested had itemized invoices supporting the transactions.

Testing of debt service payments noted one late penalty of \$954 paid by the fiscal court. According to the bank, there is a ten day grace period prior to the late penalty assessment.

Claims lists approved by the fiscal court were not maintained in the minutes, nor in fiscal court files. The documentation on file with minutes was a disbursement listing that had been printed after the court meeting.

The fiscal court had not implemented proper accounting procedures and internal controls over disbursements. A consistent filing system was not in place to ensure supporting documentation could be located. When checks were prepared, they were not prepared using the original invoices. Controls were not in place to ensure that payments were timely and accurate when they were paid. Lack of proper accounting practices and internal controls increase the risk of undetected misstatements of financial activity and fraud. Without proper procedures in place or the proper execution of documented controls to mitigate this risk, the county is exposing public resources to potential misstatements and fraud. Further, late payment penalties and expenses for non-employees of the county are not an appropriate use of taxpayer funds and not considered valid obligations of the fiscal court.

Good internal controls dictate that adequate original supporting documentation, including itemized receipts for credit card transactions, should be maintained for all disbursements and approval be obtained before payment. Approval for payments should be documented by maintaining claims lists as they were presented to the fiscal court. All original invoices should be maintained, cancelled upon payment, and paid within thirty days. KRS 65.140(2) states, "Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." Without adequately detailed invoices, there is no proper justification for the disbursement.

**MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2015-007 The Fiscal Court Did Not Properly Handle Disbursement Transactions (Continued)

We recommend the fiscal court implement proper accounting procedures and internal controls over disbursements. Adequate, original documentation should be provided and reviewed to ensure all disbursements are valid obligations of the county. Also, supporting documentation should be maintained as justification that the disbursements were proper. Claims listings should be maintained as presented to the fiscal court to appropriately document what has been approved. We further recommend the county ensure all invoices are paid within 30 days as required by KRS 65.140(2).

Judge/Executive's Response: Refer to response in comment 2015-001.

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

MERCER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MERCER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

The Mercer 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

