

**REPORT OF THE AUDIT OF THE
MCCREARY 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 Douglas Stephens, Former McCreary County Judge/Executive

The Honorable Jimmie W. Greene II, McCreary County Judge/Executive

Members of the McCreary 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 McCreary County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the McCreary 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 McCreary 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 McCreary 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 McCreary 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 McCreary 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 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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2019, on our consideration of the McCreary 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 McCreary 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 Transfers Were Made Before Approval By The Fiscal Court
- 2018-002 The Payroll Revolving Account Was Not Properly Reconciled
- 2018-003 The Occupational Tax Administrator Did Not Deposit Receipts Intact Daily
- 2018-004 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures
- 2018-005 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements
- 2018-006 The Fiscal Court Did Not Segregate Duties Over Accounting Functions
- 2018-007 The Fiscal Court Did Not Have Sufficient Monitoring Or Internal Controls Over The Revolving Loan Program
- 2018-008 The Fiscal Court Did Not Have Sufficient Internal Controls Over Payroll

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

January 23, 2019

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

Douglas Stephens	County Judge/Executive
Oscar Perry	Magistrate
Roger Phillips	Magistrate
Jason Mann	Magistrate
Dustin Baird	Magistrate

Other Elected Officials:

Conley D. Chaney	County Attorney
Jessie Hatfield	Jailer
Eric Haynes	County Clerk
Othel King	Circuit Court Clerk
Randy Waters	Sheriff
Bruce Lominac	Property Valuation Administrator
Tim Corder	Coroner

Appointed Personnel:

Mark Sewell	County Treasurer
Randy Jones	Chief Financial Officer

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

For The Year Ended June 30, 2018

MCCREARY 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	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 631,453	\$	\$	\$
In Lieu Tax Payments	606,250	341,985		
Excess Fees	10,552			
Licenses and Permits	46,210			
Intergovernmental	346,647	2,064,085	172,514	53,966
Charges for Services	1,507,933			
Miscellaneous	167,694	116,318	7,797	
Interest	221	373		72
Total Receipts	<u>3,316,960</u>	<u>2,522,761</u>	<u>180,311</u>	<u>54,038</u>
DISBURSEMENTS				
General Government	859,062			
Protection to Persons and Property	1,432,837		1,165,841	
General Health and Sanitation	78,494			
Roads		1,734,188		34,618
Airports				
Road Facilities		177,257		
Debt Service	32,849	14,461		
Administration	867,286	446,875	38,118	
Total Disbursements	<u>3,270,528</u>	<u>2,372,781</u>	<u>1,203,959</u>	<u>34,618</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>46,432</u>	<u>149,980</u>	<u>(1,023,648)</u>	<u>19,420</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account	15,674			
Proceeds From Financing Obligation				
Transfers From Other Funds	1,499,611	40,000	1,033,277	
Transfers To Other Funds	(970,260)	(242,500)	(13,000)	
Total Other Adjustments to Cash (Uses)	<u>545,025</u>	<u>(202,500)</u>	<u>1,020,277</u>	
Net Change in Fund Balance	591,457	(52,520)	(3,371)	19,420
Fund Balance - Beginning (Restated)	109,220	230,230	3,872	69,747
Fund Balance - Ending	<u>\$ 700,677</u>	<u>\$ 177,710</u>	<u>\$ 501</u>	<u>\$ 89,167</u>
Composition of Fund Balance				
Bank Balance	\$ 687,807	\$ 354,164	\$ 1,502	\$ 89,167
Payroll Revolving Account Balance	15,674			
Less: Outstanding Checks	(2,804)	(176,454)	(1,001)	
Fund Balance - Ending	<u>\$ 700,677</u>	<u>\$ 177,710</u>	<u>\$ 501</u>	<u>\$ 89,167</u>

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

MCCREARY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Budgeted Funds						
Ambulance Equipment Fund	Solid Waste Fund	Park Fund	Occupational Tax Fund	McCreary County Airport Fund	Grant Fund	Emergency Dispatch Fund
\$	\$	\$	\$ 1,632,198	\$	\$	\$ 127,015
	21,894					
	41,783				66,810	187,934
		21,025				
	34,804	25,991		40,007		247
23			123	13	12	15
23	98,481	47,016	1,632,321	40,020	66,822	315,211
	117,351	85,592	723		92,292	289,630
92,292					1,000	
				26,525		
20,608		50,958				10,862
	25,804	23,440				119,142
112,900	143,155	159,990	723	26,525	93,292	419,634
(112,877)	(44,674)	(112,974)	1,631,598	13,495	(26,470)	(104,423)
50,000						
65,150	55,809	137,690		850	22,292	105,750
(39,277)	(50,000)	(25,594)	(1,623,989)		(5,809)	
75,873	5,809	112,096	(1,623,989)	850	16,483	105,750
(37,004)	(38,865)	(878)	7,609	14,345	(9,987)	1,327
37,020	64,355	1,440	67,405	8,059	11,402	9,053
\$ 16	\$ 25,490	\$ 562	\$ 75,014	\$ 22,404	\$ 1,415	\$ 10,380
\$ 16	\$ 26,565	\$ 669	\$ 75,014	\$ 22,404	\$ 2,060	\$ 11,395
	(1,075)	(107)			(645)	(1,015)
\$ 16	\$ 25,490	\$ 562	\$ 75,014	\$ 22,404	\$ 1,415	\$ 10,380

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

MCCREARY 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</u>
	<u>Revolving Loan Fund</u>	<u>Economic Development Fund</u>	<u>McCreary County Courthouse And Public Square Corporation Fund</u>	
RECEIPTS				
Taxes	\$	\$ 12,572	\$	\$ 2,403,238
In Lieu Tax Payments				948,235
Excess Fees				10,552
Licenses and Permits				68,104
Intergovernmental			422,575	3,356,314
Charges for Services				1,528,958
Miscellaneous	34,553	910		428,321
Interest	80			932
Total Receipts	<u>34,633</u>	<u>13,482</u>	<u>422,575</u>	<u>8,744,654</u>
DISBURSEMENTS				
General Government		33,175		1,477,825
Protection to Persons and Property				2,690,970
General Health and Sanitation				79,494
Roads				1,768,806
Airports				26,525
Road Facilities				177,257
Debt Service			422,575	552,313
Administration	15,000	5,785		1,541,450
Total Disbursements	<u>15,000</u>	<u>38,960</u>	<u>422,575</u>	<u>8,314,640</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>19,633</u>	<u>(25,478)</u>		<u>430,014</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account				15,674
Proceeds From Financing Obligation				50,000
Transfers From Other Funds	110,000			3,070,429
Transfers To Other Funds	(100,000)			(3,070,429)
Total Other Adjustments to Cash (Uses)	<u>10,000</u>			<u>65,674</u>
Net Change in Fund Balance	29,633	(25,478)		495,688
Fund Balance - Beginning (Restated)	<u>122,358</u>	<u>28,076</u>	<u>1,100</u>	<u>763,337</u>
Fund Balance - Ending	<u>\$ 151,991</u>	<u>\$ 2,598</u>	<u>\$ 1,100</u>	<u>\$ 1,259,025</u>
Composition of Fund Balance				
Bank Balance	\$ 151,991	\$ 2,603	\$ 1,100	\$ 1,426,457
Payroll Revolving Account Balance				15,674
Less: Outstanding Checks		(5)		(183,106)
Fund Balance - Ending	<u>\$ 151,991</u>	<u>\$ 2,598</u>	<u>\$ 1,100</u>	<u>\$ 1,259,025</u>

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

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TO THE FINANCIAL STATEMENT**

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**MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The McCreary County Tourist Commission would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis it is no longer a required component of the reporting entity.

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.

MCCREARY 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)

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 and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

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

Ambulance Equipment Fund - The primary purpose of this fund is to account for the purchase of new ambulance equipment. The primary source of receipts for this fund is state grants.

Solid Waste Fund - The primary purpose of this fund is to account for the county's solid waste programs including recycling, tire recycling, litter abatement, and general operation and enforcement of solid waste laws and programs in the county. The primary sources of receipts for this fund are derived from franchise fees paid to the county and state grants.

Park Fund - The primary purpose of this fund is to account for the operation of the county park and the 4H Camp. The primary sources of receipts for this fund are transfers from the general fund and facility rentals.

Occupational Tax Fund - The primary purpose of this fund is to account for the collection of occupational taxes. The primary sources of receipts for this fund are occupational employment tax and net profit tax.

McCreary County Airport Fund - The primary purpose of this fund is to manage the operation of the McCreary County Airport. The primary sources of receipts for this fund are hangar rentals along with state and federal grants.

Grant Fund - The primary purpose of this fund is to manage state and federal grants received by the county. The primary sources of receipts for this fund are state and federal grants.

Emergency Dispatch Fund - The primary purpose of this fund is to account for the county's emergency dispatch center operations within the local office of emergency management. The primary sources of receipts for this fund are phone surcharges and wireless surcharges.

Revolving Loan Fund - The primary purpose of this fund is to account for the county's small business revolving loan program. The primary source of receipts for this fund is loan repayments.

Economic Development Fund - The primary purpose of this fund is to account for economic development and tourism offices. The primary source of receipts for this fund is occupational tax.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

McCreary County Courthouse and Public Square Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

D. Budgetary Information

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

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

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

The state local finance officer does not require the McCreary County Courthouse and Public Square Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. McCreary County Elected Officials

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

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

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

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the 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. On June 30, 2018, the fiscal court's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$215,986

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

Note 3. Transfers

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

	General Fund	Road Fund	Jail Fund	Ambulance Equipment Fund	Solid Waste Fund	Park Fund	Occupational Tax Fund	Grant Fund	Revolving Loan Fund	Total Transfers In
General Fund	\$	\$ 242,500	\$	\$ 16,985	\$ 50,000	\$ 25,594	\$ 1,064,532	\$	\$ 100,000	\$ 1,499,611
Road Fund	40,000									40,000
Jail Fund	473,820						559,457			1,033,277
Ambulance Equipment Fund	65,150									65,150
Solid Waste Fund	50,000							5,809		55,809
Park Fund	124,690		13,000							137,690
McCreary Co. Airport Fund	850									850
Grant Fund				22,292						22,292
Emergency Dispatch Fund	105,750									105,750
Revolving Loan Fund	110,000									110,000
Total Transfers Out	\$ 970,260	\$ 242,500	\$ 13,000	\$ 39,277	\$ 50,000	\$ 25,594	\$ 1,623,989	\$ 5,809	\$ 100,000	\$ 3,070,429

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. Operating Leases

The fiscal court entered into various lease agreements for copy machines to be used by various county departments. In fiscal year 2015, the fiscal court re-negotiated those leases with one company buying out the balance of the contracts. The future minimum lease payments for that lease are as follows:

Fiscal Year Ended	Amount
June 30	
2019	\$ 9,661
2020	1,610
Total Minimum Lease Payments	\$ 11,271

Note 5. Notes Receivable

In 1994, McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as the Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As part of this effort, SMART-approved low interest rate loans were made available to eligible businesses from Enterprise Community Program funds, which were passed through to the county from the U.S. Department of Health and Human Services. In 1998, the county was also awarded Rural Business Enterprise Grants (RBEG) for Smart-Approved low interest rate loans to eligible businesses, which were passed through the U.S. Department of Agriculture. The most recent grant awarded from the USDA was during fiscal year 2013 in the amount of \$75,000.

Once grant funds are repaid from a borrower, the repaid principal and interest will be used to make additional loans as specified in the loan guidelines. The balance of both the SMART and RBEG receivables due as of June 30, 2018, is \$825,731.

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

Note 6. Long-term Debt

A. First Mortgage Refunding Revenue Bonds (County Facilities Project), Series 2009

On November 1, 1999, the McCreary County Courthouse and Public Square Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center, which is attached to the courthouse, and obtaining rental space for the AOC at the Justice Center. In November of 1999, the McCreary County Courthouse and Public Square Corporation issued 1999A First Mortgage Revenue Bonds in the amount of \$5,205,000 in order to construct the McCreary County Justice Center.

The McCreary County Courthouse and Public Square Corporation designated the county to act as its agent in order to plan, design, construct, manage, and maintain the Justice Center. The McCreary County Courthouse and Public Square Corporation expects annual rentals from AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, AOC has agreed to pay directly to the paying agent bank the use allowances payments as provided in the lease. The lease agreement is renewable each year. The McCreary County Courthouse and Public Square Corporation is dependent upon the use of allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by AOC. AOC, with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2020, but the lease does not legally obligate AOC to do so.

In July 2009, the McCreary County Fiscal Court retired the 1999A and 2001B series bonds by the issuance of Series 2009 refunding bonds in the amount of \$3,515,000. This refunding resulted in an average interest rate reduction of 1.77 percent and estimated present value savings amount of \$150,915.

The principal balance as of June 30, 2018, was \$885,000. The future debt service requirements for the 2009 First Mortgage Refunding Revenue Bonds are presented as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 395,000	\$ 25,480
2020	415,000	12,105
2021	50,000	4,100
2022	25,000	475
Totals	<u>\$ 885,000</u>	<u>\$ 42,160</u>

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

Note 6. Long-term Debt (Continued)

B. Courthouse Renovations

On June 26, 2013, the McCreary County Fiscal Court issued \$246,320 for the purpose of paying off McCreary Co., Ky (ADA) KADDFT Lease Acquisition Program 2001 Series B 59517. The debt requires semi-annual interest payments due on October 1 and April 1. The debt will mature on October 1, 2021. The principal balance as of June 30, 2018, was \$119,652. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 28,794	\$ 2,589
2020	28,003	1,891
2021	32,075	1,152
2022	30,780	379
Totals	<u>\$ 119,652</u>	<u>\$ 6,011</u>

C. Asphalt Truck

On July 21, 2008, the McCreary County Fiscal Court entered into a ten year financing obligation with KACo Leasing Trust for the purchase of an asphalt truck. Principal and interest payments are due monthly by the 20th day of the month. The principal balance as of June 30, 2018, was \$1,181. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 1,181	\$ 24
Totals	<u>\$ 1,181</u>	<u>\$ 24</u>

D. Economic Development Loan

In September 2009, McCreary County Fiscal Court obtained a Rural Economic Development Finance Agreement for the construction of a multi-generational use building. The total amount financed was \$500,000 over a ten year period. The agreement requires an annual service fee with a zero rate of interest and payments of \$4,167 due the 1st of each month. The principal balance as of June 30, 2018, was \$62,500. Future principal and service fee requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 50,000	\$ 458
2020	12,500	
Totals	<u>\$ 62,500</u>	<u>\$ 458</u>

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

Note 6. Long-term Debt (Continued)

E. 911 Remodel

On February 6, 2015, the McCreary County Fiscal Court entered into a financing obligation with KACo Leasing Trust for the purpose of remodeling part of the Emergency Medical Services building to house the 911 dispatch center. The principal was \$50,000 at an effective interest rate of 3.25 percent for a period of five years, with principal due annually and interest paid monthly. The principal balance as of June 30, 2018, was \$17,598. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 10,444	\$ 417
2020	7,154	87
Totals	<u>\$ 17,598</u>	<u>\$ 504</u>

F. Ambulance

On July 13, 2016, the McCreary County Fiscal Court entered into a financing obligation with KACo Leasing Trust in order to purchase an ambulance. The principle was \$88,195 at a variable interest rate for a period of five years, with principle and interest both paid monthly. The principle balance as of June 30, 2018, was \$56,376. Future principle and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 17,595	\$ 3,049
2020	18,246	1,927
2021	18,927	753
2022	1,608	9
Totals	<u>\$ 56,376</u>	<u>\$ 5,738</u>

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

Note 6. Long-term Debt (Continued)

G. Ambulance

On June 15, 2018, the McCreary County Fiscal Court entered into a financing obligation with KACo Leasing Trust for the purpose of purchasing an ambulance. The principle was \$50,000 at a fixed interest rate of 3.9 percent for a period of three years, with principle and interest both paid monthly. The principle balance as of June 30, 2018, was \$50,000. Future principle and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 15,955	\$ 1,778
2020	16,687	1,045
2021	17,358	374
Totals	<u>\$ 50,000</u>	<u>\$ 3,197</u>

H. 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
Revenue Bonds	\$ 1,270,000	\$	\$ 385,000	\$ 885,000	\$ 395,000
Capital Leases	112,500		50,000	62,500	50,000
Financing Obligations	265,293	50,000	70,486	244,807	73,969
Total Long-term Debt	<u>\$ 1,647,793</u>	<u>\$ 50,000</u>	<u>\$ 505,486</u>	<u>\$ 1,192,307</u>	<u>\$ 518,969</u>

Note 7. Employee Retirement System

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

The county's contribution for FY 2016 was \$274,726, FY 2017 was \$322,260, and FY 2017 was \$343,535.

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.

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

Note 7. Employee Retirement System (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own 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.

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.

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

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

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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.

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. 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.

D. 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.

E. 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.

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.

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

Note 8. Deferred Compensation

The McCreary 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 9. Flexible Spending Account

The McCreary County Fiscal Court established a flexible spending account in 2010 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 \$2,000 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 10. Insurance

For the fiscal year ended June 30, 2018, the McCreary 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. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2018, was added to the general fund cash balance for financial reporting purposes.

Note 12. Jail Commissary Account

The fiscal court closed the jail commissary fund during the fiscal year ending June 30, 2013. The funds remained in the bank account and accrued interest until the account was closed in fiscal year ending June 30, 2018. All remaining funds were transferred to the jail fund.

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

Note 13. Prior Period Adjustments

	General Fund	Park Fund	Emergency Dispatch Fund	Revolving Loan Fund
Beginning Balance - July1, 2017	\$ 111,687	\$ 1,441	\$ 9,052	\$ 122,359
Adjustments:				
Unexplained Payroll Balance	(13,675)			
Voided Checks	11,207			
Immaterial Adjustment	1	(1)	1	(1)
Restated Beginning Balance - July 1, 2017	<u>\$ 109,220</u>	<u>\$ 1,440</u>	<u>\$ 9,053</u>	<u>\$ 122,358</u>

Note 14. Related Party Transactions

In 1994, McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as the Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As a part of this effort, SMART-approved low interest rate loans were made available to eligible businesses from Enterprise Community Program funds, which were passed through to the county from the U.S. Department of Health and Human Services. In 1998, the county was also awarded Rural Business Enterprise Grants (RBEG) for SMART-approved low interest rate loans to eligible businesses, which were passed through the U.S. Department of Agriculture. The program has awarded 35 loans totaling \$1,601,345 over the program's existence. Four of the loans were to related parties as listed below:

Relationship	Loans To Related Parties	Disposition Of Loan
Borrower was related to the President of the Loan Board	\$50,000 loan in November 2006	Filed bankruptcy January 20, 2010
Former McCreary County Fiscal Court Deputy Judge/Executive and Wife	\$15,000 loan in January 2008	Thirteen payments received in FY 2018; Note - interest rate lowered to one percent
President of the Loan Board	\$60,268 loan in November 2009	Paid off in FY 2017
Mother-In-Law to the former McCreary County Deputy Judge/Executive	\$75,000 loan in September 2011	Seven payments received in FY 2018; Note - interest rate lowered to one percent

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 594,825	\$ 628,362	\$ 631,453	\$ 3,091
In Lieu Tax Payments	267,000	330,155	606,250	276,095
Excess Fees	24,500	36,612	10,552	(26,060)
Licenses and Permits	38,500	39,714	46,210	6,496
Intergovernmental	130,000	354,250	346,647	(7,603)
Charges for Services	1,400,000	1,400,000	1,507,933	107,933
Miscellaneous	35,500	171,100	167,694	(3,406)
Interest	150	150	221	71
Total Receipts	<u>2,490,475</u>	<u>2,960,343</u>	<u>3,316,960</u>	<u>356,617</u>
DISBURSEMENTS				
General Government	755,237	867,478	859,062	8,416
Protection to Persons and Property	1,071,812	1,406,288	1,432,837	(26,549)
General Health and Sanitation	67,428	79,519	78,494	1,025
Debt Service	32,849	34,684	32,849	1,835
Administration	936,188	910,408	867,286	43,122
Total Disbursements	<u>2,863,514</u>	<u>3,298,377</u>	<u>3,270,528</u>	<u>27,849</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(373,039)</u>	<u>(338,034)</u>	<u>46,432</u>	<u>384,466</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,215,304	1,215,304	1,499,611	284,307
Transfers To Other Funds	<u>(902,265)</u>	<u>(951,693)</u>	<u>(970,260)</u>	<u>(18,567)</u>
Total Other Adjustments to Cash (Uses)	<u>313,039</u>	<u>263,611</u>	<u>529,351</u>	<u>265,740</u>
Net Change in Fund Balance	(60,000)	(74,423)	575,783	650,206
Fund Balance - Beginning (Restated)	<u>60,000</u>	<u>98,013</u>	<u>109,220</u>	<u>11,207</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 23,590</u>	<u>\$ 685,003</u>	<u>\$ 661,413</u>

MCCREARY 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				
In Lieu Tax Payments	\$ 340,000	\$ 340,000	\$ 341,985	\$ 1,985
Intergovernmental	1,749,312	2,075,598	2,064,085	(11,513)
Miscellaneous	73,000	99,788	116,318	16,530
Interest	500	500	373	(127)
Total Receipts	<u>2,162,812</u>	<u>2,515,886</u>	<u>2,522,761</u>	<u>6,875</u>
DISBURSEMENTS				
Roads	1,606,887	1,929,663	1,734,188	195,475
Road Facilities	195,800	196,217	177,257	18,960
Debt Service	15,000	16,206	14,461	1,745
Administration	492,625	521,300	446,875	74,425
Total Disbursements	<u>2,310,312</u>	<u>2,663,386</u>	<u>2,372,781</u>	<u>290,605</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(147,500)</u>	<u>(147,500)</u>	<u>149,980</u>	<u>297,480</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			40,000	40,000
Transfers To Other Funds	(202,500)	(202,500)	(242,500)	(40,000)
Total Other Adjustments to Cash (Uses)	<u>(202,500)</u>	<u>(202,500)</u>	<u>(202,500)</u>	
Net Change in Fund Balance	(350,000)	(350,000)	(52,520)	297,480
Fund Balance - Beginning	<u>350,000</u>	<u>350,000</u>	<u>230,230</u>	<u>(119,770)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 177,710</u>	<u>\$ 177,710</u>

MCCREARY 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	\$ 125,500	\$ 158,044	\$ 172,514	\$ 14,470
Miscellaneous	28,525	30,748	7,797	(22,951)
Total Receipts	<u>154,025</u>	<u>188,792</u>	<u>180,311</u>	<u>(8,481)</u>
DISBURSEMENTS				
Protection to Persons and Property	1,047,800	1,176,861	1,165,841	11,020
Administration	84,524	43,030	38,118	4,912
Total Disbursements	<u>1,132,324</u>	<u>1,219,891</u>	<u>1,203,959</u>	<u>15,932</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(978,299)</u>	<u>(1,031,099)</u>	<u>(1,023,648)</u>	<u>7,451</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	977,799	1,027,227	1,033,277	6,050
Transfers To Other Funds			(13,000)	(13,000)
Total Other Adjustments to Cash (Uses)	<u>977,799</u>	<u>1,027,227</u>	<u>1,020,277</u>	<u>(6,950)</u>
Net Change in Fund Balance	(500)	(3,872)	(3,371)	501
Fund Balance - Beginning	<u>500</u>	<u>3,872</u>	<u>3,872</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 501</u>	<u>\$ 501</u>

MCCREARY 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	\$ 80,000	\$ 80,123	\$ 53,966	\$ (26,157)
Interest	125	125	72	(53)
Total Receipts	<u>80,125</u>	<u>80,248</u>	<u>54,038</u>	<u>(26,210)</u>
DISBURSEMENTS				
Roads	133,625	133,625	34,618	99,007
Capital Projects	46,500	46,623		46,623
Total Disbursements	<u>180,125</u>	<u>180,248</u>	<u>34,618</u>	<u>145,630</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>19,420</u>	<u>119,420</u>
Net Change in Fund Balance	(100,000)	(100,000)	19,420	119,420
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>69,747</u>	<u>(30,253)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 89,167</u>	<u>\$ 89,167</u>

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

AMBULANCE EQUIPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 35	\$ 35	\$ 23	\$ (12)
Total Receipts	35	35	23	(12)
DISBURSEMENTS				
Protection to Persons and Property	69,427	92,292	92,292	
Debt Service	20,608	20,609	20,608	1
Total Disbursements	90,035	112,901	112,900	1
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(90,000)	(112,866)	(112,877)	(11)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	60,000	60,000	65,150	5,150
Proceeds From Financing Obligation			50,000	50,000
Transfers To Other Funds			(39,277)	(39,277)
Total Other Adjustments to Cash (Uses)	60,000	60,000	75,873	15,873
Net Change in Fund Balance	(30,000)	(52,866)	(37,004)	15,862
Fund Balance - Beginning	30,000	30,000	37,020	7,020
Fund Balance - Ending	\$ 0	\$ (22,866)	\$ 16	\$ 22,882

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

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 38,000	\$ 38,000	\$ 21,894	\$ (16,106)
Intergovernmental	38,000	38,000	41,783	3,783
Charges for Services	20,000	20,000		(20,000)
Miscellaneous	16,000	34,075	34,804	729
Total Receipts	<u>112,000</u>	<u>130,075</u>	<u>98,481</u>	<u>(31,594)</u>
DISBURSEMENTS				
General Government	136,553	161,075	117,351	43,724
Administration	45,447	39,000	25,804	13,196
Total Disbursements	<u>182,000</u>	<u>200,075</u>	<u>143,155</u>	<u>56,920</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(70,000)</u>	<u>(70,000)</u>	<u>(44,674)</u>	<u>25,326</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	10,000	10,000	55,809	45,809
Transfers To Other Funds			(50,000)	(50,000)
Total Other Adjustments to Cash (Uses)	<u>10,000</u>	<u>10,000</u>	<u>5,809</u>	<u>(4,191)</u>
Net Change in Fund Balance	(60,000)	(60,000)	(38,865)	21,135
Fund Balance - Beginning	<u>60,000</u>	<u>60,000</u>	<u>64,355</u>	<u>4,355</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 25,490</u>	<u>\$ 25,490</u>

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

	PARK FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 20,100	\$ 20,100	\$ 21,025	\$ 925
Miscellaneous	1,000	1,000	25,991	24,991
Total Receipts	<u>21,100</u>	<u>21,100</u>	<u>47,016</u>	<u>25,916</u>
DISBURSEMENTS				
General Government	76,770	93,600	85,592	8,008
Debt Service	56,200	50,959	50,958	1
Administration	39,538	27,949	23,440	4,509
Total Disbursements	<u>172,508</u>	<u>172,508</u>	<u>159,990</u>	<u>12,518</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(151,408)</u>	<u>(151,408)</u>	<u>(112,974)</u>	<u>38,434</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	146,408	146,408	137,690	(8,718)
Transfers To Other Funds			(25,594)	(25,594)
Total Other Adjustments to Cash (Uses)	<u>146,408</u>	<u>146,408</u>	<u>112,096</u>	<u>(34,312)</u>
Net Change in Fund Balance	(5,000)	(5,000)	(878)	4,122
Fund Balance - Beginning (Restated)	<u>5,000</u>	<u>5,000</u>	<u>1,440</u>	<u>(3,560)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 562</u>	<u>\$ 562</u>

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

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,512,729	\$ 1,512,729	\$ 1,632,198	\$ 119,469
Interest	75	75	123	48
Total Receipts	<u>1,512,804</u>	<u>1,512,804</u>	<u>1,632,321</u>	<u>119,517</u>
DISBURSEMENTS				
General Government		723	723	
Total Disbursements		<u>723</u>	<u>723</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,512,804</u>	<u>1,512,081</u>	<u>1,631,598</u>	<u>119,517</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds				
Transfers To Other Funds	<u>(1,512,804)</u>	<u>(1,512,804)</u>	<u>(1,623,989)</u>	<u>(111,185)</u>
Total Other Adjustments to Cash (Uses)	<u>(1,512,804)</u>	<u>(1,512,804)</u>	<u>(1,623,989)</u>	<u>(111,185)</u>
Net Change in Fund Balance		(723)	7,609	8,332
Fund Balance - Beginning			<u>67,405</u>	<u>67,405</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (723)</u>	<u>\$ 75,014</u>	<u>\$ 75,737</u>

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

MCCREARY COUNTY AIRPORT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 47,700	\$ 47,700	\$ 40,007	\$ (7,693)
Interest	60	60	13	(47)
Total Receipts	<u>47,760</u>	<u>47,760</u>	<u>40,020</u>	<u>(7,740)</u>
DISBURSEMENTS				
Airports	49,600	50,551	26,525	24,026
Administration	8,160	7,209		7,209
Total Disbursements	<u>57,760</u>	<u>57,760</u>	<u>26,525</u>	<u>31,235</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>13,495</u>	<u>23,495</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			850	850
Total Other Adjustments to Cash (Uses)			<u>850</u>	<u>850</u>
Net Change in Fund Balance	(10,000)	(10,000)	14,345	24,345
Fund Balance - Beginning	<u>10,000</u>	<u>10,000</u>	<u>8,059</u>	<u>(1,941)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 22,404</u>	<u>\$ 22,404</u>

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

	GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 254,043	\$ 254,043	\$ 66,810	\$ (187,233)
Interest			12	12
Total Receipts	<u>254,043</u>	<u>254,043</u>	<u>66,822</u>	<u>(187,221)</u>
DISBURSEMENTS				
General Government	253,135	253,135	92,292	160,843
General Health and Sanitation Administration	22,310	21,310	1,000	21,310
Total Disbursements	<u>275,445</u>	<u>275,445</u>	<u>93,292</u>	<u>182,153</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(21,402)</u>	<u>(21,402)</u>	<u>(26,470)</u>	<u>(5,068)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	10,000	10,000	22,292	12,292
Transfers To Other Funds			(5,809)	(5,809)
Total Other Adjustments to Cash (Uses)	<u>10,000</u>	<u>10,000</u>	<u>16,483</u>	<u>6,483</u>
Net Change in Fund Balance	(11,402)	(11,402)	(9,987)	1,415
Fund Balance - Beginning	<u>11,402</u>	<u>11,402</u>	<u>11,402</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,415</u>	<u>\$ 1,415</u>

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

EMERGENCY DISPATCH FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 130,000	\$ 130,000	\$ 127,015	\$ (2,985)
Intergovernmental	129,000	145,451	187,934	42,483
Miscellaneous	250	250	247	(3)
Interest	30	30	15	(15)
Total Receipts	<u>259,280</u>	<u>275,731</u>	<u>315,211</u>	<u>39,480</u>
DISBURSEMENTS				
General Government	297,220	302,544	289,630	12,914
Debt Service	10,862	13,313	10,862	2,451
Administration	122,326	131,002	119,142	11,860
Total Disbursements	<u>430,408</u>	<u>446,859</u>	<u>419,634</u>	<u>27,225</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(171,128)</u>	<u>(171,128)</u>	<u>(104,423)</u>	<u>66,705</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>166,128</u>	<u>166,128</u>	<u>105,750</u>	<u>(60,378)</u>
Total Other Adjustments to Cash (Uses)	<u>166,128</u>	<u>166,128</u>	<u>105,750</u>	<u>(60,378)</u>
Net Change in Fund Balance	(5,000)	(5,000)	1,327	6,327
Fund Balance - Beginning (Restated)	<u>5,000</u>	<u>5,000</u>	<u>9,053</u>	<u>4,053</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,380</u>	<u>\$ 10,380</u>

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

	REVOLVING LOAN FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 30,000	\$ 30,000	\$ 34,553	\$ 4,553
Interest	100	100	80	(20)
Total Receipts	<u>30,100</u>	<u>30,100</u>	<u>34,633</u>	<u>4,533</u>
DISBURSEMENTS				
Administration	<u>150,100</u>	<u>150,100</u>	<u>15,000</u>	<u>135,100</u>
Total Disbursements	<u>150,100</u>	<u>150,100</u>	<u>15,000</u>	<u>135,100</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(120,000)</u>	<u>(120,000)</u>	<u>19,633</u>	<u>139,633</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			110,000	110,000
Transfers To Other Funds			(100,000)	(100,000)
Total Other Adjustments to Cash (Uses)			<u>10,000</u>	<u>10,000</u>
Net Change in Fund Balance	(120,000)	(120,000)	29,633	149,633
Fund Balance - Beginning (Restated)	<u>120,000</u>	<u>120,000</u>	<u>122,358</u>	<u>2,358</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 151,991</u>	<u>\$ 151,991</u>

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

ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 15,000	\$ 15,000	\$ 12,572	\$ (2,428)
Intergovernmental	37,000	37,000		(37,000)
Miscellaneous	100	910	910	
Total Receipts	<u>52,100</u>	<u>52,910</u>	<u>13,482</u>	<u>(39,428)</u>
DISBURSEMENTS				
General Government	89,250	89,250	33,175	56,075
Administration	19,780	20,590	5,785	14,805
Total Disbursements	<u>109,030</u>	<u>109,840</u>	<u>38,960</u>	<u>70,880</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(56,930)</u>	<u>(56,930)</u>	<u>(25,478)</u>	<u>31,452</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>31,930</u>	<u>31,930</u>		<u>(31,930)</u>
Total Other Adjustments to Cash (Uses)	<u>31,930</u>	<u>31,930</u>		<u>(31,930)</u>
Net Change in Fund Balance	(25,000)	(25,000)	(25,478)	(478)
Fund Balance - Beginning	<u>25,000</u>	<u>25,000</u>	<u>28,076</u>	<u>3,076</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,598</u>	<u>\$ 2,598</u>

MCCREARY 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. Reconciliation of the General Fund

The *Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis* differs from the *Budgetary Comparison Schedule* for the general fund's other adjustments to cash (uses) and ending balance by \$15,674 due to the inclusion of the payroll revolving account's reconciled balance.

Note 3. Excess of Disbursements over Appropriations

The general fund protection to persons and property disbursements exceeded budgeted appropriations by \$26,549.

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

For The Year Ended June 30, 2018

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MCCREARY 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 (*Restated)	Additions	Deletions	Ending Balance
Land	\$ 2,096,783	\$	\$	\$ 2,096,783
Buildings*	9,159,877			9,159,877
Vehicles and Equipment*	1,204,279	230,724	272,755	1,162,248
Other Equipment	1,529,372	193,283		1,722,655
Infrastructure	8,153,494	900,979		9,054,473
 Total Capital Assets	 \$ 22,143,805	 \$ 1,324,986	 \$ 272,755	 \$ 23,196,036

**MCCREARY 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	\$ 5,000	10-60
Buildings and Building Improvements	\$ 5,000	10-75
Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50

Note 2. Beginning Balance Restatement

The total beginning balance of the Schedule of Capital Assets has been increased by \$165,400 due to adjustment errors in the prior year. Buildings were increased by \$6,500 and vehicles and equipment were increased by \$158,900.

**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 Douglas Stephens, Former McCreary County Judge/Executive
The Honorable Jimmie W. Greene II, McCreary County Judge/Executive
Members of the McCreary 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 McCreary County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the McCreary County Fiscal Court's financial statement and have issued our report thereon dated January 23, 2019.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-004, 2018-005, 2018-006, 2018-007, and 2018-008 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-007, and 2018-008.

Views of Responsible Officials and Planned Corrective Action

McCreary 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,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

January 23, 2019

**MCCREARY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**MCCREARY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 Transfers Were Made Before Approval By The Fiscal Court

This is a repeat finding and was included in the prior year audit report as finding 2017-002. The former county treasurer made 119 interfund transfers during fiscal year 2018. Of the 119 transfers, 118 received approval after the transfer was issued and one did not receive approval.

The former treasurer transferred funds before approval due to timing issues in an attempt to avoid late payment fees and penalties that would have incurred if he had waited until the next fiscal court meeting. By transferring funds before approval is received, the former treasurer circumvented the fiscal court's authority to decide how county funds are to be used.

According to page 73 of the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, "all cash transfers require a court order." Additionally, the McCreary County Fiscal Court's Administrative Code states, "[t]he original appropriation shall be entered and all amendments and transfers authorized by order of the fiscal court."

We recommend that all transfers be approved by the fiscal court before the transfer is made. The approval should be clearly reflected within the fiscal court minutes.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: We have consolidated most of our funds into the General Fund to minimize the need for transfers.

2018-002 The Payroll Revolving Account Was Not Properly Reconciled

This is a repeat finding and was included in the prior year audit report as finding 2017-003. The payroll revolving account did not reconcile to zero as of June 30, 2018, and the remaining balance could not be readily explained. The account balance as of June 30, 2018, was \$63,786. Of this balance, the county had outstanding checks of \$366 and outstanding liabilities of \$47,746; leaving an unexplained balance of \$15,674 for fiscal year 2018.

According to the former treasurer, the payroll account has not been properly reconciled since before he was appointed. The balances at the end of the fiscal year have been carried forward since at least 2011 and he was not able to determine the reason for the excess funds in the account.

The unreconciled payroll account could cause the fiscal court to have insufficient funds to meet payroll requirements, cause the fiscal court's liabilities to not be properly paid, or cause liabilities to not be paid timely.

Per KRS 68.210, the state local finance officer has the authority to require a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* includes monthly bank reconciliations as a minimum requirement for all county officials. Since the payroll account is a "sweep account" only the funds necessary to pay employees and government agencies should be transferred from other county funds. Therefore, each month the account should reconcile to zero.

We recommend the fiscal court properly reconcile the payroll revolving account to a zero balance monthly. Additionally, we recommend payroll revolving account bank reconciliations be reviewed by an independent employee to verify accuracy and completeness.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Payroll Revolving Account Was Not Properly Reconciled (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Beginning in July 2018 we opened a new payroll account and that account is being reconciled monthly.

2018-003 The Occupational Tax Administrator Did Not Deposit Receipts Intact Daily

The occupational tax administrator does not deposit receipts on a daily basis. A test of all 56 fourth quarter occupational tax collection dates indicated that 40 did not clear the bank within three business days.

Per the occupational tax administrator, a limited budget restricts the hiring of additional employees, and working by herself, the administrator could not always make daily deposits.

The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. Additionally, when deposits are not made timely, the risk that the bank account can be overdrawn increases.

Per KRS 68.210, the state local finance officer was given the authority to prescribe a uniform system of accounts. The minimum of requirements of handling of public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires daily deposits into a federally insured banking institution.

We recommend the occupational tax administrator deposit receipts intact daily.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Occupational Tax Administrator now makes deposits daily.

2018-004 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures

This is a repeat finding and was included in the prior year audit report as finding 2017-005. The fiscal court did not have proper purchase and procurement procedures as noted by the following deficiencies:

- Internal controls - The county does not have sufficient internal controls in place over the bid process. The finance officer relied upon the Road Supervisor to determine if invoices were paid correctly. Neither the finance officer nor the road supervisor realized that the vendor rounded haul cost per ton to the nearest dime. The finance officer, former county judge/executive, and former county treasurer all initialed blacktop/paving bills; however, invoices were not compliant with accepted bid pricing.
 - This resulted in the county overpaying \$22,146 on three of the five blacktop/paving invoices tested. The other two invoices were underpaid by \$25,148.
- Five regular disbursements were not paid timely.
- Six copier lease payments were not paid timely.
- Three health insurance invoices were not paid timely.
- Thirty invoices did not have a purchase order.
- One invoice tested did not have supporting documentation.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures (Continued)

The above deficiencies are a direct result of the lack of adequate segregation of duties, improper accounting practices, and poor internal controls without sufficient management oversight.

The finance officer relies on the department heads to ensure that purchases are valid, meet bid requirements, and are calculated correctly. This could have resulted in significant overpayments, misappropriations, inaccurate financial reporting, or penalties being assessed. The authorized check signers rely upon the finance officer to ensure disbursements are valid before submitting them for approval. This reliance negated the compensating controls instituted to offset the lack of segregation of duties.

The state local finance officer, given the authority by KRS 68.210, requires in the *County Budget Preparation and State Local Finance Officer Policy Manual* all disbursements to be accompanied by a purchase order and sufficiently documented. KRS 65.140(2) states, “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing[.]” In addition, good internal controls dictate that proper supporting documentation is maintained to validate disbursements.

We recommend the fiscal court maintain supporting documentation, such as approved bid specifications, with the original invoices and purchase orders. We recommend all invoices be reviewed for correct billing such as accepted bid price and due dates. We recommend that the check signers ensure that all disbursements agree to the supporting documentation attached before authorization. We recommend the fiscal court pay all expenditures within 30 working days in compliance with KRS 65.140. Additionally, we recommend the fiscal court contact any vendor that was overpaid or underpaid to request a refund or submit any amount due.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: We are working with our contractor to resolve this issue. There was an error in their spreadsheet. We will put some of the bills into our budget as recurring bills as a solution.

2018-005 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements

This is a repeat finding included in the prior year audit report as finding 2017-011. The fiscal court has not implemented proper internal control procedures over credit card disbursements. Credit card disbursements had the following deficiencies:

- Five charges were based on a receipt with only a total instead of an itemized listing. Without an itemized listing the purchase may have included unallowable items.
- One charge was paid without supporting documentation to explain what the charge was or which department head purchased them.
- Twenty-eight of 46 credit card charges were not supported with a purchase order.
- The fiscal court is not paying invoices timely thereby accruing late fees and charges (ten late payments totaling \$363 and six finance charges totaling \$137).

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements (Continued)

The deficiencies noted above stem from a lack of adequate segregation of duties, improper accounting practices, and poor internal controls without oversight. The county treasurer and county judge/executive are relying upon the finance officer to ensure all invoices are valid without proper review of the supporting documentation before authorizing disbursement.

The lack of proper segregation of duties, improper accounting practices, and lack of oversight could result in misappropriation of assets, inaccurate financial reporting, or payment for personal purchases with public funds.

The state local finance officer, given the authority by KRS 68.210, requires in the *County Budget Preparation and State Local Finance Officer Policy Manual* that all disbursements be accompanied by a purchase order, within budgeted amounts, and sufficiently documented. Additionally, good internal controls dictate that proper supporting documentation is maintained to support disbursements.

We recommend the fiscal court ensure proper accounting practices by implementing additional internal controls in the area of credit card disbursements, such as assigning an individual other than the finance officer to review all transactions to ensure that they have proper documentation before being submitted for approval to the fiscal court. We further recommend that the authorized check signers ensure credit card disbursements are properly supported before authorizing the disbursements.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: We have instructed all employees who use the credit card that all purchases must be approved by the Judge/Executive and all purchases must have an itemized receipt.

2018-006 The Fiscal Court Did Not Segregate Duties Over Accounting Functions

This is a repeat finding and was included in the prior year audit report as finding 2017-008. A lack of segregation of duties exists over accounting functions. The following issues were noted:

- The former county treasurer prepared and deposited receipts, posted to the ledgers, prepared financial reports, and prepared the bank reconciliations.
- Items returned from the bank were handled by the former county treasurer.
- The finance officer prepares a list of bills for the fiscal court's approval, prepares all checks, and makes adjustments to the appropriations ledger.

According to the former county judge/executive, a limited budget places restrictions on the number of employees the fiscal court can hire. The lack of oversight could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

A segregation of duties over various accounting functions, collecting receipts, preparing bank deposits, and preparing reports and reconciliations, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The Fiscal Court Did Not Segregate Duties Over Accounting Functions (Continued)

To adequately protect against undetected misappropriation of assets and inaccurate financial reporting, we recommend the fiscal court separate the duties involving collecting and depositing of receipts, and preparation of reports and reconciliations. If this is not feasible due to limited number of staff, strong oversight over these areas could occur and involve an employee that is not currently performing any of those functions. Additionally, the county judge/executive could provide this oversight and document it on the appropriate source documents.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Due to limited staff it is not possible to segregate all duties. We have implemented procedures to ensure stronger controls in most areas.

2018-007 The Fiscal Court Did Not Have Sufficient Monitoring Or Internal Controls Over The Revolving Loan Program

This is a repeat finding and was included in the prior year audit report as finding 2017-009. Since 1994, the McCreary County Fiscal Court has utilized United States Department of Agriculture (USDA) grants to run a Rural Business Enterprise Grant (RBEG) program. The program is designed to encourage new employment opportunities within the county by providing low cost financing to new businesses. The fiscal court has made 35 loans, totaling \$1,601,345 from fiscal year 1994 through fiscal year 2018. The following issues were noted for fiscal year 2018 as a result of reviewing the program:

- a. The fiscal court made an attempt to collect payment on an inactive loan originally made in the amount of \$25,000 by way of refinancing. The loan was refinanced to a 1 percent interest rate and had their principal balance lowered dependent on their payment history. This also occurred in fiscal year 2017 to 12 inactive loans totaling \$568,082. According to the former county judge/executive, the prior payments made on these loans were converted to all principal. Due to records the fiscal court maintained in regards to payment history not being complete, the new beginning balances could not be verified for accuracy.
- b. According to the former county judge/executive, the decision to refinance the inactive loans was discussed and approved by the USDA. However, the auditor was informed the approval was not in writing, and the official at the USDA involved with the discussion is now retired.
- c. The grant agreement requires the fiscal court to report the status of the loans to the USDA semi-annually. However, the fiscal court did not submit a report during fiscal year 2018.

Due to weak controls and inadequate monitoring over the revolving loan program, the fiscal court has forgone the ability to support viable business within the county that could have produced additional jobs and revenue for the taxpayers.

Section 52 of the Kentucky Constitution prohibits the fiscal court from forgiving debt in which the amount can be precisely determined and which is not in dispute.

Adequate monitoring and properly designed and implemented internal controls could allow early detection of possible non-paying borrowers. In addition, good internal controls dictate accurate records are maintained to support the activity of the program.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The Fiscal Court Did Not Have Sufficient Monitoring Or Internal Controls Over The Revolving Loan Program (Continued)

The grant application states “[r]ecords will include an accurate accounting of any principal repayments, interest, or other proceeds generated by the loan fund and will document expenses paid for with interest, or other proceeds generated by the loan and will be documented for the grant audits.”

We recommend the fiscal court properly monitor the activities of the revolving loan program. Additionally, we recommend the fiscal court comply with the requirements of the loan application and ensure that all loans are properly made, documented, collected, and reported. This matter will be referred to the United States Department of Agriculture.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: We will pursue legal actions on delinquent loans. Our loan program has new and stricter requirements.

2018-008 The Fiscal Court Did Not Have Sufficient Internal Controls Over Payroll

This is a repeat finding included in the prior year audit report as comment 2017-010. The fiscal court lacked sufficient internal controls over payroll as shown by the following deficiencies:

- Of the 16 employees tested:
 - The former treasurer did not have a timesheet to substantiate hours worked or health and retirement benefits received. The former treasurer did not meet any of the four criteria to be exempted as an executive or salaried employee per Kentucky Administrative Regulations (KAR).
 - Three employees had timesheets listing hours worked, but no supervisor approval was evidenced.
 - Two of the three were jail employees; therefore, auditor reviewed timesheets for all transport officers for the pay periods tested. The Jailer did not approve any of his employees’ time sheets for the two pay periods tested.
 - Three employees were paid for ‘Guard Duty’ or ‘On Call Time’ which was not approved in the fiscal court salary schedule. No evidence was found in the fiscal court minutes of the salaries being approved separately.
- One individual submitted a timesheet showing three hours overtime but was not paid for that time. Per the individual’s pay stub, this person was considered ‘Salaried’. However, the individual did not meet any of the four requirements to be exempted as an executive or salaried employee per Kentucky Administrative Regulations (KAR).
- Magistrates and constables received health insurance and retirement benefits but no timesheets or affidavits were found to justify the county paying these benefits.
- Of the six insurance invoices tested, one employee received dental benefits yet no premiums were withheld from the employee’s pay.

According to the former county judge/executive, he believed he had instituted sufficient controls to prevent the deficiencies. He also stated that he believed the former treasurer and other employee were considered salaried.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-008 The Fiscal Court Did Not Have Sufficient Internal Controls Over Payroll (Continued)

The lack of properly designed internal controls increased the possibility of employees receiving wages or benefits not actually earned, such as an individual working part-time hours receiving full time benefits while other part-time individuals receive no benefits. Additionally, discrimination occurred since one employee received free dental benefits when other employees did not.

Internal control procedures that are properly designed and implemented allow employees to detect misstatements in a timely manner while preventing misappropriation of assets or inaccurate financial reporting. An individual who is independent of the recording and disbursement process should approve employee timesheets.

The county administrative code SECTION 5.9 Classification of Employees (A)(1) defines a full-time employee as “[a]n employee who works 40 hours per week on a regular scheduled basis.” SECTION 5.24 (b) requires timesheets to “be signed by employee and supervisor in order to be considered valid and compensation authorized.”

And the county administrative code SECTION 5.37(a) states “[a]ll full time employees of the County shall be provided with a health and hospitalization insurance coverage plan as provided by the Fiscal Court.” In addition, KRS 78.510(21) defines regular full-time positions as “all positions that average one hundred (100) or more hours per month, determined by using the number of hours actually worked in a calendar or fiscal year[.]”

Furthermore, according to OAG 79-448, “Section 3 of the Kentucky Constitution is unequivocal on the point that public emolument to any person must be based on the consideration of public services. By the strongest implication this means ‘public services actually rendered.’” Without timesheets it cannot be determined if services were actually rendered.

803 KAR 1:070 Section 2 lists “General Rule for Executive Employees. (1) The term ‘individual employed in a bona fide executive capacity’ in KRS 337.010(2)(a)2 shall mean an employee: (a) Compensated on a salary basis at a rate of not less than \$455 per week, exclusive of board, lodging, or other facilities; (b) Whose primary duty is management of the enterprise in which the employee is employed or of a customarily recognized department or subdivision thereof; (c) Who customarily and regularly directs the work of two (2) or more other employees; and (d) Who has the authority to hire or fire other employees[.]”

We recommend the fiscal court strengthen their internal controls and ensure compliance with the county’s administrative code, Kentucky Administrative Regulations, and the Kentucky Constitution by making sure all classifications of employee pay are approved by fiscal court, by ensuring all employees who sign up for additional health benefits are paying for those benefits, and by requiring any individual receiving a paycheck from the fiscal court to submit a signed timesheet to substantiate payment received. Those timesheets should be approved by the employee’s supervisor or by the county judge/executive. As elected officials, magistrates and constables are not required to maintain timesheets. However, we recommend they submit an affidavit of hours worked to ensure proper credit for retirement and to support county paid benefits.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Treasurer now does a timesheet. We still maintain that Magistrates, jailer, coroner, constables are not required to do timesheets. Supervisors and the Judge/Executive sign all timesheets.

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

MCCREARY COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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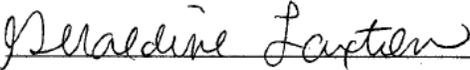
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MCCREARY COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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



County Judge/Executive



County Treasurer