

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

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



**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, 2018, 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, 2018, 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, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

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The Honorable Robert J. Leeper, Former McCracken County Judge/Executive

Members of the McCracken County Fiscal Court

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:

- 2018-001 The McCracken County Fiscal Court Lacks Internal Controls Over Cash Processes And Financial Reporting
- 2018-002 Material Weaknesses Exist Over The Reporting Of Liabilities And Debt
- 2018-003 The McCracken County Jail Lacks Adequate Internal Controls Over The Inmate Fund
- 2018-004 The McCracken County Fiscal Court Lacks Adequate Segregation Of Duties Over The Collection Of Receipts
- 2018-005 Weak Internal Controls Resulted In The Misstatement Of Capital Assets On The County's Schedule Of Capital Assets
- 2018-006 The McCracken County Fiscal Court Did Not Have Adequate Internal Controls Over Receipts
- 2018-007 The McCracken County Fiscal Court Lacks Adequate Controls Over Their Bid Process
- 2018-008 The McCracken County Fiscal Court Has Deficiencies With Their Purchase Order System And Reporting Of Encumbrances
- 2018-009 The McCracken County Fiscal Court Did Not Approve Cash Transfers Before They Were Made
- 2018-010 The McCracken County Fiscal Court Lacks Internal Controls Over A Third Party Administrator

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 3, 2019

MCCRACKEN COUNTY OFFICIALS**For The Year Ended June 30, 2018****Fiscal Court Members:**

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

Other Elected Officials:

Sam Clymer	County Attorney
Tonya Ray	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
David Hancock	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, 2018

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

For The Year Ended June 30, 2018

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 11,794,574	\$	\$
In Lieu Tax Payments	1,016,030		
Licenses and Permits	433,151	1,750	
Intergovernmental	3,029,019	4,684,976	3,276,481
Charges for Services	12,070		284,215
Miscellaneous	1,095,653		321,394
Interest	44,038		
Total Receipts	<u>17,424,535</u>	<u>4,686,726</u>	<u>3,882,090</u>
DISBURSEMENTS			
General Government	4,150,900		
Protection to Persons and Property	884,192		5,210,943
General Health and Sanitation	404,237		
Social Services	89,855		
Recreation and Culture	378,534		
Roads		2,889,791	
Airports	141,000		
Bus Services	33,770		
Debt Service	2,130,949		
Capital Projects	159,966	2,576,008	
Administration	2,815,414	619,602	1,765,187
Total Disbursements	<u>11,188,817</u>	<u>6,085,401</u>	<u>6,976,130</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>6,235,718</u>	<u>(1,398,675)</u>	<u>(3,094,040)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds	4,732,537		
Transferred to Borrowing Agent	(4,676,374)		
Transfers From Other Funds	11,539	1,398,068	3,092,561
Transfers To Other Funds	(7,630,561)		
Total Other Adjustments to Cash (Uses)	<u>(7,562,859)</u>	<u>1,398,068</u>	<u>3,092,561</u>
Net Change in Fund Balance	(1,327,141)	(607)	(1,479)
Fund Balance - Beginning	4,315,986		
Fund Balance - Ending	<u>\$ 2,988,845</u>	<u>\$ (607)</u>	<u>\$ (1,479)</u>
Composition of Fund Balance			
Bank Balance	\$ 3,055,781	\$ 257,897	\$ 36,612
Less: Outstanding Checks	(66,936)	(258,504)	(38,091)
Fund Balance - Ending	<u>\$ 2,988,845</u>	<u>\$ (607)</u>	<u>\$ (1,479)</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, 2018
(Continued)

Budgeted Funds						
Local Government Economic Assistance Fund	State Grant Fund	Federal Grant Fund	Sheriff Fund	Economic Assistance Fund	Juvenile Justice Fund	Transient Room Tax Fund
\$	\$	\$	\$	\$	\$	\$ 2,252,721
202	30,775		2,000,061			
				79,238		1,101
<u>202</u>	<u>30,775</u>		<u>2,000,061</u>	<u>79,238</u>		<u>2,253,822</u>
			3,171,037			
	19,674	25,000			74,376	1,511,495
						686,423
			1,722,337			
	<u>19,674</u>	<u>25,000</u>	<u>4,893,374</u>		<u>74,376</u>	<u>2,197,918</u>
<u>202</u>	<u>11,101</u>	<u>(25,000)</u>	<u>(2,893,313)</u>	<u>79,238</u>	<u>(74,376)</u>	<u>55,904</u>
	10,753	25,000	2,889,044		85,915	
					(11,539)	
	<u>10,753</u>	<u>25,000</u>	<u>2,889,044</u>		<u>74,376</u>	
202	21,854		(4,269)	79,238		55,904
	7,721	14,981		722,831		689,750
<u>\$ 202</u>	<u>\$ 29,575</u>	<u>\$ 14,981</u>	<u>\$ (4,269)</u>	<u>\$ 802,069</u>	<u>\$ 0</u>	<u>\$ 745,654</u>
\$ 202	\$ 29,575	\$ 14,981	\$ 131	\$ 802,069	\$ 4,872	\$ 745,654
			(4,400)		(4,872)	
<u>\$ 202</u>	<u>\$ 29,575</u>	<u>\$ 14,981</u>	<u>\$ (4,269)</u>	<u>\$ 802,069</u>	<u>\$ 0</u>	<u>\$ 745,654</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, 2018
(Continued)

	<u>Budgeted Funds</u>		<u>Unbudgeted Fund</u>	<u>Total Funds</u>
	<u>Unclaimed Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Jail Commissary Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 14,047,295
In Lieu Tax Payments				1,016,030
Licenses and Permits				434,901
Intergovernmental		113,390		13,134,904
Charges for Services				296,285
Miscellaneous	8,257		172,222	1,676,764
Interest		31	343	45,513
Total Receipts	<u>8,257</u>	<u>113,421</u>	<u>172,565</u>	<u>30,651,692</u>
DISBURSEMENTS				
General Government				7,321,937
Protection to Persons and Property				6,169,511
General Health and Sanitation				404,237
Social Services				134,529
Recreation and Culture			239,353	2,129,382
Roads				2,889,791
Airports				141,000
Bus Services				33,770
Debt Service		241,610		3,058,982
Capital Projects				2,735,974
Administration		1,000		6,923,540
Total Disbursements	<u></u>	<u>242,610</u>	<u>239,353</u>	<u>31,942,653</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>8,257</u>	<u>(129,189)</u>	<u>(66,788)</u>	<u>(1,290,961)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds				4,732,537
Transferred To Borrowing Agent				(4,676,374)
Transfers From Other Funds		129,220		7,642,100
Transfers To Other Funds				(7,642,100)
Total Other Adjustments to Cash (Uses)	<u></u>	<u>129,220</u>	<u></u>	<u>56,163</u>
Net Change in Fund Balance	8,257	31	(66,788)	(1,234,798)
Fund Balance - Beginning		2	244,152	5,995,423
Fund Balance - Ending	<u>\$ 8,257</u>	<u>\$ 33</u>	<u>\$ 177,364</u>	<u>\$ 4,760,625</u>
Composition of Fund Balance				
Bank Balance	\$ 8,257	\$ 33	\$ 177,459	\$ 5,133,523
Less: Outstanding Checks			(95)	(372,898)
Fund Balance - Ending	<u>\$ 8,257</u>	<u>\$ 33</u>	<u>\$ 177,364</u>	<u>\$ 4,760,625</u>

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

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TO THE FINANCIAL STATEMENT**

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**MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

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, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (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.

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.

Unclaimed Revenue Fund - The primary purpose of this fund is to account for assets from the estates of pauper burials the county is responsible for.

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 Fund

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 or to enhance safety and security within the jail. 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

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

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

E. McCracken County Elected Officials

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

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

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).

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

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

H. Related Obligations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organizations governing board. Based on this criteria, the following are considered related organizations of McCracken Fiscal Court:

Paducah-McCracken County Convention Center and Visitors Bureau
 McCracken County Extension District
 Paducah-McCracken County Joint Sewer Agency
 West McCracken Water/Sewer District
 Hendron Water District
 Paducah-McCracken County Senior Citizens Center
 McCracken County Public Library
 Hendron Fire District
 Concord Fire District
 Lone Oak Fire District
 Melber Fire District
 West McCracken Fire District
 Reidland-Farley Fire District

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on this criteria, the following are considered joint ventures of the McCracken Fiscal Court:

Greater Paducah Economic Development (GPED)
 McCracken and Paducah Geographic Information Systems
 Paducah-McCracken County 911
 Paducah-McCracken Industrial Development Authority

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.

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

Note 2. Deposits (Continued)

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

Note 3. Transfers

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

	General Fund	Juvenile Justice Fund	Total Transfers In
General Fund	\$	\$ 11,539	\$ 11,539
Road Fund	1,398,068		1,398,068
Jail Fund	3,092,561		3,092,561
State Grant Fund	10,753		10,753
Federal Grant Fund	25,000		25,000
Sheriff Fund	2,889,044		2,889,044
Juvenile Justice Fund	85,915		85,915
Debt Service	129,220		129,220
	<u>\$ 7,630,561</u>	<u>\$ 11,539</u>	<u>\$ 7,642,100</u>
Total Transfers Out	<u>\$ 7,630,561</u>	<u>\$ 11,539</u>	<u>\$ 7,642,100</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Agency Trust 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, 2018, was \$21,965.

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, 2018, was \$34,970.

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

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, 2018, 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 year. As of June 30, 2018, the remaining balance was \$67,960.

Note 7. Long-term Debt

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

On November 22, 2011, the fiscal court issued 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, 2018, was \$7,435,000. Future principal and interest requirements are as follows:

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

Note 7. Long-term Debt (Continued)

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

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 445,000	\$ 206,044
2020	455,000	197,044
2021	465,000	187,263
2022	480,000	176,331
2023	490,000	164,506
2024-2028	2,655,000	611,828
2029-2032	<u>2,445,000</u>	<u>170,000</u>
Totals	<u>\$ 7,435,000</u>	<u>\$ 1,713,016</u>

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

On June 17, 2013, the fiscal court sold McCracken County, Kentucky General Obligation Bonds, (TeleTech Project), Series 2013A. the bonds originally totaled \$1,415,000, and the proceeds will be used for the purposes of (i) financing the acquisition, construction, installation, and equipping of an approximately 30,000 square foot building, which will be subleased to TeleTech Services Corporation, and (ii) paying the costs of issuance of the bonds, which are dated June 17, 2013, have interest rates of 1 percent to 5 percent and mature beginning in December 2013 through December 2032. The balance on these bonds as of June 30, 2018, was \$1,140,000. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 55,000	\$ 48,063
2020	60,000	46,625
2021	60,000	44,900
2022	65,000	42,869
2023	65,000	40,756
2024-2028	360,000	162,375
2029-2033	<u>475,000</u>	<u>61,875</u>
Totals	<u>\$ 1,140,000</u>	<u>\$ 447,463</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(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, 2018, was \$2,195,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 220,000	\$ 77,850
2020	230,000	71,100
2021	235,000	64,125
2022	240,000	57,000
2023	250,000	49,650
2024-2028	515,000	169,825
2029-2033	410,000	76,750
2034	95,000	2,375
Totals	<u>\$ 2,195,000</u>	<u>\$ 568,675</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, 2018, outstanding bond principal was \$1,750,000. Future principal and interest requirements are:

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

Note 7. Long-term Debt (Continued)

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

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 200,000	\$ 43,989
2020	205,000	40,439
2021	205,000	36,082
2022	215,000	30,981
2023	215,000	25,230
2024-2027	<u>710,000</u>	<u>36,261</u>
Totals	<u>\$ 1,750,000</u>	<u>\$ 212,982</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. On September 25, 2017, in order to save costs, the fiscal court refinanced a portion of the outstanding lease. The unrefunded balance of the 2010 lease was \$843,333. The maturity date of the obligation is January 1, 2021. As of June 30, 2018, outstanding principal was \$642,500. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 250,000	\$ 36,213
2020	260,000	21,688
2021	<u>132,500</u>	<u>6,337</u>
Totals	<u>\$ 642,500</u>	<u>\$ 64,238</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. On September 25, 2017, in order to save costs, the fiscal court refinanced a portion of the outstanding lease. The unrefunded balance of the 2010 lease was \$936,667. The maturity date of the obligation is January 1, 2021. As of June 30, 2018, outstanding principal was \$715,000. Future principal and interest requirements are:

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

Note 7. Long-term Debt (Continued)

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

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 277,500	\$ 36,425
2020	290,000	21,813
2021	147,500	6,637
Totals	<u>\$ 715,000</u>	<u>\$ 64,875</u>

G. U.S. Bank 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, 2018, outstanding bond principal was \$3,002,425. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 185,432	\$ 64,743
2020	189,516	60,660
2021	193,689	56,487
2022	197,954	52,222
2023	202,313	47,863
2024-2028	1,080,380	170,498
2029-2032	953,141	47,563
Totals	<u>\$ 3,002,425</u>	<u>\$ 500,036</u>

H. Financing Obligation - 2017 Refunding General Obligation Lease

On September 25, 2017, the fiscal court entered into an agreement with Regions Equipment Finance in the sum of \$4,732,537. The financing obligation is for the purpose of partial refinance of the two 2010 KACO leases (Note 7E and 7F), in order to provide savings for the county. The maturity date of the obligation is January 24, 2032. As of June 30, 2018, outstanding principal was \$4,685,888. Future principal and interest requirements are:

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

Note 7. Long-term Debt (Continued)

H. Financing Obligation - 2017 Refunding General Obligation Lease (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 53,107	\$ 135,649
2020	60,537	134,005
2021	357,084	130,449
2022	664,252	113,834
2023	680,684	94,300
2024-2028	2,680,734	195,588
2029	189,490	1,611
Totals	<u>\$ 4,685,888</u>	<u>\$ 805,436</u>

I. Notes Payable

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

On August 19, 2010, the McCracken County Fiscal Court (County) issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$3,582,500. The note was authorized for the purpose of paying the County's 50 percent portion of the refinancing costs related to the original acquisition, construction, installation, and equipping of the expansion to the Julian Carroll Convention Center and the construction of the Four Rivers Center for the Performing Arts (collectively, the Project) and paying the County's 50 percent portion of the costs of issuance by the City of 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, 2018, was \$2,032,500. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 227,500	\$ 61,784
2020	235,000	55,869
2021	242,500	48,819
2022	250,000	41,544
2023	257,500	34,043
2024-2026	820,000	53,538
Totals	<u>\$ 2,032,500</u>	<u>\$ 295,597</u>

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

Note 7. Long-term Debt (Continued)

I. Notes Payable (Continued)

2. Speculative Building - City of Paducah

On August 23, 2011, the McCracken County Fiscal Court (County) issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$1,955,000. The note was authorized for the purpose of refinancing the May 1, 2004 note payable to the City. 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, 2018, was \$960,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 160,000	\$ 35,328
2020	167,500	29,440
2021	172,500	23,276
2022	180,000	16,928
2023	187,500	10,304
2024	92,500	3,404
Totals	<u>\$ 960,000</u>	<u>\$ 118,680</u>

3. 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, 2018, was \$1,478,787. Annual debt service requirements to maturity are as follows:

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

Note 7. Long-term Debt (Continued)

I. Notes Payable (Continued)

3. Julian Carroll Convention Center - City of Paducah (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 24,102	\$ 29,160
2020	23,623	28,685
2021	23,820	28,217
2022	24,158	27,743
2023	24,639	27,262
2024-2028	487,825	123,439
2029-2032	870,620	39,182
Totals	<u>\$ 1,478,787</u>	<u>\$ 303,688</u>

J. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 11,480,000	\$	\$ 710,000	\$ 10,770,000	\$ 720,000
Revenue Bonds	1,945,000		195,000	1,750,000	200,000
Financing Obligations	9,333,544	4,732,537	5,020,268	9,045,813	766,039
Notes Payable	4,872,500		401,213	4,471,287	411,602
Total Long-term Debt	<u>\$ 27,631,044</u>	<u>\$ 4,732,537</u>	<u>\$ 6,326,481</u>	<u>\$ 26,037,100</u>	<u>\$ 2,097,641</u>

Note 8. Employee Retirement System

Plan Description

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

The county's contribution for FY 2016 was \$2,023,679, FY 2017 was \$2,089,573, and FY 2018 was \$2,189,754.

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

Note 8. Employee Retirement System (Continued)

Nonhazardous

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

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

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

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

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.

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

Note 8. Employee Retirement System (Continued)

Hazardous (Continued)

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 31.55 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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.

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

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

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

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

Note 8. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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

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

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

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

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

D. Cost of Living Adjustments - Tier 1

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

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

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

F. Death Benefit

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

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

Note 8. Employee Retirement System (Continued)

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646. KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 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.

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, 2018, 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, 2018, final approval of the closure had not yet been granted. Closure costs for FYE June 30, 2018, were \$24,325. In April 2018, the City of Paducah reimbursed the county \$23,743 for its share of landfill expenses paid from April 2017 through March 2018.

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

Note 11. Landfill Closure and Post-Closure Costs (Continued)

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.

Note 12. 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, 2018

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MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 11,220,000	\$ 11,220,000	\$ 11,794,574	\$ 574,574
In Lieu Tax Payments	980,000	980,000	1,016,030	36,030
Licenses and Permits	436,250	436,250	433,151	(3,099)
Intergovernmental	3,120,341	3,120,341	3,029,019	(91,322)
Charges for Services	8,000	8,000	12,070	4,070
Miscellaneous	719,820	719,820	1,095,653	375,833
Interest	25,000	25,000	44,038	19,038
Total Receipts	<u>16,509,411</u>	<u>16,509,411</u>	<u>17,424,535</u>	<u>915,124</u>
DISBURSEMENTS				
General Government	4,430,351	4,437,662	4,150,900	286,762
Protection to Persons and Property	955,831	992,379	884,192	108,187
General Health and Sanitation	430,615	444,440	404,237	40,203
Social Services	75,000	98,112	89,855	8,257
Recreation and Culture	480,980	402,524	378,534	23,990
Airports	135,000	141,000	141,000	
Bus Services	34,000	34,000	33,770	230
Debt Service	1,822,835	1,879,484	2,130,949	(251,465)
Capital Projects		159,966	159,966	
Administration	3,477,196	2,940,317	2,815,414	124,903
Total Disbursements	<u>11,841,808</u>	<u>11,529,884</u>	<u>11,188,817</u>	<u>341,067</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>4,667,603</u>	<u>4,979,527</u>	<u>6,235,718</u>	<u>1,256,191</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			4,732,537	4,732,537
Transferred to Borrowing Agent			(4,676,374)	(4,676,374)
Transfers From Other Funds			11,539	11,539
Transfers To Other Funds	(8,173,608)	(8,173,608)	(7,630,561)	543,047
Total Other Adjustments to Cash (Uses)	<u>(8,173,608)</u>	<u>(8,173,608)</u>	<u>(7,562,859)</u>	<u>610,749</u>
Net Change in Fund Balance	(3,506,005)	(3,194,081)	(1,327,141)	1,866,940
Fund Balance - Beginning	<u>3,510,605</u>	<u>3,510,605</u>	<u>4,315,986</u>	<u>805,381</u>
Fund Balance - Ending	<u>\$ 4,600</u>	<u>\$ 316,524</u>	<u>\$ 2,988,845</u>	<u>\$ 2,672,321</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$	\$	\$ 1,750	\$ 1,750
Intergovernmental	5,535,280	5,535,280	4,684,976	(850,304)
Total Receipts	<u>5,535,280</u>	<u>5,535,280</u>	<u>4,686,726</u>	<u>(848,554)</u>
DISBURSEMENTS				
Roads	3,138,877	3,123,309	2,889,791	233,518
Capital Projects	3,900,000	3,900,000	2,576,008	1,323,992
Administration	609,475	625,043	619,602	5,441
Total Disbursements	<u>7,648,352</u>	<u>7,648,352</u>	<u>6,085,401</u>	<u>1,562,951</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,113,072)</u>	<u>(2,113,072)</u>	<u>(1,398,675)</u>	<u>714,397</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,113,072	2,113,072	1,398,068	(715,004)
Total Other Adjustments to Cash (Uses)	<u>2,113,072</u>	<u>2,113,072</u>	<u>1,398,068</u>	<u>(715,004)</u>
Net Change in Fund Balance			(607)	(607)
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (607)</u>	<u>\$ (607)</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 3,733,600	\$ 3,733,600	\$ 3,276,481	\$ (457,119)
Charges for Services	149,600	149,600	284,215	134,615
Miscellaneous	260,000	260,000	321,394	61,394
Total Receipts	<u>4,143,200</u>	<u>4,143,200</u>	<u>3,882,090</u>	<u>(261,110)</u>
DISBURSEMENTS				
Protection to Persons and Property	5,125,374	5,317,250	5,210,943	106,307
Administration	1,879,615	1,880,982	1,765,187	115,795
Total Disbursements	<u>7,004,989</u>	<u>7,198,232</u>	<u>6,976,130</u>	<u>222,102</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,861,789)</u>	<u>(3,055,032)</u>	<u>(3,094,040)</u>	<u>(39,008)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>2,861,789</u>	<u>2,861,789</u>	<u>3,092,561</u>	<u>230,772</u>
Total Other Adjustments to Cash (Uses)	<u>2,861,789</u>	<u>2,861,789</u>	<u>3,092,561</u>	<u>230,772</u>
Net Change in Fund Balance		(193,243)	(1,479)	191,764
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (193,243)</u>	<u>\$ (1,479)</u>	<u>\$ 191,764</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 15,000	\$ 15,000	\$ 202	\$ (14,798)
Total Receipts	15,000	15,000	202	(14,798)
DISBURSEMENTS				
Social Services	6,000	6,000		6,000
Total Disbursements	6,000	6,000		6,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	9,000	9,000	202	(8,798)
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(9,000)	(9,000)		9,000
Total Other Adjustments to Cash (Uses)	(9,000)	(9,000)		9,000
Net Change in Fund Balance			202	202
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 202	\$ 202

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

	STATE GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 200,000	\$ 200,000	\$ 30,775	\$ (169,225)
Total Receipts	200,000	200,000	30,775	(169,225)
DISBURSEMENTS				
Social Services	200,000	200,000	19,674	180,326
Total Disbursements	200,000	200,000	19,674	180,326
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			11,101	11,101
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			10,753	10,753
Total Other Adjustments to Cash (Uses)			10,753	10,753
Net Change in Fund Balance			21,854	21,854
Fund Balance - Beginning			7,721	7,721
Fund Balance - Ending	\$ 0	\$ 0	\$ 29,575	\$ 29,575

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

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 300,000	\$ 300,000	\$	\$ (300,000)
Total Receipts	300,000	300,000		(300,000)
DISBURSEMENTS				
Social Services	300,000	300,000	25,000	275,000
Total Disbursements	300,000	300,000	25,000	275,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			(25,000)	(25,000)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			25,000	25,000
Total Other Adjustments to Cash (Uses)			25,000	25,000
Net Change in Fund Balance				
Fund Balance - Beginning			14,981	14,981
Fund Balance - Ending	\$ 0	\$ 0	\$ 14,981	\$ 14,981

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

	SHERIFF FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,000,000	\$ 2,000,000	\$ 2,000,061	\$ 61
Total Receipts	2,000,000	2,000,000	2,000,061	61
DISBURSEMENTS				
General Government	3,139,598	3,206,575	3,171,037	35,538
Administration	1,672,289	1,723,993	1,722,337	1,656
Total Disbursements	4,811,887	4,930,568	4,893,374	37,194
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,811,887)	(2,930,568)	(2,893,313)	37,255
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,807,287	2,807,287	2,889,044	81,757
Total Other Adjustments to Cash (Uses)	2,807,287	2,807,287	2,889,044	81,757
Net Change in Fund Balance	(4,600)	(123,281)	(4,269)	119,012
Fund Balance - Beginning				
Fund Balance - Ending	\$ (4,600)	\$ (123,281)	\$ (4,269)	\$ 119,012

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

ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 83,760	\$ 83,760	\$ 79,238	\$ (4,522)
Total Receipts	<u>83,760</u>	<u>83,760</u>	<u>79,238</u>	<u>(4,522)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>83,760</u>	<u>83,760</u>	<u>79,238</u>	<u>(4,522)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(83,760)</u>	<u>(83,760)</u>		<u>83,760</u>
Total Other Adjustments to Cash (Uses)	<u>(83,760)</u>	<u>(83,760)</u>		<u>83,760</u>
Net Change in Fund Balance			79,238	79,238
Fund Balance - Beginning			<u>722,831</u>	<u>722,831</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 802,069</u>	<u>\$ 802,069</u>

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

JUVENILE JUSTICE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Protection to Persons and Property Administration	\$ 95,000	\$ 95,000	\$ 74,376	\$ 20,624
	10,500	10,500		10,500
Total Disbursements	105,500	105,500	74,376	31,124
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(105,500)	(105,500)	(74,376)	31,124
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	105,500	105,500	85,915	(19,585)
Transfers To Other Funds			(11,539)	(11,539)
Total Other Adjustments to Cash (Uses)	105,500	105,500	74,376	(31,124)
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, 2018
(Continued)

TRANSIENT ROOM TAX FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,414,902	\$ 2,414,902	\$ 2,252,721	\$ (162,181)
Interest	500	500	1,101	601
Total Receipts	<u>2,415,402</u>	<u>2,415,402</u>	<u>2,253,822</u>	<u>(161,580)</u>
DISBURSEMENTS				
Recreation and Culture	2,414,902	1,728,479	1,511,495	216,984
Debt Service		686,423	686,423	
Total Disbursements	<u>2,414,902</u>	<u>2,414,902</u>	<u>2,197,918</u>	<u>216,984</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>500</u>	<u>500</u>	<u>55,904</u>	<u>55,404</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(500)	(500)		500
Total Other Adjustments to Cash (Uses)	<u>(500)</u>	<u>(500)</u>		<u>500</u>
Net Change in Fund Balance			55,904	55,904
Fund Balance - Beginning			<u>689,750</u>	<u>689,750</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 745,654</u>	<u>\$ 745,654</u>

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

UNCLAIMED REVENUE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$ 8,257	\$ 8,257
Total Receipts			8,257	8,257
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			8,257	8,257
Net Change in Fund Balance			8,257	8,257
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 8,257	\$ 8,257

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

	DEBT SERVICE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$		\$ 113,390	\$ 113,390
Interest			31	31
Total Receipts			113,421	113,421
DISBURSEMENTS				
Debt Service	129,220	130,220	241,610	(111,390)
Administration	250,000	249,000	1,000	248,000
Total Disbursements	379,220	379,220	242,610	136,610
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(379,220)	(379,220)	(129,189)	250,031
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	379,220	379,220	129,220	(250,000)
Total Other Adjustments to Cash (Uses)	379,220	379,220	129,220	(250,000)
Net Change in Fund Balance			31	31
Fund Balance - Beginning			2	2
Fund Balance - Ending	\$ 0	\$ 0	\$ 33	\$ 33

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

June 30, 2018

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

General fund debt service exceeded budgeted appropriations by \$251,465. Debt service fund debt service exceeded budgeted appropriations by \$111,390.

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

For The Year Ended June 30, 2018

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MCCRACKEN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,839,848	\$ 104,612	\$	\$ 1,944,460
Construction In Progress	4,470,109	3,117,690	3,067,411	4,520,388
Buildings	38,985,000	3,433,342		42,418,342
Vehicles and Equipment	8,334,633	611,728	55,090	8,891,271
Infrastructure	90,445,597	1,070,364		91,515,961
	<u>\$ 144,075,187</u>	<u>\$ 8,337,736</u>	<u>\$ 3,122,501</u>	<u>\$ 149,290,422</u>
Total Capital Assets				

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

June 30, 2018

Note 1. Capital Assets

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

	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

**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, 2018, 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 2018-001, 2018-002, 2018-003, and 2018-004 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 2018-005, 2018-006, 2018-007, 2018-008, 2018-009, and 2018-010 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 3, 2019

**MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2018-001 The McCracken County Fiscal Court Lacks Internal Controls Over Cash Processes And Financial Reporting

This is a repeat finding and was included in the prior year audit report as finding 2017-001. The McCracken County Fiscal Court's Fourth Quarter Settlement did not agree to the county's ledgers, and the budget listed on the fourth quarter did not agree to the original budget passed for fiscal year 2018. When bank reconciliations were completed, the incorrect numbers were used, which resulted in the road, jail, and sheriff funds having a negative fund balance at year end. The road fund, jail fund, and sheriff fund had negative balances of \$607, \$1,479, and \$4,269, respectively.

The McCracken County Fiscal Court uses a single bank account for its operating fund, and keeps its cash balance on the ledgers in the general fund. During the year, when disbursements were made from the road, jail, and sheriff funds, cash was transferred to those funds on the ledgers to cover the claims. Due to a lack of understanding in the software and a change in treasurers at year end, not enough cash was transferred to those funds.

The McCracken County Fiscal Court's lack of controls over cash transfers resulted in a deficit in three funds, and an overstatement of the general fund. The fiscal court is also not in compliance with KRS 68.210 and KRS 68.110.

Strong internal controls require oversight over the movement of funds in order to decrease risk. The fiscal court is responsible for providing oversight to the treasurer and making the county's financial decisions. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation & State Local Finance Officer Policy Manual* requires the treasurer to countersign checks only if the following conditions exist: the claim is reviewed by fiscal court, sufficient fund balance and adequate cash in bank to cover the check, and adequate free balance in a properly budgeted appropriation account to cover the check. Also, KRS 68.110 states "[t]he fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year or levied, collected or appropriated for any special purpose."

We recommend that fiscal court approve and document all cash transfers in the fiscal court minutes before the transfers take place and ensure all financial statements are accurate and in agreement with other financial documentation. We further recommend the fiscal court consider separate checking accounts for each fund in order to ensure the cash balance in each fund is sufficient to pay claims.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: A clerical error occurred at the end of FY18. A new accounts payable batch was created for July 2018 in order to pay certain items allowable by standing order. However, the checks were inadvertently dated 6/28/18, which made them appear in the wrong year. Accounts payable clerk has been instructed to watch dates carefully.

2018-002 Material Weaknesses Exist Over The Reporting Of Liabilities And Debt

This is a repeat finding and was included in the prior year audit report as finding 2017-002. Material weaknesses existed over the reporting of liabilities and debt of McCracken County. Due to an oversight and a turnover in the treasurer position at the end of the 2018 fiscal year, no outstanding debt balances were reported on the Fourth Quarter Financial Report as of June 30, 2018.

MCCRACKEN COUNTY
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(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2018-002 Material Weaknesses Exist Over The Reporting Of Liabilities And Debt (Continued)

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.

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 further 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.

2018-003 The McCracken County Jail Lacks Adequate Internal Controls Over The Inmate Fund

This is a repeat finding and was included in the prior year audit report as finding 2017-004. 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. A 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 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 Jailer's Response: Tonya Ray Former McCracken County Jailer has no say in continued use of commissary account.

MCCRACKEN COUNTY
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For The Year Ended June 30, 2018
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2018-004 The McCracken County Fiscal Court Lacks Adequate Segregation Of Duties Over The Collection Of Receipts

The McCracken County Fiscal Court lacks adequate segregation of duties over the collection of receipts. The county treasurer prepares the deposit, posts the receipts to the ledger, and reconciles the bank statements monthly.

Due to the lack of internal controls in place, the duties associated with the custody, recordkeeping, reconciling, and authorization of receipts are not segregated. A lack of segregation of duties or strong oversight increases the risk of undetected errors and fraud. Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets and financial reporting, we recommend that the judge segregate the duties noted above by having an individual independent of the cash receipts process review a daily checkout sheet documenting all receipts for the day and comparing it to the daily deposit slip. We further recommend that an individual independent of the cash receipts process review postings to the ledgers and monthly bank reconciliations. Documentation, such as the reviewer's initials or signature, should be provided on those items that are reviewed.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: A daily receipt log is now maintained by the judge's executive secretary. This log will be compared to deposits and receipts posting to the ledger.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2018-005 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 2017-003. The fiscal court failed to periodically conduct physical inspections of all assets to make comparisons to the capital asset list. The fiscal court's schedule of capital assets for the period of audit was misstated by a total of \$107,939. The category of land improvements was misstated by \$52,849 because the fiscal court failed to include an addition, and vehicles and equipment were misstated by \$55,090 because the fiscal court failed to recognize asset retirements that occurred throughout the year. Also, asset additions totaling \$198,445 were not added to the county's insurance, and one asset disposal was not removed from the county's insurance.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation and loss. These errors occurred because the fiscal court failed to emphasize strong internal controls over 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, assets were not properly insured and a misstatement was able to occur without detection.

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, as

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-005 Weak Internal Controls Resulted In The Misstatement Of Capital Assets On The County's Schedule Of Capital Assets (Continued)

well as the county's insurance policy, 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 should be properly authorized by the 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.

2018-006 The McCracken County Fiscal Court Did Not Have Adequate Internal Controls Over Receipts

This is a repeat finding and was included in the prior year audit report as finding 2017-006. In Fiscal Year 2018, the McCracken County Fiscal Court had internal control deficiencies and non-compliances regarding the collection of receipts. The following issues 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.
- 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. 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.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-006 The McCracken County Fiscal Court Did Not Have Adequate Internal Controls Over Receipts
(Continued)

To address these issues, we recommend the following.

- Pre-numbered, triplicate receipts should be issued for applicable transactions according to KRS 64.840.
- 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 on 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.

2018-007 The McCracken County Fiscal Court Lacks Adequate Controls Over Their Bid Process

The McCracken County Fiscal Court did not follow the bid process before entering into a monthly service agreement that over the course of the year was above the \$20,000 threshold set by KRS 424.260. Also, during the 2018 fiscal year, the county purchased a vehicle using a state pricing contract, but the incorrect price was used by the dealership.

Due to an oversight by the McCracken County Fiscal Court, the fiscal court failed to bid this monthly service contract, and did not notice that the incorrect price was being used for the vehicle purchased. Since bidding procedures were not followed, it is possible that the county did not get the best value for services provided. This also 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.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-008 The McCracken County Fiscal Court Has Deficiencies With Their Purchase Order System And Reporting Of Encumbrances

This is a repeat comment and was included in the prior year audit report as finding 2017-007. 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 allowed to make orders and purchases without obtaining a purchase order from the finance office. Due to the system not working as designed, the 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 designed and works effectively creates strong internal controls over expenditures, and will aid in correctly reporting encumbrances.

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 FY 18/19.

2018-009 The McCracken County Fiscal Court Did Not Approve Cash Transfers Before They Were Made

This is a repeat finding and was included in prior year audit report as finding 2017-008. Throughout fiscal year 2018, cash transfers were made prior to being approved by the fiscal court. Some were then later recognized by the fiscal court in future fiscal court meetings, while some were not recognized in the fiscal court meetings at all.

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.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-010 The McCracken County Fiscal Court Lacks Internal Controls Over A Third Party Administrator

During fiscal year 2018, the McCracken County Fiscal Court approved health plans elected by employees, including plans that contained an employer funded Health Reimbursement Account (HRA). Each health insurance plan details the annual contribution to the HRA from the county. The McCracken County Fiscal Court has contracted with a third party administrator to administer the HRA accounts. During the year, the third party administrator was allowing the employees more than the annual contribution approved by fiscal court. Of the seven employees tested, three employees' total elections in their HRA account was more than the annual contribution from the county.

Due to the lack of internal controls and the fact reports are not provided by the third party administrator, the account balances for employees were not being reviewed nor reconciled to the county's records. Because of the lack of internal controls, this error went undetected. Furthermore, the county was overcharged, and employees received benefits not approved by the fiscal court.

Strong internal controls are vital in ensuring that employees' HRA amounts are calculated and 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.

We recommend the McCracken County Fiscal Court implement internal controls over the third party administrator and HRA accounts. Reports from the third party administrator should be generated on a monthly basis, and the McCracken County Fiscal Court should review and reconcile the account balances to the county's records to ensure accuracy and that the county is paying for benefits approved by the fiscal court.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: Monthly reports will be requested from the third party administrator to be reviewed and reconciled.