

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

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY FISCAL COURT

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Mercer County Fiscal Court for fiscal year ended June 30, 2011. We have issued unqualified opinions on the governmental activities, business-type activities, and each major fund of Mercer County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$9,623,588 as of June 30, 2011. The fiscal court had unrestricted net assets of \$3,595,541 in its governmental activities as of June 30, 2011, with total net assets of \$9,355,342. In its business-type activities, total net cash and cash equivalents were \$240,441 with total net assets of \$268,246. The fiscal court had total debt principal as of June 30, 2011 of \$12,827,879 with \$837,727 due within the next year.

Report Comments:

- 2011-01 The Fiscal Court Should Improve Internal Controls Over Cash Handling And Deposits At The Animal Shelter
- 2011-02 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With GASB 34 And Department For Local Government Requirements And Inventory Capital Assets Periodically
- 2011-03 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
- 2011-04 The Fiscal Court Should Improve Procedures Over Purchase Orders
- 2011-05 The Fiscal Court Should Limit 4th Year Expenditures

Deposits:

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

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Mercer County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mercer County Fiscal Court. Our responsibility is to express opinions on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Mercer County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Mercer County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2012 on our consideration of Mercer County, Kentucky'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 and should be considered in assessing the results of our audit.

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

- 2011-01 The Fiscal Court Should Improve Internal Controls Over Cash Handling And Deposits At The Animal Shelter
- 2011-02 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With GASB 34 And Department For Local Government Requirements And Inventory Capital Assets Periodically
- 2011-03 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
- 2011-04 The Fiscal Court Should Improve Procedures Over Purchase Orders
- 2011-05 The Fiscal Court Should Limit 4th Year Expenditures

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

January 20, 2012

MERCER COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

| | |
|------------------|------------------------|
| Milward Dedman | County Judge/Executive |
| Ronnie Sims | Magistrate |
| J.B. Claunch | Magistrate |
| Larry Peyton | Magistrate |
| Donnie Webb | Magistrate |
| Wayne T. Jackson | Magistrate |
| Dennis Holiday | Magistrate |

Other Elected Officials:

| | |
|-------------------|----------------------------------|
| Ted Dean | County Attorney |
| Cleo W. Baker Jr. | Jailer |
| Chris Horn | County Clerk |
| Beth Neal | Circuit Court Clerk |
| Ernie Kelty | Sheriff |
| David Best | Property Valuation Administrator |
| Sonny Ransdell | Coroner |

Appointed Personnel:

| | |
|----------------|----------------------------|
| Gayle Horn | County Treasurer |
| Sandy Sanders | Occupational Tax Collector |
| Billy Humphrey | Road Supervisor |

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MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Totals |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 7,451,579 | \$ 240,441 | \$ 7,692,020 |
| Note Receivable (Hospital Equipment) | 67,727 | | 67,727 |
| Total Current Assets | <u>7,519,306</u> | <u>240,441</u> | <u>7,759,747</u> |
| Noncurrent Assets: | | | |
| Note Receivable (Hospital Equipment) | 35,152 | | 35,152 |
| Capital Assets - Net of Accumulated Depreciation | | | |
| Construction In Progress | 7,772,169 | | 7,772,169 |
| Land and Land Improvements | 367,384 | | 367,384 |
| Buildings | 3,349,773 | 26,800 | 3,376,573 |
| Machinery/Equipment | 668,750 | 1,005 | 669,755 |
| Vehicles | 99,180 | | 99,180 |
| Infrastructure | 2,371,507 | | 2,371,507 |
| Total Noncurrent Assets | <u>14,663,915</u> | <u>27,805</u> | <u>14,691,720</u> |
| Total Assets | <u>22,183,221</u> | <u>268,246</u> | <u>22,451,467</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts Payable | | | |
| Bonds Payable | 510,000 | | 510,000 |
| Financing Obligations Payable | 327,727 | | 327,727 |
| Total Current Liabilities | <u>837,727</u> | | <u>837,727</u> |
| Noncurrent Liabilities: | | | |
| Bonds Payable | 11,370,000 | | 11,370,000 |
| Financing Obligations Payable | 620,152 | | 620,152 |
| Total Noncurrent Liabilities | <u>11,990,152</u> | | <u>11,990,152</u> |
| Total Liabilities | <u>12,827,879</u> | | <u>12,827,879</u> |
| NET ASSETS | | | |
| Invested in Capital Assets, Net of Related Debt | 1,800,884 | 27,805 | 1,828,689 |
| Restricted For: | | | |
| Roads | 231,514 | | 231,514 |
| Debt Service | 3,727,403 | | 3,727,403 |
| Unrestricted | 3,595,541 | 240,441 | 3,835,982 |
| Total Net Assets | <u>\$ 9,355,342</u> | <u>\$ 268,246</u> | <u>\$ 9,623,588</u> |

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

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MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

| Functions/Programs Reporting Entity | Expenses | Program Revenues Received | | |
|--|---------------------|----------------------------------|---|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General Government | \$ 1,824,456 | \$ 51,310 | \$ 248,144 | \$ |
| Protection to Persons and Property | 1,539,235 | 9,930 | 336,977 | |
| General Health and Sanitation | 149,239 | 85,207 | | |
| Social Services | 72,007 | | | |
| Recreation and Culture | 151,138 | | | |
| Transportation Facilities and Services | 6,062 | | | |
| Roads | 1,222,029 | | 1,241,961 | 152,847 |
| Other Transportation Services | 650 | | 42,520 | |
| Interest on Long-Term Debt | 450,268 | | | 910,812 |
| Capital Projects | 31,765 | | | |
| Total Governmental Activities | <u>5,446,849</u> | <u>146,447</u> | <u>1,869,602</u> | <u>1,063,659</u> |
| Business-type Activities: | | | | |
| Landfill | 260,779 | 136,465 | 104,368 | |
| Total Business-type Activities | <u>260,779</u> | <u>136,465</u> | <u>104,368</u> | |
| Total Primary Government | <u>\$ 5,707,628</u> | <u>\$ 282,912</u> | <u>\$ 1,973,970</u> | <u>\$ 1,063,659</u> |

General Revenues:

| | |
|--------------------------------------|--|
| Taxes: | |
| Real Property Taxes | |
| Personal Property Taxes | |
| Motor Vehicle Taxes | |
| Occupational Taxes | |
| Net Profit Taxes | |
| Other Taxes | |
| Excess Fees | |
| Miscellaneous Revenues | |
| Unrestricted Investment Earnings | |
| Transfers | |
| Total General Revenues and Transfers | |
| Change in Net Assets | |
| Net Assets - Beginning (Restated) | |
| Net Assets - Ending | |

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

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

| Net (Expenses) Revenues and Changes in Net Assets | | |
|--|-------------------------------------|----------------|
| Primary Government | | |
| Governmental Activities | Business-Type Activities | Totals |
| \$ (1,525,002) | \$ | \$ (1,525,002) |
| (1,192,328) | | (1,192,328) |
| (64,032) | | (64,032) |
| (72,007) | | (72,007) |
| (151,138) | | (151,138) |
| (6,062) | | (6,062) |
| 172,779 | | 172,779 |
| 41,870 | | 41,870 |
| 460,544 | | 460,544 |
| (31,765) | | (31,765) |
| (2,367,141) | | (2,367,141) |
| | (19,946) | (19,946) |
| | (19,946) | (19,946) |
| (2,367,141) | (19,946) | (2,387,087) |
| 886,765 | | 886,765 |
| 79,983 | | 79,983 |
| 131,277 | | 131,277 |
| 1,099,956 | | 1,099,956 |
| 188,417 | | 188,417 |
| 280,225 | | 280,225 |
| 137,648 | | 137,648 |
| 211,004 | 46,476 | 257,480 |
| 86,381 | 314 | 86,695 |
| (100,000) | 100,000 | |
| 3,001,656 | 146,790 | 3,148,446 |
| 634,515 | 126,844 | 761,359 |
| 8,720,827 | 141,402 | 8,862,229 |
| \$ 9,355,342 | \$ 268,246 | \$ 9,623,588 |

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

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MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

| | General Fund | Road Fund | LGEA Fund | Public Properties Corporation Fund | Total Governmental Funds |
|---------------------------|-------------------------|----------------------|----------------------|---|---|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 2,828,513 | \$ 664,149 | \$ 231,514 | \$ 3,727,403 | \$ 7,451,579 |
| Total Assets | <u>2,828,513</u> | <u>664,149</u> | <u>231,514</u> | <u>3,727,403</u> | <u>7,451,579</u> |
| FUND BALANCES | | | | | |
| Restricted for: | | | | | |
| Roads | | | 231,514 | | 231,514 |
| Debt Service | | | | 3,727,403 | 3,727,403 |
| Assigned to: | | | | | |
| Roads | | 664,149 | | | 664,149 |
| Unassigned: | <u>2,828,513</u> | | | | <u>2,828,513</u> |
| Total Fund Balances | <u>\$ 2,828,513</u> | <u>\$ 664,149</u> | <u>\$ 231,514</u> | <u>\$ 3,727,403</u> | <u>\$ 7,451,579</u> |

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

| | |
|--|---------------------|
| Total Fund Balances | \$ 7,451,579 |
| Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because: | |
| Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds. | 18,350,926 |
| Accumulated Depreciation | (3,722,163) |
| Receivable - Hospital Grant | 102,879 |
| Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds. | |
| Financing Obligations | (947,879) |
| Bonds | <u>(11,880,000)</u> |
| Net Assets Of Governmental Activities | <u>\$ 9,355,342</u> |

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

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MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

| | General Fund | Road Fund | LGEA Fund | Public Properties Corporation Fund | Total Governmental Funds |
|--|-------------------------|----------------------|----------------------|---|---|
| REVENUES | | | | | |
| Taxes | \$ 2,666,623 | \$ | \$ | \$ | \$ 2,666,623 |
| Excess Fees | 137,648 | | | | 137,648 |
| Licenses and Permits | 5,968 | | | | 5,968 |
| Intergovernmental | 639,487 | 1,324,910 | 112,418 | 910,812 | 2,987,627 |
| Charges for Services | 90,941 | | | | 90,941 |
| Miscellaneous | 135,388 | 70,789 | | | 206,177 |
| Interest | 27,966 | 5,125 | 1,467 | 51,822 | 86,380 |
| Total Revenues | <u>3,704,021</u> | <u>1,400,824</u> | <u>113,885</u> | <u>962,634</u> | <u>6,181,364</u> |
| EXPENDITURES | | | | | |
| General Government | 728,286 | 7,200 | 15,000 | | 750,486 |
| Protection to Persons and Property | 1,516,924 | 677 | | | 1,517,601 |
| General Health and Sanitation | 130,968 | 17,099 | | | 148,067 |
| Social Services | 50,972 | | 2,000 | | 52,972 |
| Recreation and Culture | 148,778 | | | | 148,778 |
| Transportation Facilities and Services | | 6,062 | | | 6,062 |
| Roads | | 1,352,918 | 104,315 | | 1,457,233 |
| Other Transportation Services | | 650 | | | 650 |
| Debt Service | 366,456 | | | 908,812 | 1,275,268 |
| Capital Projects | 31,765 | | | 4,541,038 | 4,572,803 |
| Administration | 868,642 | 174,964 | | 2,135 | 1,045,741 |
| Total Expenditures | <u>3,842,791</u> | <u>1,559,570</u> | <u>121,315</u> | <u>5,451,985</u> | <u>10,975,661</u> |
| Excess (Deficiency) of Revenues | | | | | |
| Expenditures Before Other | | | | | |
| Financing Sources (Uses) | <u>(138,770)</u> | <u>(158,746)</u> | <u>(7,430)</u> | <u>(4,489,351)</u> | <u>(4,794,297)</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers Out | <u>(43,216)</u> | <u>(56,784)</u> | | | <u>(100,000)</u> |
| Total Other Financing Sources (Uses) | <u>(43,216)</u> | <u>(56,784)</u> | | | <u>(100,000)</u> |
| Net Change in Fund Balances | (181,986) | (215,530) | (7,430) | (4,489,351) | (4,894,297) |
| Fund Balances - Beginning (Restated) | 3,010,499 | 879,679 | 238,944 | 8,216,754 | 12,345,876 |
| Fund Balances - Ending | <u>\$ 2,828,513</u> | <u>\$ 664,149</u> | <u>\$ 231,514</u> | <u>\$ 3,727,403</u> | <u>\$ 7,451,579</u> |

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

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**MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

| | |
|---|-------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (4,894,297) |
| <p>Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p> | |
| Capital Outlay | 5,305,323 |
| Depreciation Expense | (599,511) |
| Assets Disposed Of, Net Book Value | (2,000) |
| <p>Payment of Receivable Provides for Current Financial Resources to Government Funds, While at the Government-Wide Level, a Reduction of the Receivable Occurs. These Transactions Have No Effect on Net Assets Financing Obligation Proceeds</p> | |
| | (64,431) |
| <p>Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a use of Current Financial Resources.</p> | |
| Financing Obligations Principal Payments | 505,000 |
| Bond Principal Payments | 384,431 |
| Change in Net Assets of Governmental Activities | <u>\$ 634,515</u> |

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

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MERCER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

MERCER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

| | Business-Type Activities - Enterprise Fund |
|--|---|
| | Landfill Fund |
| Assets | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 240,441 |
| Total Current Assets | 240,441 |
| Noncurrent Assets: | |
| Capital Assets | |
| Buildings/Improvements | 50,000 |
| Machinery/Equipment | 12,000 |
| Less Accumulated Depreciation | (34,195) |
| Total Noncurrent Assets | 27,805 |
| Total Assets | 268,246 |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 27,805 |
| Unrestricted | 240,441 |
| Total Net Assets | \$ 268,246 |

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

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MERCER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MERCER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

| | Business-Type Activities - Enterprise Fund |
|---|---|
| | Landfill Fund |
| Operating Revenues | |
| Host/User Fees | \$ 136,465 |
| Recycling Grant | 14,500 |
| Recycling Receipts | 41,722 |
| Reimbursements | 86,868 |
| Other Receipts | 7,754 |
| Total Operating Revenues | 287,309 |
| Operating Expenses | |
| Depreciation Expense | 800 |
| Dumpster Services | 88,637 |
| Engineering Services | 4,821 |
| Maintenance and Grounds | 41,943 |
| Miscellaneous | 3,286 |
| Personnel Costs | 85,377 |
| Recycling Grant | 4,511 |
| Recycling Services | 20,640 |
| Supplies and Materials | 3,009 |
| Uniforms | 1,233 |
| Utilities | 6,522 |
| Total Operating Expenses | 260,779 |
| Operating Income (Loss) | 26,530 |
| Nonoperating Revenues | |
| Interest Income | 314 |
| Transfers In | 100,000 |
| Total Nonoperating Revenues | 100,314 |
| (Expenses) | 100,314 |
| Change In Net Assets | 126,844 |
| Total Net Assets - Beginning (Restated) | 141,402 |
| Total Net Assets - Ending | \$ 268,246 |

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

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MERCER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MERCER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

| | | Business-Type Activities - Enterprise Fund | |
|--|----|---|--|
| | | Landfill Fund | |
| Cash Flows From Operating Activities | | | |
| Cash Receipts From Customers for Sales | \$ | 178,187 | |
| Cash Receipts From Others | | 109,122 | |
| Cash Payments For Dumpster Services | | (88,637) | |
| Cash Payments For Engineering Services | | (4,821) | |
| Cash Payments For Maintenance and Grounds | | (41,943) | |
| Cash Payments For Miscellaneous | | (3,286) | |
| Cash Payments For Personnel Costs | | (85,377) | |
| Cash Payments For Recycling Grant | | (4,511) | |
| Cash Payments For Recycling Services | | (20,640) | |
| Cash Payments For Supplies and Materials | | (3,009) | |
| Cash Payments For Uniforms | | (1,233) | |
| Cash Payments For Utilities | | (6,522) | |
| Net Cash Provided (Used) By | | | |
| Operating Activities | | <u>27,330</u> | |
| Cash Flows From Noncapital Financing Activities | | | |
| Transfers In | | <u>100,000</u> | |
| Net Cash Provided (Used) By Noncapital Financing Activities | | <u>100,000</u> | |
| Cash Flows From Investing Activities | | | |
| Interest Earned | | <u>314</u> | |
| Net Cash Provided (Used) By Investing Activities | | <u>314</u> | |
| Net Increase (Decrease) in Cash and Cash Equivalents | | 127,644 | |
| Cash and Cash Equivalents - July 1 | | <u>112,797</u> | |
| Cash and Cash Equivalents - June 30 | \$ | <u><u>240,441</u></u> | |

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

MERCER COUNTY
 STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND - MODIFIED CASH BASIS
 For The Year Ended June 30, 2011
 (Continued)

| | Business-Type Activities - Enterprise Fund |
|---|---|
| Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities | Landfill Fund |
| Operating Income (Loss) | \$ 26,530 |
| Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities | |
| Depreciation Expense | <u>800</u> |
| Net Cash Provided By Operating Activities | <u><u>\$ 27,330</u></u> |

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Mercer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Mercer County Public Properties Corporation

The Board of Directors of the Mercer County Public Properties Corporation (Corporation) are also the members of the Mercer County Fiscal Court. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project and cannot be sued in its own name without recourse to the Mercer County Fiscal Court. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts, or provide financial support to the corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within the financial statements of the County.

C. Mercer County Elected Officials

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

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

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

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

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental 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 source of revenue for this fund is 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 expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund - This fund accounts for the funds used for the construction of the Mercer County Judicial Center. The Public Properties Corporation is a blended component of the County. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Special Revenue Funds:

The Road Fund and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Capital Projects Fund:

The Public Properties Corporation Fund is presented as a capital projects fund. Capital project funds are to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers in the Landfill Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Landfill Fund - The Landfill Fund operations are authorized by the Fiscal Court. The Landfill Fund includes post-closure maintenance and monitoring costs of the Landfill after final closure. Also included in this fund is the collection and disposal of garbage and recycling materials from residents of Mercer County.

E. Deposits and Investments

The government's cash and cash equivalents are 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.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. 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 in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

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

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize 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 expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Judge/Executive to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting 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 expenditures 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.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

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

A budget was not prepared for the Public Properties Corporation. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

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 organization's governing board. Based on these criteria, the following are considered related organizations of Mercer County Fiscal Court: North Mercer Water District and the Mercer County Public Library.

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 upon these criteria, the following is considered a joint venture of the Mercer County Fiscal Court: Mercer County Industrial Development Authority, Anderson/Dean Park Board, and Greater Harrodsburg/Mercer County Planning and Zoning Commission.

Note 2. Deposits

The primary government 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(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

| | Reporting Entity | | | Ending Balance |
|---|----------------------------------|--------------|------------|-------------------|
| | Restated Beginning Balance | Increases | Decreases | |
| Primary Government: | | | | |
| <u>Governmental Activities:</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 367,384 | \$ | \$ | \$ 367,384 |
| Construction In Progress | 3,231,131 | 4,541,038 | | 7,772,169 |
| Total Capital Assets Not Being Depreciated | 3,598,515 | 4,541,038 | | 8,139,553 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings | 3,960,171 | | | 3,960,171 |
| Machinery/Equipment | 1,277,918 | 99,749 | (106,995) | 1,270,672 |
| Vehicles | 711,335 | 13,000 | | 724,335 |
| Infrastructure | 3,604,659 | 651,536 | | 4,256,195 |
| Total Capital Assets Being Depreciated | 9,554,083 | 764,285 | (106,995) | 10,211,373 |
| Less Accumulated Depreciation For: | | | | |
| Buildings | (538,290) | (72,108) | | (610,398) |
| Machinery/Equipment | (647,127) | (59,790) | 104,995 | (601,922) |
| Vehicles | (580,448) | (44,707) | | (625,155) |
| Infrastructure | (1,461,782) | (422,906) | | (1,884,688) |
| Total Accumulated Depreciation | (3,227,647) | (599,511) | 104,995 | (3,722,163) |
| Total Capital Assets, Being Depreciated, Net | 6,326,436 | 164,774 | (2,000) | 6,489,210 |
| Governmental Activities Capital Assets, Net | \$ 9,924,951 | \$ 4,705,812 | \$ (2,000) | \$ 14,628,763 |

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

| | |
|--|-------------------|
| General Government | \$ 107,074 |
| Protection to Persons and Property | 40,538 |
| General Health and Sanitation | 1,172 |
| Social Services | 19,035 |
| Recreation and Culture | 2,360 |
| Roads, Including Depreciation of General Infrastructure Assets | <u>429,332</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 599,511</u> |

Capital asset activity for Business-Type Activities for the year ended June 30, 2011 was as follows:

| Business-Type Activities: | Reporting Entity | | | Ending Balance |
|--|----------------------|-----------------|-------------|-------------------|
| | Beginning Balance | Increases | Decreases | |
| Capital Assets, Being Depreciated: | | | | |
| Buildings/Improvements | \$ 50,000 | \$ | \$ | \$ 50,000 |
| Machinery/Equipment | 12,000 | | | 12,000 |
| Total Capital Assets Being Depreciated | <u>62,000</u> | | | <u>62,000</u> |
| Less Accumulated Depreciation For: | | | | |
| Buildings/Improvements | (22,400) | (800) | | (23,200) |
| Machinery/Equipment | <u>(10,995)</u> | | | <u>(10,995)</u> |
| Total Accumulated Depreciation | <u>(33,395)</u> | <u>(800)</u> | | <u>(34,195)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>28,605</u> | <u>(800)</u> | | <u>27,805</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 28,605</u> | <u>\$ (800)</u> | <u>\$ 0</u> | <u>\$ 27,805</u> |

Depreciation expense was charged to functions of the Business-Type Activities as follows:

Business-Type Activities

| | |
|---|---------------|
| General Health and Sanitation | <u>\$ 800</u> |
| Total Depreciation Expense - Business-Type Activities | <u>\$ 800</u> |

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Long-term Debt

A. First Mortgage Revenue Bonds - Justice Center

On August 1, 2009, the Mercer County Public Properties Corporation issued \$12,385,000 of First Mortgage Revenue Bonds. The proceeds from this issuance provides for the financing of the cost of acquisition, development and construction of a new courthouse facility, located within the city, to be used and leased by the Administrative Office of the Courts (AOC); pay the principal and interest of the First Mortgage Revenue Bond Anticipation Notes; pay capitalized and/or accrued interest, if any; and pay the cost of issuance incurred with respect to the issuance of bonds. Principal payments are due annually on August 1, and interest, which varies from 1.2% to 4.125%, is payable semiannually on February 1 and August 1. The outstanding principal balance as of June 30, 2011 was \$11,880,000. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Governmental Activities | |
|------------------------------|-------------------------|---------------------|
| | Principal | Interest |
| 2012 | \$ 510,000 | \$ 397,212 |
| 2013 | 520,000 | 388,962 |
| 2014 | 530,000 | 378,982 |
| 2015 | 540,000 | 367,472 |
| 2016 | 555,000 | 354,047 |
| 2017-2021 | 3,030,000 | 1,504,222 |
| 2022-2026 | 3,630,000 | 902,625 |
| 2027-2029 | 2,565,000 | 161,597 |
| Totals | <u>\$ 11,880,000</u> | <u>\$ 4,455,119</u> |

Also on August 1, 2009, Mercer County entered into a lease agreement with the Administrative Office of the Courts (AOC) which states that the AOC agrees to pay 100% of the debt service requirements. The AOC has an exclusive option to renew this agreement from biennium to biennium (July1/June 30) for periods of two years at a time.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Long-Term Debt (Continued)

B. Hospital Equipment/Note Receivable

In October 2007, the Mercer County Fiscal Court entered into a five-year lease agreement with the Kentucky Association of Counties Leasing Trust, in the amount of \$315,000 for the purchase of hospital equipment for use by James B. Haggin Memorial Hospital. Mercer County Fiscal Court and James B. Haggin Memorial Hospital entered into a sublease, with the hospital agreeing to make all payments required by the lease agreement. The interest rate is 4.111%. Principal and interest are due monthly. The balance outstanding as of June 30, 2011 was \$102,879. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Governmental Activities | |
|------------------------------|-------------------------|-----------------|
| | Principal | Interest |
| 2012 | \$ 67,727 | \$ 3,141 |
| 2013 | 35,152 | 554 |
| Totals | <u>\$ 102,879</u> | <u>\$ 3,695</u> |

C. Gateway Building

In September 2008, the Mercer County Fiscal Court entered into a six-year lease agreement with the Kentucky Association of Counties Leasing Trust, in the amount of \$1,700,000 to finance the construction and renovation of an office building to be used by the County. Principal payments are due annually on March 20, and interest, at a variable rate, is due monthly. This agreement will cease on September 20, 2013. The outstanding principal balance as of June 30, 2011 is \$845,000. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Governmental Activities | |
|------------------------------|-------------------------|------------------|
| | Principal | Interest |
| 2012 | \$ 260,000 | \$ 32,415 |
| 2013 | 200,000 | 23,278 |
| 2014 | 385,000 | 4,259 |
| Totals | <u>\$ 845,000</u> | <u>\$ 59,952</u> |

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Change in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---------------------------------|----------------------|-------------|-------------------|---------------------|------------------------|
| Primary Government: | | | | | |
| <u>Governmental Activities:</u> | | | | | |
| Revenue Bonds | \$ 12,385,000 | \$ | \$ 505,000 | \$11,880,000 | \$ 510,000 |
| Financing Obligations | 1,332,310 | | 384,431 | 947,879 | 327,727 |
| Governmental Activities | | | | | |
| Long-term Liabilities | <u>\$ 13,717,310</u> | <u>\$ 0</u> | <u>\$ 889,431</u> | <u>\$12,827,879</u> | <u>\$ 837,727</u> |

Note 6. Interlocal Cooperation Agreement

Mercer County has entered into an Interlocal Cooperation Agreement with Boyle County to share in the cost of a regional jail facility. The facility is owned by Boyle County. Mercer County agreed to pay a percentage, not below 35%, not to exceed 50%, of the yearly costs in exchange to the use of the facility for Mercer County prisoners.

Note 7. Solid Waste Landfill

Mercer County Fiscal Court (the County) operated a landfill, which ceased operations on June 30, 1992. The County initiated closure procedures in April 1991. Closure costs were estimated to be \$52,700 and the County completed the steps necessary to close the landfill. The County believes that it has met all federal, state, and local laws and regulations in regard to the closure of the landfill. Postclosure care consists primarily of groundwater monitoring and landscape maintenance. The County is required to file reports with the appropriate regulatory agencies regarding the findings and groundwater monitoring activities. Postclosure costs are included in the Landfill Fund for the fiscal year June 30, 2011. Mercer County expended approximately \$46,764 for postclosure costs. Future costs are estimated to be the same as what was expended this fiscal year and have been budgeted in the Landfill Fund. Inflation, deflations, technology or applicable laws and regulations could affect these costs.

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. 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.

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 the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 8. Employee Retirement System (Continued)

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% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent.

The county's contribution for FY 2009 was \$214,985, FY 2010 was \$263,336, and FY 2011 was \$279,462.

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 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

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

CERS also provides post retirement health care coverage as follows:

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

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

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

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 8. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

Note 9. Deferred Compensation

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

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

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2011, Mercer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Prior Period Adjustments

The June 30, 2010 net asset balance has been restated in total by \$254,487. This is the net effect of including capital assets that had been incorrectly left off the capital asset listing in previous years and adjustments for prior year voided checks, as seen on the following reconciliation:

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 11. Prior Period Adjustments (Continued)

| | <u>Total</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|--|------------------|------------------------------------|-------------------------------------|
| Prior Year Ending Net Asset Balance: | 8,607,742 | 8,607,742 | |
| Adjustments to Capital Assets: | | | |
| (To include Anderson Dean Park Land and a building at the Road Dept. that had previously been left off) | 226,330 | 226,330 | |
| Adjustments to Reclassify Landfill capital assets | | (1,005) | 1,005 |
| Adjustment to add Landfill Building - not on prior year | 27,600 | | 27,600 |
| Adjustment to reclassify Landfill Fund PY Cash Balance | | (112,797) | 112,797 |
| PY Voided Checks | 557 | 557 | |
| Restated Prior Year Ending Net Asset Balance: | <u>8,862,229</u> | <u>8,720,827</u> | <u>141,402</u> |

Note 12. Change in Accounting Principle

The Mercer County Fiscal Court implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classification of Fund Balance on the Balance Sheet - Governmental Funds and the presentation of funds. The Jail Fund and Payroll and Net Profit Fund previously presented no longer met the definition of a special revenue fund and have now been combined with the General Fund. The implementation did not cause a restatement of beginning fund balance or beginning net assets.

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

| | GENERAL FUND | | | |
|---|-------------------------|--------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 1,237,000 | \$ 1,237,000 | \$ 1,378,250 | \$ 141,250 |
| In Lieu Tax Payments | 1,000 | 1,000 | | (1,000) |
| Excess Fees | 81,410 | 81,410 | 137,648 | 56,238 |
| Licenses and Permits | 6,500 | 6,500 | 5,968 | (532) |
| Intergovernmental Revenue | 1,675,130 | 1,675,130 | 530,085 | (1,145,045) |
| Charges for Services | 79,000 | 79,000 | 90,941 | 11,941 |
| Miscellaneous | 80,000 | 80,000 | 89,429 | 9,429 |
| Interest | 16,000 | 16,000 | 10,260 | (5,740) |
| Total Revenues | 3,176,040 | 3,176,040 | 2,242,581 | (933,459) |
| EXPENDITURES | | | | |
| General Government | 1,544,140 | 1,405,345 | 682,323 | 723,022 |
| Protection to Persons and Property | 443,675 | 633,721 | 572,708 | 61,013 |
| General Health and Sanitation | 170,250 | 177,736 | 130,968 | 46,768 |
| Social Services | 61,800 | 61,800 | 50,972 | 10,828 |
| Recreation and Culture | 162,250 | 162,250 | 148,778 | 13,472 |
| Debt Service | 1,585,000 | 1,665,000 | 366,456 | 1,298,544 |
| Capital Projects | 5,000 | 31,765 | 31,765 | |
| Administration | 1,478,650 | 1,311,514 | 868,526 | 442,988 |
| Total Expenditures | 5,450,765 | 5,449,131 | 2,852,496 | 2,596,635 |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(2,274,725)</u> | <u>(2,273,091)</u> | <u>(609,915)</u> | <u>1,663,176</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers Out | (769,008) | (769,008) | (925,000) | (155,992) |
| Transfers In | 982,895 | 982,895 | 1,656,784 | 673,889 |
| Borrowed Money | 1,285,000 | 1,285,000 | | (1,285,000) |
| Total Other Financing Sources (Uses) | 1,498,887 | 1,498,887 | 731,784 | (767,103) |
| Net Changes in Fund Balance | (775,838) | (774,204) | 121,869 | 896,073 |
| Fund Balance - Beginning | 775,838 | 775,838 | 1,094,548 | 318,710 |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 1,634</u> | <u>\$ 1,216,417</u> | <u>\$ 1,214,783</u> |

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

| | ROAD FUND | | | |
|---|------------------|-------------------|----------------------------------|--|
| | Budgeted Amounts | | Actual | Variance with |
| | Original | Final | Amounts, (Budgetary Basis) | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Intergovernmental Revenue | \$ 1,150,590 | \$ 1,150,590 | \$ 1,324,910 | \$ 174,320 |
| Miscellaneous | 23,000 | 23,000 | 70,789 | 47,789 |
| Interest | 6,500 | 6,500 | 5,125 | (1,375) |
| Total Revenues | <u>1,180,090</u> | <u>1,180,090</u> | <u>1,400,824</u> | <u>220,734</u> |
| EXPENDITURES | | | | |
| General Government | 9,700 | 9,700 | 7,200 | 2,500 |
| Protection to Persons and Property | 2,000 | 2,000 | 677 | 1,323 |
| General Health and Sanitation | 25,000 | 25,000 | 17,099 | 7,901 |
| Transportation Facilities and Services | 8,000 | 8,000 | 6,062 | 1,938 |
| Roads | 1,285,950 | 1,457,486 | 1,352,918 | 104,568 |
| Other Transportation Facilities and Services | 700 | 700 | 650 | 50 |
| Capital Projects | 20,000 | 20,000 | | 20,000 |
| Administration | 374,250 | 204,348 | 174,964 | 29,384 |
| Total Expenditures | <u>1,725,600</u> | <u>1,727,234</u> | <u>1,559,570</u> | <u>167,664</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(545,510)</u> | <u>(547,144)</u> | <u>(158,746)</u> | <u>388,398</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers Out | <u>(56,784)</u> | <u>(56,784)</u> | <u>(56,784)</u> | |
| Total Other Financing Sources (Uses) | <u>(56,784)</u> | <u>(56,784)</u> | <u>(56,784)</u> | |
| Net Changes in Fund Balance | (602,294) | (603,928) | (215,530) | 388,398 |
| Fund Balance - Beginning | <u>602,294</u> | <u>602,294</u> | <u>879,679</u> | <u>277,385</u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ (1,634)</u> | <u>\$ 664,149</u> | <u>\$ 665,783</u> |

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|------------------|-----------------|--|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental Revenue | \$ 110,000 | \$ 110,000 | \$ 112,418 | \$ 2,418 |
| Interest | 1,000 | 1,000 | 1,467 | 467 |
| Total Revenues | <u>111,000</u> | <u>111,000</u> | <u>113,885</u> | <u>2,885</u> |
| EXPENDITURES | | | | |
| General Government | 15,000 | 15,000 | 15,000 | |
| Social Services | 2,000 | 2,000 | 2,000 | |
| Roads | 125,000 | 125,000 | 104,315 | 20,685 |
| Administration | 200 | 200 | | 200 |
| Total Expenditures | <u>142,200</u> | <u>142,200</u> | <u>121,315</u> | <u>20,885</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(31,200)</u> | <u>(31,200)</u> | <u>(7,430)</u> | <u>23,770</u> |
| Net Changes in Fund Balance | (31,200) | (31,200) | (7,430) | 23,770 |
| Fund Balance - Beginning | <u>31,200</u> | <u>31,200</u> | <u>238,944</u> | <u>207,744</u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 231,514</u> | <u>\$ 231,514</u> |

MERCER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Budgetary Information

Annual budgets are adopted on a cash basis of accounting 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 expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of the General Fund

| | |
|--|---------------------|
| Total Revenues - Budgetary Basis | \$ 2,242,581 |
| To adjust for Jail Fund Revenues | 121,797 |
| To adjust for Payroll and Net Profit Revenues | <u>1,339,643</u> |
| Total Revenues - Modified Cash Basis | <u>\$ 3,704,021</u> |
| | |
| Total Expenditures - Budgetary Basis | \$ 2,852,496 |
| To adjust for Jail Fund Expenditures | 944,216 |
| To adjust for Payroll and Net Profit Revenues | <u>46,079</u> |
| Total Expenditures - Modified Cash Basis | <u>\$ 3,842,791</u> |
| | |
| Total Other Financing Sources and Uses - Budgetary Basis | \$ 731,784 |
| To adjust for Jail Fund Transfers | 925,000 |
| To adjust for Payroll and Net Profit Transfers | <u>(1,700,000)</u> |
| Total Other Financing Sources and Uses - Modified Cash Basis | <u>\$ (43,216)</u> |
| | |
| Total Fund Budget - Beginning Budgetary Basis | \$ 1,094,548 |
| To adjust for Jail Fund Beginning Balance | 576,594 |
| To adjust for Payroll and Net Profit Beginning Balance | <u>1,339,357</u> |
| Total Fund Balance - Beginning - Modified Cash Basis | <u>\$ 3,010,499</u> |
| | |
| Total Fund Balance - Ending - Budgetary Basis | \$ 1,216,417 |
| To adjust for Jail Fund Ending Balance | 679,175 |
| To adjust for Payroll and Net Profit Ending Balance | <u>932,921</u> |
| Total Fund Balance - Ending - Modified Cash Basis | <u>\$ 2,828,513</u> |

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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Mercer County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 20, 2012. Mercer County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of Mercer County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mercer County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mercer County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mercer County's internal control over financial reporting.

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 statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comments and recommendations as item 2011-01 that we consider to be a significant deficiency in internal control over financial reporting.

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.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mercer County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation as items as 2011-02, 2011-03, 2011-04, and 2011-05.

The Mercer County Judge/Executive's responses to the findings identified in our audit are included in comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

January 20, 2012

**MERCER COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2011

**MERCER COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2011

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY

2011-01 The Fiscal Court Should Improve Internal Controls Over Cash Handling And Deposits At The Animal Shelter

During our testing, it was noted that the animal shelter was not making deposits on a daily basis. Deposits are made on average of twice per month. During a walk-through of the animal shelter, it was found that there is not a cash box that is being implemented for daily collections. Collections for the day auditors visited were in the executive director's front pocket. There is a safe on the premises that is being implemented for cash collections and receipts overnight. In 3 instances of the 13 deposits tested, it was found that the total receipts did not agree to the receipts report produced by the animal shelter, the daily checkout sheet, or the receipts ledger.

It is recommended that controls over cash be improved at the animal shelter. Use of a cash drawer should be implemented. All receipts should be put in the cash drawer upon receipt. At the end of the day, the cash drawer should be reconciled to the receipts and startup cash. Receipts for the day should be turned into the fiscal court for deposit on a daily basis as required by KRS 68.210. Failure to deposit funds collected on a daily basis leaves the fiscal court open to potential loss.

It is further recommended that the receipts be totaled and agreed to the cash turned in for deposit and to the receipts report produced by the animal shelter daily by the fiscal court. It is also recommended that the numerical sequence of pre-printed receipts be accounted for daily. Any discrepancies should be investigated at that time.

County Judge/Executive's Response: We have enacted all of the recommendations for the handling of cash revenue at the Animal Shelter.

Auditor's Reply: The county started corrective action before the auditors completed the audit.

STATE LAWS AND REGULATIONS

2011-02 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With GASB 34 And Department For Local Government Requirements And Inventory Capital Assets Periodically

The Department for Local Government (DLG) Budget Manual outlines requirements for capital assets. The requirements specifically state "All contracts, invoices, purchase orders and authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records." The capital asset listing should be monitored and maintained on a regular basis. As a new asset is acquired, the asset should be added to the listing. As assets are disposed of, the asset should be removed from the listing. All invoices should be kept on file in a manner that allows for review by management and auditors.

The Fiscal Court did not have a completed capital asset schedule for fiscal year ending June 30, 2011. A list of capital asset additions and disposals were not properly maintained. Personnel responsible for maintenance of the capital asset listing were not informed of acquisitions and disposals of capital assets throughout the year. At the time of audit, no updates to the capital asset schedule had been made for fiscal year 2011. The Fiscal Court cannot properly determine insurance needs, estimate potential needs for replacement assets, or determine if surplus property is owned without proper documentation of capital assets.

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
June 30, 2011
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2011-02 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With GASB 34 And Department For Local Government Requirements And Inventory Capital Assets Periodically (Continued)

To ensure compliance with GASB 34 and DLG requirements, it is recommended that the Fiscal Court maintain a complete and accurate capital asset schedule. Fiscal Court should ensure that the personnel responsible for maintenance of this list is aware of any acquisitions, disposals or trade in of capital assets with copies of invoices, documentation of asset disposals and fiscal court minutes. Furthermore, a schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name and the value of the asset.

County Judge/Executive's Response: The Fiscal Court personnel are working to update the information and will maintain a complete and accurate capital asset schedule each year.

2011-03 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund

The Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC). Unless otherwise specified by statute, the handling of these funds should be in accordance with the requirements for handling all county funds. Since the PPC is reported as a blended component unit of the county, the Fiscal Court should maintain proper documentation for all activity of the PPC. KRS 68.210, as prescribed by the state local finance officer, includes, but is not limited to; manual receipts and disbursements journals, performing monthly bank reconciliations and preparing an annual financial statement.

During our audit, we noted the Fiscal Court failed to prepare receipts and disbursements ledgers, bank reconciliations and financial statements for the Fiscal Year Ended June 30, 2011. In addition, of the construction expenditures tested, supporting documentation could not be located for all expenditures. Those that had supporting documentation were not paid timely, with some resulting in past due notices.

Failure to maintain proper documentation and failure to provide the proper oversight could result in errors going undetected. We recommend that the Fiscal Court ensure that all bank statements are reconciled monthly and that receipts and disbursements ledgers and annual financial statements are prepared in accordance with KRS 68.210 as described above. We further recommend that the Fiscal Court maintain supporting documentation for all expenditures and ensure that these bills are paid timely.

County Judge/Executive's Response: We are now receiving bank statements. We will reconcile monthly to make sure the outside entities are accurately paying bills in a timely manner.

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
June 30, 2011
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2011-04 The Fiscal Court Should Improve Procedures Over Purchase Orders

The Department for Local Government (DLG) Budget Manual states “purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head. Purchase requests shall indicate proper appropriation account number to which the claim will be posted. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.” In addition, a purchase order journal should contain a “daily, chronological listing of all purchase orders issued. The listing is the book of original entry for all county purchases. The journal should indicate the purchase order number, issue approved by appropriation code to where the payment will be posted, vendor name, date invoice is received, amount of invoice, date claim was reviewed by Fiscal Court, date paid and amount paid.”

During our testing of expenditures it was noted that no purchase orders were attached to the original invoices. Purchase orders could not be located for four (4) transactions tested. A purchase order listing was compiled at the end of the month; however, it was incomplete due to either purchase orders not being issued or the purchase orders were not filled out completely. Purchase orders were attached to supporting documentation, but never consistently compared to original invoices prior to payment. All purchase orders and supporting documentation were grouped by month and filed.

Failure to maintain appropriate records for purchase orders could result in incorrect amounts being paid. It is recommended that the Fiscal Court require purchase orders be obtained prior to items being ordered or services received to determine if adequate funds and budget appropriation are available for the purchase. Purchase orders should be completely filled out at the time of issuance. Amounts are required for the Fiscal Court to complete an accurate encumbrance listing for the financial statements. Additionally, it is recommended that the purchase order listing be expanded to comply with the DLG Budget Manual requirements.

County Judge/Executive's Response: We have worked to improve procedures over purchase orders. We will continue to make changes in order to comply with requirements. We will start immediately to attach the purchase order to the bill for payment.

2011-05 The Fiscal Court Should Limit 4th Year Expenditures

KRS 68.310 states that except in the case of emergency or except for encumbrances or expenditures of the road fund, no county shall expend more than 65% of the amount budgeted during the first half of any 4th year term. During our audit, we noted that the county expended 76% of the LGEA Fund during the 1st half of the 2010-2011 fiscal year, which is the 4th year of a 4-year term. We recommend that in the future, the county comply with KRS 68.310 and refrain from expending more than 65% of the amount budgeted during the first half of any 4th year of a 4-year term.

County Judge/Executive's Response: Expending more than 65% of the budgeted amount was due to road paving. That will be closely watched in the first half of fiscal year 2014-15.

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

MERCER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2011**

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

For The Fiscal Year Ended June 30, 2011

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

W. Chikuma Johnson

County Judge/Executive

Gayle Horn

County Treasurer

