

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

**For The Year Ended
June 30, 2019**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Craig Z. Clymer, McCracken County Judge/Executive
Members of the McCracken County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statement of McCracken County, Kentucky, for the year ended June 30, 2019.

We engaged Tichenor & Associates, LLP to perform the audit of this financial statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the McCracken County Fiscal Court's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

Enclosure



THIS PAGE LEFT BLANK INTENTIONALLY

CONTENTS

PAGE

INDEPENDENT AUDITORS' REPORT	1
MCCRACKEN COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT	10
BUDGETARY COMPARISON SCHEDULES.....	31
NOTE TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES	43
SCHEDULE OF CAPITAL ASSETS.....	47
NOTES TO OTHER INFORMATION - REGULATORY BASIS	48
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 <i>GOVERNMENT AUDITING STANDARDS</i>	51
SCHEDULE OF FINDINGS AND RESPONSES	55

THIS PAGE LEFT BLANK INTENTIONALLY

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS
1700 EASTPOINT PARKWAY, SUITE 270
LOUISVILLE, KY 40223
BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: wtichenor@tichenorassociates.com

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Craig Z. Clymer, McCracken County Judge/Executive
Members of the McCracken County Fiscal Court

Independent Auditors' Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCracken County Fiscal Court, for the year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the McCracken County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' 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.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Craig Z. Clymer, McCracken County Judge/Executive
Members of the McCracken County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the McCracken County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the McCracken County Fiscal Court as of June 30, 2019, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the McCracken County Fiscal Court as of June 30, 2019, 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 and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the McCracken County Fiscal Court. The Budgetary Comparison Schedules (supplementary information) and the Schedule of Capital Assets (other information), 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 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 are fairly stated in all material respects in relation to the financial statement as a whole.

The Schedule of Capital Assets has not been subjected to auditing procedures applied in the audit of the basic financial statement, and according, we do not express an opinion or provide any assurance on it.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Craig Z. Clymer, McCracken County Judge/Executive
Members of the McCracken County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2020, on our consideration of the McCracken County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the McCracken County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2019-001 The McCracken County Fiscal Court Lacks Internal Controls Over Cash Processes And Financial Reporting
- 2019-002 The McCracken County Jail Lacks Adequate Internal Controls Over The Inmate Fund
- 2019-003 The McCracken County Fiscal Court Lacks Adequate Segregation Of Duties Over The Collection Of Receipts
- 2019-004 The McCracken County Fiscal Court Did Not Approve Cash Transfers Prior To Making Them
- 2019-005 The McCracken County Fiscal Court Lacks Internal Controls Over A Third Party Administrator
- 2019-006 The McCracken County Jail Did Not Properly Reconcile The Commissary Fund
- 2019-007 The McCracken County Jail's Annual Commissary Report Was Not In Compliance With Minimum Accounting Standards
- 2019-008 The McCracken County Jail Purchased Vehicles With Canteen Funds For Inmate Transport

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky

April 16, 2020

MCCRACKEN COUNTY OFFICIALS**For The Year Ended June 30, 2019****Fiscal Court Members:**

Craig Z. Clymer	County Judge/Executive
Bill Bartleman	Commissioner
Jeff Parker	Commissioner
Eddie Jones	Commissioner

Other Elected Officials:

Sam Clymer	County Attorney
David Knight	Jailer
Julie Griggs	County Clerk
Kim Channell	Circuit Court Clerk
Matthew Carter	Sheriff
Bill Dunn	Property Valuation Administrator
Amanda Melton	Coroner

Appointed Personnel:

Steve Doolittle	Deputy Judge/Executive
Pamela Thompson	County Treasurer
Randy Williams	Road Supervisor

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 11,941,647	\$	\$
In Lieu Tax Payments	1,050,808		
Licenses and Permits	422,513	5,900	
Intergovernmental	3,747,006	2,251,934	3,424,101
Charges for Services	25,975		188,372
Miscellaneous	943,174		249,531
Interest	67,362		
Total Receipts	<u>18,198,485</u>	<u>2,257,834</u>	<u>3,862,004</u>
DISBURSEMENTS			
General Government	4,364,640		
Protection to Persons and Property	828,754		4,688,758
General Health and Sanitation	396,911		
Social Services	71,960		
Recreation and Culture	301,719		
Roads		2,906,448	
Airports	165,014		
Bus Services	33,582		
Debt Service	2,141,797		
Capital Projects	13,247	604,518	
Administration	2,648,437	613,702	1,646,144
Total Disbursements	<u>10,966,061</u>	<u>4,124,668</u>	<u>6,334,902</u>
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	<u>7,232,424</u>	<u>(1,866,834)</u>	<u>(2,472,898)</u>
Other Adjustments to Cash (Uses)			
Transfers from Other Funds	8,257	1,867,441	2,474,377
Transfers to Other Funds	(7,501,203)		
Total Other Adjustments to Cash (Uses)	<u>(7,492,946)</u>	<u>1,867,441</u>	<u>2,474,377</u>
Net Change in Fund Balance	(260,522)	607	1,479
Fund Balance - Beginning	2,988,845	(607)	(1,479)
Fund Balance - Ending	<u>\$ 2,728,323</u>	<u>\$ 0</u>	<u>\$ 0</u>
Composition of Fund Balance			
Bank Balance	\$ 2,970,992	\$ 143,354	\$ 62,710
Less: Outstanding Checks	(242,669)	(143,354)	(62,710)
Fund Balance - Ending	<u>\$ 2,728,323</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

MCCRACKEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2019
(Continued)

Budgeted Funds						
Local Government Economic Assistance Fund	State Grant Fund	Federal Grant Fund	Sheriff Fund	Economic Assistance Fund	Juvenile Justice Fund	Transient Room Tax Fund
\$	\$	\$	\$	\$	\$	\$ 2,195,892
47	17,500		2,053,343			
			12,318	86,227		3,181
47	17,500		2,065,661	86,227		2,199,073
			3,233,033		56,546	
	38,361					2,132,646
			1,792,738			
	38,361		5,025,771		56,546	2,132,646
47	(20,861)		(2,960,110)	86,227	(56,546)	66,427
	7,586		2,964,379		56,546	
	7,586		2,964,379		56,546	
47	(13,275)		4,269	86,227		66,427
202	29,575	14,981	(4,269)	802,069		745,654
\$ 249	\$ 16,300	\$ 14,981	\$ 0	\$ 888,296	\$ 0	\$ 812,081
\$ 249	\$ 16,300	\$ 14,981	\$ 1,925	\$ 888,296	\$	\$ 812,081
			(1,925)			
\$ 249	\$ 16,300	\$ 14,981	\$ 0	\$ 888,296	\$ 0	\$ 812,081

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

MCCRACKEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2019
(Continued)

	<u>Budgeted Funds</u>		<u>Unbudgeted Fund</u>	<u>Total Funds</u>
	<u>Unclaimed Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Jail Commissary Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 14,137,539
In Lieu Tax Payments				1,050,808
Licenses and Permits				428,413
Intergovernmental		114,215		11,608,146
Charges for Services				214,347
Miscellaneous	8,010		14,474	1,313,734
Interest		85	133	70,761
Total Receipts	<u>8,010</u>	<u>114,300</u>	<u>14,607</u>	<u>28,823,748</u>
DISBURSEMENTS				
General Government				7,597,673
Protection to Persons and Property				5,574,058
General Health and Sanitation				396,911
Social Services				110,321
Recreation and Culture			160,387	2,594,752
Roads				2,906,448
Airports				165,014
Bus Services				33,582
Debt Service		245,089		2,386,886
Capital Projects				617,765
Administration				6,701,021
Total Disbursements		<u>245,089</u>	<u>160,387</u>	<u>29,084,431</u>
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	<u>8,010</u>	<u>(130,789)</u>	<u>(145,780)</u>	<u>(260,683)</u>
Other Adjustments to Cash (Uses)				
Transfers from Other Funds		130,874		7,509,460
Transfers to Other Funds	(8,257)			(7,509,460)
Total Other Adjustments to Cash (Uses)	<u>(8,257)</u>	<u>130,874</u>		
Net Change in Fund Balance	(247)	85	(145,780)	(260,683)
Fund Balance - Beginning	<u>8,257</u>	<u>33</u>	<u>177,364</u>	<u>4,760,625</u>
Fund Balance - Ending	<u>\$ 8,010</u>	<u>\$ 118</u>	<u>\$ 31,584</u>	<u>\$ 4,499,942</u>
Composition of Fund Balance				
Bank Balance	\$ 8,010	\$ 118	\$ 99,790	\$ 5,018,806
Less: Outstanding Checks			(68,206)	(518,864)
Fund Balance - Ending	<u>\$ 8,010</u>	<u>\$ 118</u>	<u>\$ 31,584</u>	<u>\$ 4,499,942</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
NOTE 2.	DEPOSITS	13
NOTE 3.	TRANSFERS.....	14
NOTE 4.	AGENCY TRUST FUNDS	14
NOTE 5.	HEALTH REIMBURSEMENT ACCOUNT/FLEXIBLE SPENDING ACCOUNT	14
NOTE 6.	RECEIVABLES	15
NOTE 7.	LONG-TERM DEBT	15
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM	23
NOTE 9.	DEFERRED COMPENSATION.....	26
NOTE 10.	INSURANCE.....	27
NOTE 11.	LANDFILL CLOSURE AND POST-CLOSURE COSTS.....	27
NOTE 12.	CONTINGENCIES	27

**MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of McCracken County includes all budgeted and unbudgeted funds under the control of the McCracken County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

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

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

State Grant Fund - The primary purpose of this fund is to account for the state grant receipts and state grant disbursements of the county.

Federal Grant Fund - The primary purpose of this fund is to account for federal grant receipts and federal grant disbursements of the county.

Sheriff Fund - The primary purpose of this fund is to account for the sheriff's receipts and disbursements. The primary source of receipts for this fund is the sheriff's excess fees.

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

Juvenile Justice Fund - The primary purpose of this fund is to account for housing expenses of the county's juvenile offenders. The primary source of receipts for this fund is transfers from the general fund.

Transient Room Tax Fund - The primary purpose of this fund is to account for collection and distribution of transient room tax.

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

Debt Service Fund - The primary purpose of this fund is to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest of the Public Properties Corporation. The fiscal court budgeted this fund; however, the state local finance officer does not require it to be budgeted.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

D. Budgetary Information

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

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

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

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

E. McCracken County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Related Obligations and Joint Ventures

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

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

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

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

Note 2. Deposits

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

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2019.

	General Fund	Unclaimed Revenue Fund	Total Transfers In
General Fund	\$	\$ 8,257	\$ 8,257
Road Fund	1,867,441		1,867,441
Jail Fund	2,474,377		2,474,377
State Grant Fund	7,586		7,586
Sheriff Fund	2,964,379		2,964,379
Juvenile Justice Fund	56,546		56,546
Debt Service	130,874		130,874
Total Transfers Out	<u>\$ 7,501,203</u>	<u>\$ 8,257</u>	<u>\$ 7,509,460</u>

Reason for transfers:

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

Note 4. Agency Trust Funds

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2019, was \$66,851.

Note 5. Health Reimbursement Account/Flexible Spending Account

The McCracken County Fiscal Court established a health reimbursement account on February 11, 2013, to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee, providing funds as determined by health insurance coverage each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll. The balance in the health reimbursement account as of June 30, 2019, was \$165,408.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 6. Receivables

The McCracken County Fiscal Court has receivables due on June 30, 2019, as follows:

A. General Obligation Bonds, Series 2011 - Murray State University Project

On November 22, 2011, McCracken County issued \$9,980,000 in General Obligation Bonds, Series 2011, for the purpose of increasing the public higher education opportunities for residents of the Greater Paducah region. On May 31, 2011, a mutual covenant was formed between McCracken County (County), the City of Paducah (City), Murray State University (MSU), and the Greater Paducah Economic Development Council (GPEDC). The County, City, and GPEDC are to provide a combined \$500,000 per year for 20 years to service the debt of the bonds. It is the responsibility of MSU to make a renewable lease payment to the County for the difference in the County and City's \$500,000 a year contribution, as they may allocate towards the debt service, projected payment to be no more than \$290,000 per year. As of June 30, 2019, the debt service requirements have been met.

B. Paducah Economic Development

On September 18, 2007, the McCracken County Fiscal Court (County) and the City of Paducah (City) entered into a financing agreement with the Paducah Economic Development (PED) for the acquisition of property. As part of the agreement, the PED executed and delivered to the County an interest free promissory note in the amount of \$600,000 for one half of the financing. On December 19, 2008, the County agreed to an additional note of \$311,375 for the PED to purchase property. In December 2013, the County forgave \$500,000 of the \$911,375. On June 27, 2016, the County approved to extend the \$411,375 County Loan Financing Agreement with PED to June 30, 2020, for economic development of property located in McCracken County and known as Riverport West.

C. County Attorney Overcompensation Agreement

On January 7, 2016, the McCracken County Fiscal Court and former county attorneys entered into an agreement for repayment of county attorney overcompensation in the amount of \$138,659. The fiscal court and the former county attorneys agreed and settled upon a six-year and eleven-year repayment terms. The fiscal court received \$15,000 during the current year. As of June 30, 2019, the remaining balance was \$52,960

Note 7. Long-term Debt

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

On November 22, 2011, the fiscal court issued McCracken County, Kentucky General Obligation Bonds, (Murray State University Project), Series 2011. The bonds originally totaled \$9,980,000, and the proceeds will be used for the purposes of (i) constructing an education building and associated streets, parking lots, utilities and infrastructure, and (ii) paying the costs of issuance of the bonds, which are dated November 22, 2011, have interest rates of 1 percent to 3.50 percent and mature beginning in December 2012 through December 2031. A mutual covenant was formed by the McCracken County Fiscal Court, the City of Paducah, Murray State University, and the Greater Paducah Economic Development Council. See Note 6A for the receivable. The balance on these bonds as of June 30, 2019, was \$6,990,000. Future principal and interest requirements are as follows:

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt (Continued)

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

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 455,000	\$ 197,044
2021	465,000	187,263
2022	480,000	176,331
2023	490,000	164,506
2024	500,000	151,819
2025-2029	2,735,000	532,434
2030-2032	1,865,000	97,575
Totals	<u>\$ 6,990,000</u>	<u>\$ 1,506,972</u>

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

On June 17, 2013, the fiscal court sold McCracken County, Kentucky General Obligation Bonds, (TeleTech Project), Series 2013A. the bonds originally totaled \$1,415,000, and the proceeds will be used for the purposes of (i) financing the acquisition, construction, installation, and equipping of an approximately 30,000 square foot building, which will be subleased to TeleTech Services Corporation and (ii) paying the costs of issuance of the bonds, which are dated June 17, 2013, have interest rates of 1 percent to 5 percent, and mature beginning in December 2013 through December 2032. The balance on these bonds as of June 30, 2019, was \$1,085,000. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 60,000	\$ 46,625
2021	60,000	44,900
2022	65,000	42,869
2023	65,000	40,756
2024	65,000	38,400
2025-2029	380,000	145,600
2030-2033	390,000	40,250
Totals	<u>\$ 1,085,000</u>	<u>\$ 399,400</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt (Continued)

C. General Obligation Bonds, Series 2013B (Whitehall/MACCO Project)

On September 10, 2013, the fiscal court sold McCracken County, Kentucky General Obligation Bonds (Whitehall/MACCO Project), Series 2013B. The bonds originally totaled \$3,015,000 and the proceeds will be used for the purposes of (i) financing improvements to an industrial/distribution facility located within the County (the MACCO Project) to be leased to a Kentucky subsidiary of MACCO Organiques Incorporated, a Canadian corporation, (ii) financing equipment for the use by SRS Industries, LLC d/b/s Whitehall Industries, a Michigan limited liability company, at an industrial/distribution facility located within the county to be leased by such company (the Whitehall Project and together with the MACCO Project, the Project), and (iii) paying the costs of issuing the bonds. The bonds have interest rates of 3 percent to 5 percent and mature beginning in March 2014 through September 2033. The fiscal court received a good faith deposit of \$60,300, in September 2013 along with the remainder of the funds. The balance of these bonds as of June 30, 2019, was \$1,975,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 230,000	\$ 71,100
2021	235,000	64,125
2022	240,000	57,000
2023	250,000	49,650
2024	255,000	42,075
2025-2029	335,000	151,125
2030-2034	430,000	55,750
Totals	<u>\$ 1,975,000</u>	<u>\$ 490,825</u>

D. Revenue Bonds First Mortgage Revenue Refunding Bonds, Series 2013

On December 17, 2013, the fiscal court sold McCracken County, Kentucky Public Properties Corporation First Mortgage Revenue Refunding Bonds, Series 2013, (Courthouse Project) through the McCracken County, Kentucky Public Properties Corporation. The bonds totaled \$3,165,000, and the proceeds were used for the purposes of, (i) refunding all of the outstanding Series 2004 bonds issued by the McCracken County Public Properties Corporation and (ii) paying the cost of issuance on the bonds, which are dated December 17, 2013, have interest rates of 1 percent to 3.65 percent and mature beginning in June 2014 through June 2027. The county will be in default if any of the following events occur, (i) failure of the principal payment when due or upon call for redemption, (ii) failure to make any interest payment due, (iii) Default in the performance or observance of any other of the covenants, agreements or conditions on their part contained in the Mortgage or Lease, any authorizing resolution of the Corporation, the County or AOC, or the Bonds, and such failure, refusal or default will continue for a period of forty-five (45) days after written notice thereof by the Trustee or by Owners of not less than twenty-five percent (25%) in a principal amount of the Outstanding Bonds to the Corporation, the County or AOC, as applicable. The Owners of the Bonds remedies in an event of default are the following, (i) foreclose on the mortgage lien on the project site and improvements granted by the mortgage or carry out decretal sale. However, no such foreclosure sale will result in a deficiency judgement of any type or in any amount against AOC, the county or the corporation. The county may at any time by the discharge of the bonds and interest thereon receive an unencumbered fee simple title to the mortgaged facilities; provided that the event of any such enforcement of said lien by the Trustee, there will first be paid all expenses incident to said

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt (Continued)

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

document, and thereafter the Bonds then outstanding will be paid and retired, (ii) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Owners of the Bonds, including the right to require the Corporation to enforce fully the Lease and to charge, collect and fully account for the Pledged Receipts, and to require the Corporation to carry out any and all other covenants or agreements with the Bondholders and to perform its duties under the Act, (iii) by bring suit upon the bonds, (iv) by action or suit in equity, require the Corporation to account as if it were the trustee of an express trust for the Owners of the Bonds (v) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds (vi) by declaring all Bonds due and payable, and if all defaults will be made good, then, with the written consent of the Owners of not less than fifty percent in a principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; and (vii) in the event that all Bonds are declared due and payable, by selling Investment Obligations of the Corporation (to the extent not theretofore set aside for redemption of the Bonds for which call has been made), and enforcing all choices in action of the Corporation to the fullest legal extent in the name of the Corporation for the use and benefit of the Owners of the Bonds. As of June 30, 2019, outstanding bond principal was \$1,550,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 205,000	\$ 40,439
2021	205,000	36,082
2022	215,000	30,981
2023	215,000	25,230
2024	220,000	18,974
2025-2027	<u>490,000</u>	<u>17,287</u>
Totals	<u>\$ 1,550,000</u>	<u>\$ 168,993</u>

E. Direct Borrowings

1. U.S. Bank Financing Obligation - Energy Efficiency Project

On July 15, 2016, the fiscal court entered into an agreement with U.S. Bancorp Government Leasing and Finance, Inc. in the sum of \$3,149,377 at a 2.19 percent effective interest rate. The financing obligation is for the purpose of providing upgrades to aging HVAC systems, other facility needs, and reduce operating costs associated with energy efficiency. The maturity date of the obligation is January 1, 2032. As of June 30, 2019, outstanding bond principal was \$2,816,993. Future principal and interest requirements are:

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt (Continued)

E. Direct Borrowings (Continued)

1. U.S. Bank Financing Obligation - Energy Efficiency Project (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 189,516	\$ 60,660
2021	193,689	56,487
2022	197,954	52,222
2023	202,313	47,863
2024	206,767	43,408
2025-2029	1,104,171	146,708
2030-2032	722,583	27,945
Totals	<u>\$ 2,816,993</u>	<u>\$ 435,293</u>

2. Financing Obligation - 2017 Refunding General Obligation Leases

On September 25, 2017, the fiscal court entered into an agreement with Regions Equipment Finance in the sum of \$4,732,537. The financing obligation is for the purpose of partial refinance of the two 2010 KACO leases (see Note F.1. and F.2.), in order to provide savings for the county. The maturity date of the obligation is January 24, 2029. As of June 30, 2019, outstanding principal was \$4,632,781. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 60,537	\$ 134,005
2021	357,084	130,449
2022	664,252	113,834
2023	680,684	94,300
2024	696,293	74,262
2025-2029	2,173,931	122,937
Totals	<u>\$ 4,632,781</u>	<u>\$ 669,787</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt (Continued)

F. Other

1. KaCOLT Financing Obligation - Convention Center Renovation

On December 20, 2010, the fiscal court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program (KaCOLT) in the sum of \$4,965,000 at a 4.25 percent effective interest rate. The financing obligation is for the purpose of refinancing the renovation of the Julian Carroll Convention Center. On September 25, 2017, in order to save costs, the fiscal court refinanced a portion of the outstanding lease. The unrefunded balance of the 2010 lease was \$843,333. The maturity date of the obligation is January 1, 2021. As of June 30, 2019, outstanding principal was \$392,500. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 260,000	\$ 21,688
2021	132,500	6,338
Totals	<u>\$ 392,500</u>	<u>\$ 28,026</u>

2. KaCOLT Financing Obligation - Jail and Sheriff's Office Expansion

On December 20, 2010, the fiscal court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program (KaCOLT) in the sum of \$4,145,000 at a 4.25 percent effective interest rate. The financing obligation is for the purpose of refinancing the expansion of the jail and the sheriff's office. On September 25, 2017, in order to save costs, the fiscal court refinanced a portion of the outstanding lease. The unrefunded balance of the 2010 lease was \$936,667. The maturity date of the obligation is January 1, 2021. As of June 30, 2019, outstanding principal was \$437,500. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 290,000	\$ 21,813
2021	147,500	6,637
Totals	<u>\$ 437,500</u>	<u>\$ 28,450</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt (Continued)

G. Notes Payable

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

On August 19, 2010, the McCracken County Fiscal Court (County) issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$3,582,500. The note was authorized for the purpose of paying the County's 50 percent portion of the refinancing costs related to the original acquisition, construction, installation, and equipping of the expansion to the Julian Carroll Convention Center and the construction of the Julian Carroll Convention Center and the construction of the Four Rivers Center for the Performing Arts (collectively, the Project) and paying the County's 50 percent portion of the costs of issuance by the City of its General Obligation Refunding Bonds, Series 2010 being issued to refinance the costs of the Project. The note has interest rates of 1.0 percent to 3.25 percent and interest payments are to be made semi-annually beginning December 1, 2010. Principal payments are to be made annually on June 1 with the final payment due June 1, 2026. The balance on the note as of June 30, 2019, was \$1,805,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 235,000	\$ 55,869
2021	242,500	48,819
2022	250,000	41,544
2023	257,500	34,043
2024	265,000	26,319
2025-2026	<u>555,000</u>	<u>27,219</u>
Totals	<u>\$ 1,805,000</u>	<u>\$ 233,813</u>

2. Speculative Building - City of Paducah

On August 23, 2011, the McCracken County Fiscal Court (County) issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$1,955,000. The note was authorized for the purpose of refinancing the May 1, 2004 note payable to the City. In August 2011, the City issued General Obligation Taxable Refunding Bonds of \$3,910,000 to advance refund General Obligation Public Projects Bonds, Series 2004 issued for the purpose of acquisition, construction, and installation of an approximately 100,000 square foot building to be leased by the City and County to the Paducah McCracken Industrial Development Authority.

On June 1, 2004, the City and County entered into a lease agreement with the Paducah McCracken County Industrial Development Authority. On June 23, 2014, the Paducah McCracken County Industrial Development Authority entered into an agreement with Genova Products, Inc. Genova shall be responsible for the payment of the monthly rent installments for the remainder of the term of the lease. The note has an interest rate of 3.68 percent and interest payments are to be made semiannually beginning December 1, 2011. Principal payments are to be made annually on June 1 with the final payment due on June 1, 2024. The balance on the note as of June 30, 2019, was \$800,000. Annual debt service requirements to maturity are as follows:

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt (Continued)

G. Notes Payable (Continued)

2. Speculative Building - City of Paducah (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 167,500	\$ 29,440
2021	172,500	23,276
2022	180,000	16,928
2023	187,500	10,304
2024	92,500	3,404
Totals	<u>\$ 800,000</u>	<u>\$ 83,352</u>

3. Julian Carroll Convention Center - City of Paducah

On January 1, 2017, the McCracken County Fiscal Court (County) issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$1,500,000. The note was authorized for the purpose of paying the County's 50 percent portion of the lease in order to finance the acquisition, construction, installation, and equipping of improvement to the Julian Carroll Convention Center, which is to be owned by the Paducah-McCracken County Convention Center Corporation, a non-profit, charitable corporation established at the direction of the City and the County. The lease has an interest rate of 1.98 percent. Principal and interest payments are to be made semi-annually beginning July 24, 2017. The maturity date of the lease is January 24, 2032. The balance as of June 30, 2019, was \$1,454,685. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 23,623	\$ 28,685
2021	23,820	28,217
2022	24,158	27,743
2023	24,639	27,262
2024	25,265	26,771
2025-2029	673,826	112,854
2030-2032	659,354	22,995
Totals	<u>\$ 1,454,685</u>	<u>\$ 274,527</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt (Continued)

H. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due In More Than One Year
General Obligation Bonds	\$ 10,770,000	\$	\$ 720,000	\$10,050,000	\$ 745,000	\$ 9,305,000
Revenue Bonds	1,750,000		200,000	1,550,000	205,000	1,345,000
Direct Borrowing	7,688,313		238,539	7,449,774	250,053	7,199,721
Other	1,357,500		527,500	830,000	550,000	280,000
Notes Payable	4,471,287		411,602	4,059,685	426,123	3,633,562
Total Long-term Debt	\$ 26,037,100	\$ 0	\$ 2,097,641	\$23,939,459	\$ 2,176,176	\$ 21,763,283

Note 8. Employee Retirement System

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

The county's contribution for FY 2017 was \$ 2,089,573, FY 2018 was \$2,189,754, and FY 2019 was \$2,268,409.

Nonhazardous

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

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

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 8. Employee Retirement System (Continued)

Nonhazardous (Continued)

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 21.48 percent.

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

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

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute 8 percent of their annual creditable compensation and also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board 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 hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for hazardous employees was 35.34 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%

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 8. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

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

Once members reach a minimum vesting period of 15 years, they 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 percent. 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 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

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

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

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

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

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 8. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

D. Cost of Living Adjustments - Tier 1

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

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

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

F. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 9. Deferred Compensation

On November 9, 1982, the McCracken County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

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

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 9. Deferred Compensation (Continued)

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

Note 10. Insurance

For the fiscal year ended June 30, 2019, the McCracken County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Landfill Closure and Post-Closure Costs

The county landfill closed to the public on June 30, 1995. The county must comply with established state and federal landfill closure and post-closure procedures and must perform maintenance and monitoring at the site for thirty years after the closure. The 30-year period will begin upon approval from the Commonwealth of Kentucky regarding the environmental condition of the landfill site. As of June 30, 2019, final approval of the closure had not yet been granted. Closure costs for FYE June 30, 2019, were \$44,424. In April 2019, the City of Paducah reimbursed the county \$22,212 for its share of landfill expenses paid from April 2018 through March 2019.

Note 12. Contingencies

The county is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

THIS PAGE LEFT BLANK INTENTIONALLY

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

For The Year Ended June 30, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 11,590,000	\$ 11,590,000	\$ 11,941,647	\$ 351,647
In Lieu Tax Payments	940,000	940,000	1,050,808	110,808
Licenses and Permits	423,250	423,250	422,513	(737)
Intergovernmental	3,213,029	3,306,322	3,747,006	440,684
Charges for Services	18,000	18,000	25,975	7,975
Miscellaneous	778,279	778,279	943,174	164,895
Interest	35,000	35,000	67,362	32,362
Total Receipts	<u>16,997,558</u>	<u>17,090,851</u>	<u>18,198,485</u>	<u>1,107,634</u>
DISBURSEMENTS				
General Government	4,495,820	4,652,619	4,364,640	287,979
Protection to Persons and Property	954,022	954,022	828,754	125,268
General Health and Sanitation	417,292	417,292	396,911	20,381
Social Services	75,000	75,000	71,960	3,040
Recreation and Culture	516,532	516,532	301,719	214,813
Airports	135,000	165,014	165,014	
Bus Services	34,000	34,000	33,582	418
Debt Service	2,065,987	2,065,987	2,141,797	(75,810)
Capital Projects	13,000	13,247	13,247	
Administration	3,488,812	3,395,045	2,648,437	746,608
Total Disbursements	<u>12,195,465</u>	<u>12,288,758</u>	<u>10,966,061</u>	<u>1,322,697</u>
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	<u>4,802,093</u>	<u>4,802,093</u>	<u>7,232,424</u>	<u>2,430,331</u>
Other Adjustments to Cash (Uses)				
Transfers from Other Funds			8,257	8,257
Transfers to Other Funds	(8,116,360)	(8,116,360)	(7,501,203)	615,157
Total Other Adjustments to Cash (Uses)	<u>(8,116,360)</u>	<u>(8,116,360)</u>	<u>(7,492,946)</u>	<u>623,414</u>
Net Change in Fund Balance	(3,314,267)	(3,314,267)	(260,522)	3,053,745
Fund Balance - Beginning	3,314,267	3,314,267	2,988,845	(325,422)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,728,323</u>	<u>\$ 2,728,323</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 1,000	\$ 1,000	\$ 5,900	\$ 4,900
Intergovernmental	2,543,032	2,543,032	2,251,934	(291,098)
Total Receipts	<u>2,544,032</u>	<u>2,544,032</u>	<u>2,257,834</u>	<u>(286,198)</u>
DISBURSEMENTS				
Roads	3,253,475	3,252,456	2,906,448	346,008
Capital Projects	720,000	720,000	604,518	115,482
Administration	613,195	614,214	613,702	512
Total Disbursements	<u>4,586,670</u>	<u>4,586,670</u>	<u>4,124,668</u>	<u>462,002</u>
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	<u>(2,042,638)</u>	<u>(2,042,638)</u>	<u>(1,866,834)</u>	<u>175,804</u>
Other Adjustments to Cash (Uses)				
Transfers from Other Funds	<u>2,042,638</u>	<u>2,042,638</u>	<u>1,867,441</u>	<u>(175,197)</u>
Total Other Adjustments to Cash (Uses)	<u>2,042,638</u>	<u>2,042,638</u>	<u>1,867,441</u>	<u>(175,197)</u>
Net Change in Fund Balance			607	607
Fund Balance - Beginning			<u>(607)</u>	<u>(607)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 3,193,819	\$ 3,214,819	\$ 3,424,101	\$ 209,282
Charges for Services	288,800	288,800	188,372	(100,428)
Miscellaneous	305,000	305,000	249,531	(55,469)
Total Receipts	<u>3,787,619</u>	<u>3,808,619</u>	<u>3,862,004</u>	<u>53,385</u>
DISBURSEMENTS				
Protection to Persons and Property	4,555,907	4,793,209	4,688,758	104,451
Administration	1,885,031	1,668,729	1,646,144	22,585
Total Disbursements	<u>6,440,938</u>	<u>6,461,938</u>	<u>6,334,902</u>	<u>127,036</u>
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	<u>(2,653,319)</u>	<u>(2,653,319)</u>	<u>(2,472,898)</u>	<u>180,421</u>
Other Adjustments to Cash (Uses)				
Transfers from Other Funds	2,653,319	2,653,319	2,474,377	(178,942)
Total Other Adjustments to Cash (Uses)	<u>2,653,319</u>	<u>2,653,319</u>	<u>2,474,377</u>	<u>(178,942)</u>
Net Change in Fund Balance			1,479	1,479
Fund Balance - Beginning			<u>(1,479)</u>	<u>(1,479)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 200	\$ 200	\$ 47	\$ (153)
Total Receipts	200	200	47	(153)
DISBURSEMENTS				
Social Services	6,000	6,000		6,000
Total Disbursements	6,000	6,000		6,000
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	(5,800)	(5,800)	47	5,847
Other Adjustments to Cash (Uses)				
Total Other Adjustments to Cash (Uses)	5,800	5,800		(5,800)
Net Change in Fund Balance			47	47
Fund Balance - Beginning			202	202
Fund Balance - Ending	\$ 0	\$ 0	\$ 249	\$ 249

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	STATE GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 200,000	\$ 200,000	\$ 17,500	\$ (182,500)
Total Receipts	<u>200,000</u>	<u>200,000</u>	<u>17,500</u>	<u>(182,500)</u>
DISBURSEMENTS				
Social Services	200,000	200,000	38,361	161,639
Total Disbursements	<u>200,000</u>	<u>200,000</u>	<u>38,361</u>	<u>161,639</u>
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)			<u>(20,861)</u>	<u>(20,861)</u>
Other Adjustments to Cash (Uses)				
Transfers from Other Funds			7,586	7,586
Total Other Adjustments to Cash (Uses)			<u>7,586</u>	<u>7,586</u>
Net Change in Fund Balance			(13,275)	(13,275)
Fund Balance - Beginning			<u>29,575</u>	<u>29,575</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,300</u>	<u>\$ 16,300</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 300,000	\$ 300,000	\$	\$ (300,000)
Total Receipts	<u>300,000</u>	<u>300,000</u>	<u></u>	<u>(300,000)</u>
DISBURSEMENTS				
Social Services	300,000	300,000		300,000
Total Disbursements	<u>300,000</u>	<u>300,000</u>		<u>300,000</u>
Net Change in Fund Balance				
Fund Balance - Beginning			<u>14,981</u>	<u>14,981</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,981</u>	<u>\$ 14,981</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	SHERIFF FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,100,000	\$ 2,115,000	\$ 2,053,343	\$ (61,657)
Miscellaneous			12,318	12,318
Total Receipts	<u>2,100,000</u>	<u>2,115,000</u>	<u>2,065,661</u>	<u>(49,339)</u>
DISBURSEMENTS				
General Government	3,210,036	3,323,712	3,233,033	90,679
Administration	1,980,919	1,882,243	1,792,738	89,505
Total Disbursements	<u>5,190,955</u>	<u>5,205,955</u>	<u>5,025,771</u>	<u>180,184</u>
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	<u>(3,090,955)</u>	<u>(3,090,955)</u>	<u>(2,960,110)</u>	<u>130,845</u>
Other Adjustments to Cash (Uses)				
Transfers from Other Funds	3,090,955	3,090,955	2,964,379	(126,576)
Total Other Adjustments to Cash (Uses)	<u>3,090,955</u>	<u>3,090,955</u>	<u>2,964,379</u>	<u>(126,576)</u>
Net Change in Fund Balance			4,269	4,269
Fund Balance - Beginning			<u>(4,269)</u>	<u>(4,269)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 280,000	\$ 280,000	\$ 86,227	\$ (193,773)
Total Receipts	<u>280,000</u>	<u>280,000</u>	<u>86,227</u>	<u>(193,773)</u>
DISBURSEMENTS				
General Government	200,000	200,000		200,000
Total Disbursements	<u>200,000</u>	<u>200,000</u>		<u>200,000</u>
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	<u>80,000</u>	<u>80,000</u>	<u>86,227</u>	<u>6,227</u>
Other Adjustments to Cash (Uses)				
Transfers to Other Funds	(80,000)	(80,000)		80,000
Total Other Adjustments to Cash (Uses)	<u>(80,000)</u>	<u>(80,000)</u>		<u>80,000</u>
Net Change in Fund Balance			86,227	86,227
Fund Balance - Beginning			<u>802,069</u>	<u>802,069</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 888,296</u>	<u>\$ 888,296</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

JUVENILE JUSTICE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Protection to Persons and Property Administration	\$ 95,000	\$ 95,000	\$ 56,546	\$ 38,454
	10,500	10,500		10,500
Total Disbursements	<u>105,500</u>	<u>105,500</u>	<u>56,546</u>	<u>48,954</u>
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	<u>(105,500)</u>	<u>(105,500)</u>	<u>(56,546)</u>	<u>48,954</u>
Other Adjustments to Cash (Uses)				
Transfers from Other Funds	105,500	105,500	56,546	(48,954)
Total Other Adjustments to Cash (Uses)	<u>105,500</u>	<u>105,500</u>	<u>56,546</u>	<u>(48,954)</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	TRANSIENT ROOM TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,300,000	\$ 2,300,000	\$ 2,195,892	\$ (104,108)
Interest	1,050	1,050	3,181	2,131
Total Receipts	<u>2,301,050</u>	<u>2,301,050</u>	<u>2,199,073</u>	<u>(101,977)</u>
DISBURSEMENTS				
Recreation and Culture	2,218,424	2,218,424	2,132,646	85,778
Total Disbursements	<u>2,218,424</u>	<u>2,218,424</u>	<u>2,132,646</u>	<u>85,778</u>
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	<u>82,626</u>	<u>82,626</u>	<u>66,427</u>	<u>(16,199)</u>
Other Adjustments to Cash (Uses)				
Transfers to Other Funds	(82,626)	(82,626)		82,626
Total Other Adjustments to Cash (Uses)	<u>(82,626)</u>	<u>(82,626)</u>		<u>82,626</u>
Net Change in Fund Balance			66,427	66,427
Fund Balance - Beginning			<u>745,654</u>	<u>745,654</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 812,081</u>	<u>\$ 812,081</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

UNCLAIMED REVENUE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$ 8,010	\$ 8,010
Total Receipts			8,010	8,010
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)			8,010	8,010
Other Adjustments to Cash (Uses)				
Transfers to Other Funds			(8,257)	(8,257)
Total Other Adjustments to Cash (Uses)			(8,257)	(8,257)
Net Change in Fund Balance			(247)	(247)
Fund Balance - Beginning			8,257	8,257
Fund Balance - Ending	\$ 0	\$ 0	\$ 8,010	\$ 8,010

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	DEBT SERVICE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$	\$ 114,215	\$ 114,215
Interest			85	85
Total Receipts			114,300	114,300
DISBURSEMENTS				
Debt Service	130,774	130,874	245,089	(114,215)
Administration	250,000	249,900		249,900
Total Disbursements	380,774	380,774	245,089	135,685
Excess (Deficiency) of Receipts Over Disbursements before Other Adjustments to Cash (Uses)	(380,774)	(380,774)	(130,789)	249,985
Other Adjustments to Cash (Uses)				
Transfers from Other Funds	380,774	380,774	130,874	(249,900)
Total Other Adjustments to Cash (Uses)	380,774	380,774	130,874	(249,900)
Net Change in Fund Balance			85	85
Fund Balance - Beginning			33	33
Fund Balance - Ending	\$ 0	\$ 0	\$ 118	\$ 118

MCCRACKEN COUNTY
NOTE TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2019

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

General fund debt service exceeded budgeted appropriations by \$75,810. Debt service fund debt service exceeded budgeted appropriations by \$114,215.

THIS PAGE LEFT BLANK INTENTIONALLY

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

For The Year Ended June 30, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

MCCRACKEN COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,944,460	\$	\$ 82,000	\$ 1,862,460
Construction In Progress	4,520,388	39,372	4,520,388	39,372
Buildings	42,418,342	654,932	583,532	42,489,742
Vehicles and Equipment*	8,909,636	837,149	339,318	9,407,467
Infrastructure	91,515,961	5,951,117		97,467,078
 Total Capital Assets	 <u>\$ 149,308,787</u>	 <u>\$ 7,482,570</u>	 <u>\$ 5,525,238</u>	 <u>\$ 151,266,119</u>

MCCRACKEN COUNTY
NOTES TO OTHER INFORMATION - REGULATORY BASIS
SCHEDULE OF CAPITAL ASSETS

June 30, 2019

Note 1. Capital Assets

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

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

Note 2. Beginning Balance Restatement

The beginning balance of vehicles and equipment were increased by \$18,365, to correct the book balance on a vehicle and a piece of equipment due to an error.

The capital asset schedule has been adjusted for the following:

	<u>Vehicles and Equipment</u>
Ending Balance Prior Year	\$ 8,891,271
Adjustments:	
Error in assets book balance	<u>18,365</u>
Beginning Balance - Restated	<u><u>\$ 8,909,636</u></u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS
1700 EASTPOINT PARKWAY, SUITE 270
LOUISVILLE, KY 40223
BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: wtichenor@tichenorassociates.com

The Honorable Craig Z. Clymer, McCracken County Judge/Executive
Members of the McCracken County Fiscal Court

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

Independent Auditors' Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCracken County Fiscal Court for the fiscal year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the McCracken County Fiscal Court's financial statement and have issued our report thereon dated April 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the McCracken County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the McCracken County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCracken County Fiscal Court's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, and 2019-003 to be material weaknesses.

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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-004, 2019-005, 2019-006, 2019-007, and 2019-008 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCracken County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky

April 16, 2020

**MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

**MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2019-001 The McCracken County Fiscal Court Lacks Internal Controls Over Cash Processes And Financial Reporting

This is a repeat finding and was included in the prior year audit report as finding 2018-001. The McCracken County Fiscal Court's Fourth Quarter Report cash balances do not agree to the county treasurer's settlement for the following funds; general fund, road fund, jail fund, and the sheriff fund. The differences between these two reports were \$4,576, \$607, \$1,479, and \$4,269, respectively.

During fiscal year 2018, a batch of checks was created for payment in July 2018. Due to an error, these checks were dated June 28, 2018. This error caused the 2019 Fourth Quarter Report to not agree with the county treasurer's 2019 settlement. Proper internal controls requires financial reports to agree to each other or have a reconciliation between the reports.

We recommend the treasurer review and if needed reconcile all financial reports required by the Department for Local Government for agreement.

Views of Responsible Official and Planned Corrective Action:

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

2019-002 The McCracken County Jail Lacks Adequate Internal Controls Over The Inmate Fund

This is a repeat finding and was included in the prior year audit report as finding 2018-003. The McCracken County Jail contracts with a third-party commissary company to oversee and maintain the inmate fund. The inmate fund is maintained solely by the commissary company. The commissary company receives cash, makes the deposits, posts transactions to the inmates' accounts, posts to the ledgers, prepares checks, and reconciles the account. Employees of the jail do not have access to any accounting records of the inmate fund, including resident transaction reports and bank statements.

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

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

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

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: Actions have been put in place for us to have controls over the fund.

MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2019
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2019-003 The McCracken County Fiscal Court Lacks Adequate Segregation Of Duties Over The Collection Of Receipts

This is a repeat finding and was included in the prior year audit report as finding 2018-004. The McCracken County Fiscal Court lacks adequate segregation of duties over the collection of receipts. The county treasurer prepares the deposit, posts the receipts to the ledger, and reconciles the bank statements monthly.

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

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: A daily receipt log is maintained by the judge's executive assistant. The Treasurer will compare the log to deposits and receipts posting to the ledger. The deputy judge will review bank reconciliations and compare the cash recorded on log to receipts books and compare number of checks on log to receipts posting.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2019-004 The McCracken County Fiscal Court Did Not Approve Cash Transfers Prior To Making Them

This is a repeat finding and was included in prior year audit report as finding 2018-009. Throughout the 2019 fiscal year, cash transfers were made prior to being approved by the fiscal court. Some were later recognized by the fiscal court in future fiscal court meetings, while some were not recognized in the fiscal court meetings at all.

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

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Treasurer has implemented a process where cash transfers are approved by fiscal court prior to those cash transfers being made.

**MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2019
(Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-005 The McCracken County Fiscal Court Lacks Internal Controls Over A Third-Party Administrator

This is a repeat finding and was included in the prior year audit report as finding 2018-010. During fiscal year 2019, the McCracken County Fiscal Court approved health plans elected by employees, including plans that contained an employer funded Health Reimbursement Account (HRA). Each health insurance plan details the annual contribution to the HRA from the county. The McCracken County Fiscal Court has contracted with a third-party administrator to administer the HRA accounts. There is a lack of internal control over reviewing and reconciling account balances from the third-party administrator.

Due to the lack of internal controls and the fact reports are not provided by the third-party administrator, the account balances for employees were not reviewed nor reconciled to the county's records. Because of the lack of internal controls, errors can occur and remain undetected. The county could be overcharged and employees could receive benefits not approved by the fiscal court. Strong internal controls are vital in ensuring that employees' HRA amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes.

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Effective January 1, 2020 the county will have a new third-party administrator for HRA/FSA plans.

2019-006 The McCracken County Jail Did Not Properly Reconcile The Commissary Fund

The McCracken County Jail did not properly reconcile the jail commissary fund during Fiscal Year 2019. Furthermore, monthly reconciliations were not reviewed and approved by the jailer. Jail personnel did not know how to properly reconcile the jail commissary bank account. Due to the jailer not reviewing and approving the reconciliation, incorrect reconciliations were taking place monthly. Because the jail commissary account was not reconciled correctly, there is no assurance that funds were accurately recorded. This increases the likelihood of fraud or misuse.

Strong internal controls require all bank accounts to be reconciled properly on a monthly basis to ensure that all receipts and disbursements are properly recorded. Furthermore, reconciliations should be reviewed and approved by management.

We recommend the McCracken County Jailer implement internal controls over the monthly jail commissary fund reconciliation. These controls should include the jailer or designee reviewing and signing the monthly jail commissary fund reconciliation.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: This was corrected while the auditors were here and resubmitted to them with approval. The Jailer will sign off on reconciliation sheets every month.

**MCCRACKEN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2019
(Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-007 The McCracken County Jail's Annual Commissary Report Was Not In Compliance With Minimum Accounting Standards

Receipts and disbursements of the commissary account were not properly broken down by category on the jailer's annual commissary report. Due to the fact that the jail provides detailed monthly reports to the fiscal court, the jailer did not realize the necessity of presenting the year-end report in detail. Since receipts and disbursements were not properly broken down by category on the annual commissary report, the commissary report was not in compliance with minimum accounting standards required by KRS 68.210. Additionally, users are not able to determine where receipts originate from and how disbursements are spent.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government (DLG) *County Budget Preparation & State Local Finance Officer Policy Manual* requires the receipts and disbursements of the jail commissary to be categorized by type.

We recommend the jailer comply with KRS 68.210 by properly categorizing the receipts and disbursements of the commissary account and presenting the annual commissary report in detail.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: We have changed the form to be used in reporting so this will be in compliance with Accounting Standards.

2019-008 The McCracken County Jail Purchased Vehicles With Canteen Funds For Inmate Transport

During fiscal year 2019, the McCracken County Jail purchased two Dodge Durango's with jail canteen funds. Per discussions with the jailer, these vehicles were used to transport prisoners for work programs, medical and dental appointments, as well as transfers. Vehicle logs or other type of internal control mechanism or documentation were not available to confirm the nature of the prisoner's transportation. During the audit process, the jailer, stated that he believes that these vehicles are being used in compliance with the KRS. The jail canteen funds are being used for noncompliance purposes which reduces the amount of funds available to make purchases that benefit and enhance the well-being of the prisoners.

KRS 441.505(1) states, "[t]he fiscal court of each county shall provide for the transportation of prisoners as necessary from the jail budget." KRS 441.135(2)(a) states all profits from the canteen shall be used "[f]or the benefit and to enhance the well-being of the prisoners; or [t]o enhance safety and security within the jail."

We recommend the McCracken County Jail keep logbooks in all vehicles. Keeping vehicle logbooks or other type of internal control mechanism or documentation will provide documentation to support the proper use of any vehicles purchased with canteen funds. In addition, all prisoner transportation that is not recreational, vocational, or medical in nature should be done with vehicles that have been purchased by the jail fund. Therefore, we recommend that the fiscal court and the jailer agree on a percentage amount that the vehicles were being used for inmate transport and that percentage will be used to calculate that amount of reimbursement the jail fund owes the canteen fund.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: We will continue to comply with all sections of KRS 441.135 including sections 2(a) and (b) as well as sections (3). By doing so we shall remain in compliance.

Auditors' Reply: The jailer's response implies that the McCracken County Jail is in compliance with State Laws and Regulation when in fact they are not in compliance with KRS 441.505(1) and KRS 441.135(2)(a).