

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

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



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

June 30, 2015

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

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

Financial Condition:

The McCreary County Fiscal Court had total receipts of \$7,565,152 and disbursements of \$7,337,870 in fiscal year 2015. This resulted in a total ending fund balance of \$1,530,775, which is an increase of \$295,339 from the prior year.

Report Comments:

- 2015-001 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures
- 2015-002 The Payroll Account Was Not Properly Reconciled
- 2015-003 The Fiscal Court Did Not Have Sufficient Controls Over Payroll
- 2015-004 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements
- 2015-005 Penalties And Interest Were Incurred Due To Not Paying Invoices Timely
- 2015-006 The Fiscal Court Did Not Comply With The United States Department Of Agriculture (USDA) Grant Agreement
- 2015-007 The Fiscal Court Did Not Maintain Accurate Capital Asset Records
- 2015-008 The Fiscal Court Lacks Segregation Of Duties Over All Accounting Functions
- 2015-009 The Fiscal Court Did Not Have Sufficient Controls Over The Loan Program

Deposits:

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

- Uncollateralized and Uninsured \$342,006

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Douglas E. Stephens, McCreary County Judge/Executive

Members of the McCreary County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCreary County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the McCreary County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the McCreary County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the McCreary County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the McCreary County Fiscal Court. The budgetary comparison schedules and the capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
 Honorable Douglas E. Stephens, McCreary County Judge/Executive
 Members of the McCreary County Fiscal Court

Other Matters (Continued)

Supplementary Information (Continued)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2016 on our consideration of the McCreary County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the McCreary County Fiscal Court's internal control over financial reporting and compliance.

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

- 2015-001 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures
- 2015-002 The Payroll Account Was Not Properly Reconciled
- 2015-003 The Fiscal Court Did Not Have Sufficient Controls Over Payroll
- 2015-004 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements
- 2015-005 Penalties And Interest Were Incurred Due To Not Paying Invoices Timely
- 2015-006 The Fiscal Court Did Not Comply With The United States Department Of Agriculture (USDA) Grant Agreement
- 2015-007 The Fiscal Court Did Not Maintain Accurate Capital Asset Records
- 2015-008 The Fiscal Court Lacks Segregation Of Duties Over All Accounting Functions
- 2015-009 The Fiscal Court Did Not Have Sufficient Controls Over The Loan Program

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

July 25, 2016

MCCREARY COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

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

Other Elected Officials:

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

Appointed Personnel:

Mark Sewell	County Treasurer
Randy Jones	Chief Financial Officer\Deputy Judge Executive

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 558,417	\$	\$	\$
In Lieu Tax Payments	279,706	361,914		
Excess Fees	17,054			
Licenses and Permits	103,799			
Intergovernmental	126,016	1,970,817	115,739	183,423
Charges for Services	1,140,415		30	
Miscellaneous	163,122	146,677	21,780	2,183
Interest	273	1,244	32	394
Total Receipts	<u>2,388,802</u>	<u>2,480,652</u>	<u>137,581</u>	<u>186,000</u>
DISBURSEMENTS				
General Government	787,200			
Protection to Persons and Property	947,447		739,287	
General Health and Sanitation	57,268			
Recreation and Culture	33,614			
Roads		1,580,750		149,121
Road Facilities		200,505		
Debt Service	83,295	14,444	22,424	
Capital Projects				
Administration	802,506	295,202	58,414	
Total Disbursements	<u>2,711,330</u>	<u>2,090,901</u>	<u>820,125</u>	<u>149,121</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(322,528)</u>	<u>389,751</u>	<u>(682,544)</u>	<u>36,879</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account	18,057			
Financing Obligation Proceeds				
Transfers From Other Funds	1,478,295	163,146	682,624	5,985
Transfers To Other Funds	(1,187,293)	(277,273)		
Total Other Adjustments to Cash (Uses)	<u>309,059</u>	<u>(114,127)</u>	<u>682,624</u>	<u>5,985</u>
Net Change in Fund Balance	(13,469)	275,624	80	42,864
Fund Balance - Beginning (Restated)	165,510	392,678	3,017	212,304
Fund Balance - Ending	<u>\$ 152,041</u>	<u>\$ 668,302</u>	<u>\$ 3,097</u>	<u>\$ 255,168</u>
Composition of Fund Balance				
Bank Balance	\$ 159,306	\$ 682,924	\$ 48,829	\$ 255,168
Payroll Revolving Account Reconciled Balance	18,057			
Less: Outstanding Checks	(25,322)	(14,622)	(45,732)	
Fund Balance - Ending	<u>\$ 152,041</u>	<u>\$ 668,302</u>	<u>\$ 3,097</u>	<u>\$ 255,168</u>

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

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

Budgeted Funds						
Ambulance Equipment Fund	Solid Waste Fund	Park Fund	Occupational Tax Fund	Grant Fund	Emergency Dispatch Fund	Disaster Assistance Fund
\$	\$	\$	\$ 1,123,320	\$	\$ 125,855	\$
	50,055					
	67,271			262,275	148,274	
		22,040				
	14,799	7,226			11,145	
90			198	22	23	27
90	132,125	29,266	1,123,518	262,297	285,297	27
85,033				68,531	288,659	
	79,108					
		69,216		124,543		
		48,292			3,621	
					27,000	
3	29,666	29,516			105,567	
85,036	108,774	147,024		193,074	424,847	
(84,946)	23,351	(117,758)	1,123,518	69,223	(139,550)	27
					50,000	
70,000		119,874		115	92,096	
		(4,480)	(1,186,377)	(35,985)	(3,693)	(4,522)
70,000		115,394	(1,186,377)	(35,870)	138,403	(4,522)
(14,946)	23,351	(2,364)	(62,859)	33,353	(1,147)	(4,495)
50,019	26,052	2,579	98,395	(10,048)	5,918	17,685
\$ 35,073	\$ 49,403	\$ 215	\$ 35,536	\$ 23,305	\$ 4,771	\$ 13,190
\$ 35,073	\$ 54,037	\$ 5,107	\$ 35,536	\$ 23,305	\$ 8,846	\$ 13,190
	(4,634)	(4,892)			(4,075)	
\$ 35,073	\$ 49,403	\$ 215	\$ 35,536	\$ 23,305	\$ 4,771	\$ 13,190

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

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

	<u>Budgeted Funds</u>		<u>Unbudgeted Funds</u>	
	<u>Revolving Loan Fund</u>	<u>Economic Development Fund</u>	<u>Park Dedicated Fund</u>	<u>Ambulance Service Teaching Instructional Fund</u>
RECEIPTS				
Taxes	\$	\$ 15,644	\$	\$
In Lieu Tax Payments				
Excess Fees				
Licenses and Permits				
Intergovernmental		15,016		
Charges for Services				12,975
Miscellaneous	66,833	3,221		
Interest	76		407	
Total Receipts	<u>66,909</u>	<u>33,881</u>	<u>407</u>	<u>12,975</u>
DISBURSEMENTS				
General Government		103,391		
Protection to Persons and Property				10,411
General Health and Sanitation				
Recreation and Culture				
Roads				
Road Facilities				
Debt Service		4,167		
Capital Projects				
Administration	44,611	26,403		
Total Disbursements	<u>44,611</u>	<u>133,961</u>		<u>10,411</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>22,298</u>	<u>(100,080)</u>	<u>407</u>	<u>2,564</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account				
Financing Obligation Proceeds				
Transfers From Other Funds		93,918		
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)		<u>93,918</u>		
Net Change in Fund Balance	22,298	(6,162)	407	2,564
Fund Balance - Beginning (Restated)	32,692	7,162	230,212	
Fund Balance - Ending	<u>\$ 54,990</u>	<u>\$ 1,000</u>	<u>\$ 230,619</u>	<u>\$ 2,564</u>
Composition of Fund Balance				
Bank Balance	\$ 54,990	\$ 3,013	\$ 230,619	\$ 2,564
Payroll Revolving Account Reconciled Balance				
Less: Outstanding Checks		(2,013)		
Fund Balance - Ending	<u>\$ 54,990</u>	<u>\$ 1,000</u>	<u>\$ 230,619</u>	<u>\$ 2,564</u>

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

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

<u>Unbudgeted Funds</u>		
<u>Ten Commandments Fund</u>	<u>McCreary County Courthouse And Public Square Corporation Fund</u>	<u>Total Funds</u>
\$	\$	\$ 1,823,236
		641,620
		17,054
		153,854
	418,755	3,307,586
		1,175,460
6,570		443,556
		2,786
<u>6,570</u>	<u>418,755</u>	<u>7,565,152</u>
		890,591
		2,139,368
		136,376
		227,373
		1,729,871
		200,505
	416,455	592,698
		27,000
	2,200	1,394,088
	<u>418,655</u>	<u>7,337,870</u>
<u>6,570</u>	<u>100</u>	<u>227,282</u>
		18,057
		50,000
		2,706,053
(6,430)		(2,706,053)
<u>(6,430)</u>		<u>68,057</u>
140	100	295,339
1,261		1,235,436
<u>\$ 1,401</u>	<u>\$ 100</u>	<u>\$ 1,530,775</u>
\$ 1,401	\$ 100	\$ 1,614,008
		18,057
		(101,290)
<u>\$ 1,401</u>	<u>\$ 100</u>	<u>\$ 1,530,775</u>

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

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TO THE FINANCIAL STATEMENT**

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MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The following entities: The McCreary County Park Board, McCreary County Airport Board, and the McCreary County Tourist Commission would have been included in the reporting entity under accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board. However under the regulatory basis they are no longer are required components of the reporting entity.

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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 government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

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

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

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

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

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

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

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

Disaster Assistance Fund - The primary purpose of this fund is to account for the expense of emergencies and disasters in the county. The primary source of receipts for this fund is transfers from the General Fund.

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Park Dedicated Fund - The primary purpose of this fund is to account for the activity as a result of an ongoing environmental issue that occurred during construction of the county park. The contractor performed outside his scope of work causing a sediment breach which resulted in the “take” of a habitat of an endangered fish. As a result, the Kentucky Division of Water and Fish and Wildlife Service became involved with the project causing fines and mitigation work on the site. The contractor was owed \$230,000 in order to complete his contract, so these funds were set aside until the project is given environmental clearance and costs of the contractor’s action to the county determined.

Ambulance Service Teaching Instructional Fund - The primary purpose of this fund is to account for emergency services instructional classes taught by an employee of the county. The primary source of receipts for this fund is the collections of fees charged for these classes.

Ten Commandments Fund - The primary purpose of this fund is to account for the cost of legal defense regarding the Supreme Court case involving the county publicly posting the Ten Commandments. The primary source of receipts for this fund is the collection of private donations.

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

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. McCreary County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

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.

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

- Uncollateralized and Uninsured \$342,006

Note 3. Transfers

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

	General Fund	Road Fund	Park Fund	Occupational Tax Fund	Grant Fund	Emergency Dispatch Fund	Disaster Assistance Fund	Ten Commandments Fund	Total Transfers In
General Fund	\$	\$ 277,273	\$	\$1,186,377	\$	\$ 3,693	\$ 4,522	\$ 6,430	\$1,478,295
Road Fund	163,146								163,146
Jail Fund	682,624								682,624
LGEA Fund					5,985				5,985
Ambulance Equipment Fund	50,000				20,000				70,000
Park Fund	119,874								119,874
Grant Fund	115								115
Emergency Dispatch Fund	92,096								92,096
Economic Development Fund	79,438		4,480		10,000				93,918
Total Transfers Out	<u>\$1,187,293</u>	<u>\$ 277,273</u>	<u>\$ 4,480</u>	<u>\$1,186,377</u>	<u>\$ 35,985</u>	<u>\$ 3,693</u>	<u>\$ 4,522</u>	<u>\$ 6,430</u>	<u>\$2,706,053</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

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 funds:

Jail Commissary Fund - This fund accounts for funds received from the inmates. The balance in the Jail Inmate fund as of June 30, 2015 was \$805. The fiscal court closed the Jail Commissary fund during fiscal year ending June 30, 2013. The remaining funds are amounts due to prior inmates.

FSA/HRA Fund - This fund accounts for employee and employer contributions to reimburse employees for health care expenses.

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

Note 5. Operating Leases

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

Fiscal Year Ended June 30	Amount
2016	\$ 9,661
2017	9,661
2018	9,661
2019	9,661
2020	1,610
Total Minimum Lease Payments	<u>\$ 40,254</u>

Note 6. Notes Receivable

In 1994, McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as the Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As a part of this effort, SMART-approved low interest rate loans were made available to eligible businesses from Enterprise Community Program funds, which were passed through to the county from the U.S. Department of Health and Human Services. In order to account for the loan repayments, McCreary County established the SMART Works Fund. In 1998, the county was also awarded Rural Business Enterprise Grants (RBEG) for Smart-approved low interest rate loans to eligible businesses, which were passed through the U.S. Department of Agriculture. The county combined the RBEG and SMART Works accounts during calendar year 2011. The county may use the loan repayments of the SMART Works Fund and the RBEG Revolving Loan Fund in accordance with each federal program's guidelines. The balance of the receivables due as of June 30, 2015 is \$956,753.

Note 7. Long-term Debt

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

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

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

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

Note 7. Long-term Debt (Continued)

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

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

In July 2009, the McCreary County Fiscal Court retired the 1999A and 2001B series bonds by the issuance of Series 2009 refunding bonds in the amount of \$3,515,000. This refunding resulted in an average interest rate reduction of 1.77 percent and estimated present value savings amount of \$150,915. The principal balance as of June 30, 2015 is \$2,010,000. The future debt service requirements for the 2009 First Refunding Mortgage Revenue Bonds are presented as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 365,000	\$ 59,527
2017	375,000	48,975
2018	385,000	37,575
2019	395,000	25,480
2020	415,000	12,105
2021-2022	75,000	4,575
Totals	<u>\$ 2,010,000</u>	<u>\$ 188,237</u>

B. Jail Facility Lease Participation Agreement

The Kentucky Local Correctional Facilities Authority (KLCFA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of jail facilities. On October 15, 1984 McCreary County entered into a lease participation agreement and financial plan for jail construction costs with KLCFA, which was subsequently amended February 15, 1987, agreeing to pay KLCFA lease payments equal to \$316,534 principals plus a proportional share of interest on the KLCFA's Multi-County Correctional Refunding and Improvement Bonds, 1987 Series.

On February 1, 1994, KLCFA issued its Multi-County Correctional Facilities Refunding Bonds, 1994 Series refunding the 1987 Series.

On October 13, 2004, KLCFA issued its Multi-County Correctional Facilities Revenue Refunding Bonds, Series 2004, refunding the 1994 Series. As of October 13, 2004, McCreary County's outstanding principal balance on its lease participation agreement with KLCFA for the county's share of the 1994 Series was \$182,172. McCreary County's proportionate share of the October 13, 2004 refunding resulted in an additional principal reduction of \$18,907 and interest savings of \$7,852.

The second amended lease participation agreement dated October 1, 2004 between KLCFA and McCreary County requires an annual principal payment to be made by October 1 and semi-annual interest payments to be made on October 1 and April 1. Interest rates range from 6.92% to 6.94%. The outstanding principal was paid and the debt was retired during fiscal year June 30, 2015.

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

Note 7. Long-term Debt (Continued)

C. Courthouse Renovations

On June 26, 2012, the McCreary County Fiscal Court issued \$246,320 for the purpose of paying off McCreary Co, KY (ADA) KADDFT Lease Acquisition Program 2001 Series B 59517. The debt requires semi-annual interest payments due on October 1 and April 1. The debt will mature on October 1, 2021. The principal balance as of June 30, 2015 is \$200,056. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 25,689	\$ 4,605
2017	25,172	3,980
2018	29,542	3,307
2019	28,794	2,589
2020	28,003	1,891
2021-2022	62,856	1,530
Totals	<u>\$ 200,056</u>	<u>\$ 17,902</u>

D. Asphalt Truck

On July 21, 2008, the McCreary County Fiscal Court entered into a 10-year financing obligation with KACo Leasing Trust for the purchase of an asphalt truck. Principal and interest payments are due monthly by the 20th day of the month. The principal balance as of June 30, 2015 is \$41,176. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 12,802	\$ 1,647
2017	13,325	1,130
2018	13,868	593
2019	1,181	24
Totals	<u>\$ 41,176</u>	<u>\$ 3,394</u>

E. Ambulance

On January 25, 2010, the McCreary County Fiscal Court entered into a 5-year financing obligation with KACo Leasing Trust for the purchase of two ambulances at the total price of \$209,658. Interest payments at 4.355% are due monthly by the 20th, with annual principal payments due each January. The outstanding principal was paid and the debt was retired during fiscal year June 30, 2015.

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

Note 7. Long-term Debt (Continued)

F. Economic Development Loan

In September 2009, McCreary County Fiscal Court obtained a Rural Economic Development Finance Agreement for the construction of a multi-generational use building. The total amount financed was \$500,000 over a 10 year period. The agreement requires an annual service fee with a zero rate of interest and payments of \$4,167 due the 1st of each month. The principal balance as of June 30, 2015 is \$212,500. Future principal and service fee requirements are as follows:

Fiscal Year Ended June 30	Principal	Fees
2016	\$ 50,000	\$ 1,958
2017	50,000	1,458
2018	50,000	958
2019	50,000	458
2020	12,500	
Totals	<u>\$ 212,500</u>	<u>\$ 4,832</u>

G. Ten Commandments Lawsuit General Obligation Notes Series 2011

In December 2011, McCreary County Fiscal Court entered a note agreement with the Bank of McCreary County to pay a settlement to the American Civil Liberties Union for posting the Ten Commandments in the McCreary County Courthouse. The total amount financed was \$236,907 at a fixed rate of 3.50% with payments to be made quarterly until December 2016. The principal balance as of June 30, 2015 is \$75,453. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 49,862	\$ 1,997
2017	25,591	338
Totals	<u>\$ 75,453</u>	<u>\$ 2,335</u>

H. 911 Remodel

On February 6, 2015, the McCreary County Fiscal Court entered into a financing obligation with KACo Leasing Trust for the purpose of remodeling part of the Emergency Medical Services building to house the 911 dispatch center. The principal was \$50,000 at an effective interest rate of 3.25% for a period of five years, with principal due annually and interest paid monthly. The principal balance as of June 30, 2015 was \$46,972. Future principal and interest requirements are as follows:

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

Note 7. Long-term Debt (Continued)

H. 911 Remodel (Continued)

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 9,475	\$ 1,386
2017	9,788	1,074
2018	10,111	751
2019	10,444	417
2020	7,154	87
Totals	<u>\$ 46,972</u>	<u>\$ 3,715</u>

I. Changes In Long Term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 2,360,000	\$	\$ 350,000	\$ 2,010,000	\$ 365,000
Capital Leases	258,333		45,833	212,500	50,000
Financing Obligations	469,666	50,000	156,009	363,657	97,828
Total Long-term Debt	<u>\$ 3,087,999</u>	<u>\$ 50,000</u>	<u>\$ 551,842</u>	<u>\$ 2,586,157</u>	<u>\$ 512,828</u>

Note 8. Employee Retirement System

A. Plan Description

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

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

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

Note 8. Employee Retirement System (Continued)

A. Plan Description (Continued)

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

The fiscal court's contribution for FY 2013 was \$235,701, FY 2014 was \$311,623, and FY 2015 was \$282,528.

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

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

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

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

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

Kentucky Retirement System 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.

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

Note 8. Employee Retirement System (Continued)

B. Net Pension Liability

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

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	\$ 3,074,000	\$ 2,717,000
Total	<u>\$ 3,074,000</u>	<u>\$ 2,717,000</u>

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

Note 9. Flexible Spending Account

The McCreary County Fiscal Court established a flexible spending account in 2010 to provide employees an additional health benefit. The county has contracted with Febco, Inc., a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing \$2,150 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 10. Insurance

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

Note 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2015, was added to the General Fund cash balance for financing reporting purposes.

Note 12. Prior Period Adjustments

The beginning balance of the Road Fund has been restated by a decrease of \$18,390 due to an incorrect adjustment in the prior year. The treasurer voided prior year outstanding checks for being outstanding for more than one year. This resulted in an increase to the beginning balance of the General Fund by \$17,035, the Jail Fund by \$9,493, the Solid Waste Fund by \$1,099, and the Park Fund by \$768. In addition, the beginning balance was adjusted by \$1,261 for the beginning balance of the Ten Commandments Fund which was not included in the prior year audit and the Jail Commissary Fund was not included, as it was an agency fund in the prior year.

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

Note 12. Prior Period Adjustments (Continued)

The fiscal court's contribution for 2013 and 2014 retirement withholdings has been restated by decreases of \$277,597 and \$170,575 respectively. These were due to incorrect calculations in the prior years.

Note 13. Related Party Transactions

In 1994, McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as the Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As a part of this effort, SMART-approved low interest rate loans. These loans were made available to eligible businesses from Enterprise Community Program funds, which were passed through to McCreary County Fiscal Court from the U.S. Department of Health and Human Services. The program has awarded 34 loans totaling \$1,586,345 over the program's existence. During fiscal year 2015, four of the loans were to related parties as listed below:

Relationship	Loans to Related Parties	Disposition of Loan
Borrower was related to the President of the Loan Board	\$50,000 loan in November 2006	Filed bankruptcy January 20, 2010
* McCreary County Fiscal Court Deputy Judge and Wife	\$15,000 loan in January 2008	Inactive (last payment October 2010) Note interest rate 6%
President of the Loan Board	\$60,268 loan in November 2009	Nine payments in FY 2015 Note interest rate 1.25%
* Mother-In-Law to the County Deputy Judge	\$75,000 loan in September 2011	Two payments received in FCY 2015 Note interest rate 3%

* These loans have been turned over to the McCreary County Attorney for collection.

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MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 596,000	\$ 596,000	\$ 558,417	\$ (37,583)
In Lieu Tax Payments	345,000	345,000	279,706	(65,294)
Excess Fees	22,000	22,000	17,054	(4,946)
Licenses and Permits	46,000	46,000	103,799	57,799
Intergovernmental	122,250	122,250	126,016	3,766
Charges for Services	1,000,000	1,000,000	1,140,415	140,415
Miscellaneous	88,000	88,000	163,122	75,122
Interest	500	500	273	(227)
Total Receipts	<u>2,219,750</u>	<u>2,219,750</u>	<u>2,388,802</u>	<u>169,052</u>
DISBURSEMENTS				
General Government	734,756	787,790	787,200	590
Protection to Persons and Property	938,877	922,168	947,447	(25,279)
General Health and Sanitation	61,628	57,365	57,268	97
Recreation and Culture	41,975	33,658	33,614	44
Debt Service	83,360	83,320	83,295	25
Administration	821,439	802,534	802,506	28
Total Disbursements	<u>2,682,035</u>	<u>2,686,835</u>	<u>2,711,330</u>	<u>(24,495)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(462,285)</u>	<u>(467,085)</u>	<u>(322,528)</u>	<u>144,557</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,154,785	1,154,785	1,478,295	323,510
Transfers To Other Funds	(842,500)	(842,500)	(1,187,293)	(344,793)
Total Other Adjustments to Cash (Uses)	<u>312,285</u>	<u>312,285</u>	<u>291,002</u>	<u>(21,283)</u>
Net Change in Fund Balance	(150,000)	(154,800)	(31,526)	123,274
Fund Balance Beginning (Restated)	<u>150,000</u>	<u>150,000</u>	<u>165,510</u>	<u>15,510</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (4,800)</u>	<u>\$ 133,984</u>	<u>\$ 138,784</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 375,000	\$ 375,000	\$ 361,914	\$ (13,086)
Intergovernmental	1,739,770	1,739,770	1,970,817	231,047
Miscellaneous	64,500	64,500	146,677	82,177
Interest	1,000	1,000	1,244	244
Total Receipts	<u>2,180,270</u>	<u>2,180,270</u>	<u>2,480,652</u>	<u>300,382</u>
DISBURSEMENTS				
Roads	1,513,677	1,649,202	1,580,750	68,452
Road Facilities	337,250	293,194	200,505	92,689
Debt Service	15,000	15,000	14,444	556
Administration	610,058	367,530	295,202	72,328
Total Disbursements	<u>2,475,985</u>	<u>2,324,926</u>	<u>2,090,901</u>	<u>234,025</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(295,715)</u>	<u>(144,656)</u>	<u>389,751</u>	<u>534,407</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			163,146	163,146
Transfers To Other Funds	<u>(204,285)</u>	<u>(204,285)</u>	<u>(277,273)</u>	<u>(72,988)</u>
Total Other Adjustments to Cash (Uses)	<u>(204,285)</u>	<u>(204,285)</u>	<u>(114,127)</u>	<u>90,158</u>
Net Change in Fund Balance	(500,000)	(348,941)	275,624	624,565
Fund Balance Beginning (Restated)	<u>500,000</u>	<u>500,000</u>	<u>392,678</u>	<u>(107,322)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 151,059</u>	<u>\$ 668,302</u>	<u>\$ 517,243</u>

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

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 101,000	\$ 101,000	\$ 115,739	\$ 14,739
Charges for Services	4,000	4,000	30	(3,970)
Miscellaneous	19,500	19,500	21,780	2,280
Interest	100	100	32	(68)
Total Receipts	<u>124,600</u>	<u>124,600</u>	<u>137,581</u>	<u>12,981</u>
DISBURSEMENTS				
Protection to Persons and Property	627,580	763,564	739,287	24,277
Debt Service	9,000	22,424	22,424	
Administration	63,020	59,871	58,414	1,457
Total Disbursements	<u>699,600</u>	<u>845,859</u>	<u>820,125</u>	<u>25,734</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(575,000)</u>	<u>(721,259)</u>	<u>(682,544)</u>	<u>38,715</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>565,000</u>	<u>565,000</u>	<u>682,624</u>	<u>117,624</u>
Total Other Adjustments to Cash (Uses)	<u>565,000</u>	<u>565,000</u>	<u>682,624</u>	<u>117,624</u>
Net Change in Fund Balance	(10,000)	(156,259)	80	156,339
Fund Balance Beginning (Restated)	<u>10,000</u>	<u>10,000</u>	<u>3,017</u>	<u>(6,983)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (146,259)</u>	<u>\$ 3,097</u>	<u>\$ 149,356</u>

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

	LGEA FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 250	\$ 250	\$	\$ (250)
Intergovernmental	122,500	122,500	183,423	60,923
Miscellaneous	1,500	1,500	2,183	683
Interest	100	100	394	294
Total Receipts	<u>124,350</u>	<u>124,350</u>	<u>186,000</u>	<u>61,650</u>
DISBURSEMENTS				
Roads	150,600	150,600	149,121	1,479
Debt Service	57,500	57,500		57,500
Administration	16,250	16,250		16,250
Total Disbursements	<u>224,350</u>	<u>224,350</u>	<u>149,121</u>	<u>75,229</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>36,879</u>	<u>136,879</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			<u>5,985</u>	<u>5,985</u>
Total Other Adjustments to Cash (Uses)			<u>5,985</u>	<u>5,985</u>
Net Change in Fund Balance	(100,000)	(100,000)	42,864	142,864
Fund Balance Beginning	<u>100,000</u>	<u>100,000</u>	<u>212,304</u>	<u>112,304</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 255,168</u>	<u>\$ 255,168</u>

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

AMBULANCE EQUIPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 500	\$ 500	\$ 90	\$ (410)
Total Receipts	500	500	90	(410)
DISBURSEMENTS				
Protection to Persons and Property	55,000	85,033	85,033	
Administration	40,500	10,467	3	10,464
Total Disbursements	95,500	95,500	85,036	10,464
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(95,000)	(95,000)	(84,946)	10,054
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	50,000	50,000	70,000	20,000
Total Other Adjustments to Cash (Uses)	50,000	50,000	70,000	20,000
Net Change in Fund Balance	(45,000)	(45,000)	(14,946)	30,054
Fund Balance Beginning	45,000	45,000	50,019	5,019
Fund Balance - Ending	\$ 0	\$ 0	\$ 35,073	\$ 35,073

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

SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 55,000	\$ 55,000	\$ 50,055	\$ (4,945)
Intergovernmental	52,000	52,000	67,271	15,271
Miscellaneous	13,000	13,000	14,799	1,799
Interest	100	100		(100)
Total Receipts	<u>120,100</u>	<u>120,100</u>	<u>132,125</u>	<u>12,025</u>
DISBURSEMENTS				
General Health and Sanitation	101,838	100,885	79,108	21,777
Administration	30,762	31,715	29,666	2,049
Total Disbursements	<u>132,600</u>	<u>132,600</u>	<u>108,774</u>	<u>23,826</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(12,500)</u>	<u>(12,500)</u>	<u>23,351</u>	<u>35,851</u>
Net Change in Fund Balance	(12,500)	(12,500)	23,351	35,851
Fund Balance Beginning (Restated)	<u>12,500</u>	<u>12,500</u>	<u>26,052</u>	<u>13,552</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 49,403</u>	<u>\$ 49,403</u>

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

	PARK FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges For Services	\$ 18,500	\$ 18,500	\$ 22,040	\$ 3,540
Miscellaneous	7,500	7,500	7,226	(274)
Interest	500	500		(500)
Total Receipts	<u>26,500</u>	<u>26,500</u>	<u>29,266</u>	<u>2,766</u>
DISBURSEMENTS				
Recreation and Culture	69,000	70,879	69,216	1,663
Debt Service	280,000	278,292	48,292	230,000
Administration	30,000	29,829	29,516	313
Total Disbursements	<u>379,000</u>	<u>379,000</u>	<u>147,024</u>	<u>231,976</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(352,500)</u>	<u>(352,500)</u>	<u>(117,758)</u>	<u>234,742</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	112,500	112,500	119,874	7,374
Transfers To Other Funds			(4,480)	(4,480)
Total Other Adjustments to Cash (Uses)	<u>112,500</u>	<u>112,500</u>	<u>115,394</u>	<u>2,894</u>
Net Change in Fund Balance	(240,000)	(240,000)	(2,364)	237,636
Fund Balance Beginning (Restated)	<u>240,000</u>	<u>240,000</u>	<u>2,579</u>	<u>(237,421)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 215</u>	<u>\$ 215</u>

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

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 950,000	\$ 950,000	\$ 1,123,320	\$ 173,320
Interest	500	500	198	(302)
Total Receipts	<u>950,500</u>	<u>950,500</u>	<u>1,123,518</u>	<u>173,018</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>950,500</u>	<u>950,500</u>	<u>1,123,518</u>	<u>173,018</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(950,500)</u>	<u>(950,500)</u>	<u>(1,186,377)</u>	<u>(235,877)</u>
Total Other Adjustments to Cash (Uses)	<u>(950,500)</u>	<u>(950,500)</u>	<u>(1,186,377)</u>	<u>(235,877)</u>
Net Change in Fund Balance			(62,859)	(62,859)
Fund Balance Beginning			<u>98,395</u>	<u>98,395</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 35,536</u>	<u>\$ 35,536</u>

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

	GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 285,500	\$ 285,500	\$ 262,275	\$ (23,225)
Interest			22	22
Total Receipts	<u>285,500</u>	<u>285,500</u>	<u>262,297</u>	<u>(23,203)</u>
DISBURSEMENTS				
Protection to Persons and Property	85,500	85,500	68,531	16,969
Recreation and Culture	200,000	200,000	124,543	75,457
Total Disbursements	<u>285,500</u>	<u>285,500</u>	<u>193,074</u>	<u>92,426</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>69,223</u>	<u>69,223</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			115	115
Transfers To Other Funds			(35,985)	(35,985)
Total Other Adjustments to Cash (Uses)			<u>(35,870)</u>	<u>(35,870)</u>
Net Change in Fund Balance			33,353	33,353
Fund Balance Beginning			<u>(10,048)</u>	<u>(10,048)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,305</u>	<u>\$ 23,305</u>

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

EMERGENCY DISPATCH FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 150,000	\$ 150,000	\$ 125,855	\$ (24,145)
Intergovernmental	194,445	194,445	148,274	(46,171)
Miscellaneous	6,000	6,000	11,145	5,145
Interest	100	100	23	(77)
Total Receipts	<u>350,545</u>	<u>350,545</u>	<u>285,297</u>	<u>(65,248)</u>
DISBURSEMENTS				
Protection to Persons and Property	318,445	303,596	288,659	14,937
Debt Service		3,621	3,621	
Capital Projects		50,000	27,000	23,000
Administration	97,100	108,328	105,567	2,761
Total Disbursements	<u>415,545</u>	<u>465,545</u>	<u>424,847</u>	<u>40,698</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(65,000)</u>	<u>(115,000)</u>	<u>(139,550)</u>	<u>(24,550)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		50,000	50,000	
Transfers From Other Funds	50,000	50,000	92,096	42,096
Transfers To Other Funds			(3,693)	(3,693)
Total Other Adjustments to Cash (Uses)	<u>50,000</u>	<u>100,000</u>	<u>138,403</u>	<u>38,403</u>
Net Change in Fund Balance	(15,000)	(15,000)	(1,147)	13,853
Fund Balance Beginning	<u>15,000</u>	<u>15,000</u>	<u>5,918</u>	<u>(9,082)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,771</u>	<u>\$ 4,771</u>

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

DISASTER ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 250	\$ 250	\$ 27	\$ (223)
Total Receipts	250	250	27	(223)
DISBURSEMENTS				
Administration	17,750	17,210		17,210
Total Disbursements	17,750	17,210		17,210
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(17,500)	(16,960)	27	16,987
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(4,522)	(4,522)
Total Other Adjustments to Cash (Uses)			(4,522)	(4,522)
Net Change in Fund Balance	(17,500)	(16,960)	(4,495)	12,465
Fund Balance Beginning	17,500	17,500	17,685	185
Fund Balance - Ending	\$ 0	\$ 540	\$ 13,190	\$ 12,650

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

	REVOLVING LOAN FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 25,000	\$ 25,000	\$ 66,833	\$ 41,833
Interest	500	500	76	(424)
Total Receipts	<u>25,500</u>	<u>25,500</u>	<u>66,909</u>	<u>41,409</u>
DISBURSEMENTS				
Administration	75,500	75,500	44,611	30,889
Total Disbursements	<u>75,500</u>	<u>75,500</u>	<u>44,611</u>	<u>30,889</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>22,298</u>	<u>72,298</u>
Net Change in Fund Balance	(50,000)	(50,000)	22,298	72,298
Fund Balance Beginning	<u>50,000</u>	<u>50,000</u>	<u>32,692</u>	<u>(17,308)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 54,990</u>	<u>\$ 54,990</u>

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

ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 15,000	\$ 15,000	\$ 15,644	\$ 644
Intergovernmental	26,500	26,500	15,016	(11,484)
Miscellaneous	2,000	2,000	3,221	1,221
Interest	500	500		(500)
Total Receipts	<u>44,000</u>	<u>44,000</u>	<u>33,881</u>	<u>(10,119)</u>
DISBURSEMENTS				
General Government	102,797	103,631	103,391	240
Debt Service		4,167	4,167	
Administration	31,203	26,742	26,403	339
Total Disbursements	<u>134,000</u>	<u>134,540</u>	<u>133,961</u>	<u>579</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(90,000)</u>	<u>(90,540)</u>	<u>(100,080)</u>	<u>(9,540)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>65,000</u>	<u>65,000</u>	<u>93,918</u>	<u>28,918</u>
Total Other Adjustments to Cash (Uses)	<u>65,000</u>	<u>65,000</u>	<u>93,918</u>	<u>28,918</u>
Net Change in Fund Balance	(25,000)	(25,540)	(6,162)	19,378
Fund Balance Beginning	<u>25,000</u>	<u>25,000</u>	<u>7,162</u>	<u>(17,838)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (540)</u>	<u>\$ 1,000</u>	<u>\$ 1,540</u>

MCCREARY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

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

Note 2. Reconciliation of the General Fund

The Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis differs from the *Budgetary Comparison Schedule* for the General Fund's other adjustments to cash and ending balance by \$18,057 due to the inclusion of the Payroll Revolving account's unreconciled balance.

Note 3. Excess of Disbursements Over Appropriations

General Fund Protection to Persons and Property disbursements exceeded budgeted appropriations by \$25,279 resulting in total disbursements exceeding budget appropriations by \$24,495.

Note 4. Unbudgeted Funds

McCreary County Fiscal Court did not budget the funds of the Park Dedicated Fund, Ambulance Service Teaching Instructional Fund, or Ten Commandments Fund as required by the laws of Kentucky.

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

MCCREARY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,173,083	\$	\$	\$ 2,173,083
Buildings	9,017,068			9,017,068
Construction In Progress - Buildings		27,000		27,000
Vehicles and Equipment	920,516	173,263		1,093,779
Other Equipment	1,421,658	54,258	234,917	1,240,999
Construction In Progress - Other Equipment		33,625		33,625
Infrastructure	5,501,604	667,862		6,169,466
Total Capital Assets	\$ 19,033,929	\$ 956,008	\$ 234,917	\$19,755,020

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

June 30, 2015

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Other Equipment	\$ 5,000	3-25
Vehicles and Equipment	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Douglas E. Stephens, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCreary County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the McCreary County Fiscal Court's financial statement and have issued our report thereon dated July 25, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, 2015-007, 2015-008, and 2015-009 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, 2015-006, 2015-007, and 2015-009.

County Judge/Executive's Responses to Findings

The McCreary County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The McCreary County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 25, 2016

**MCCREARY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

MCCREARY COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures

The fiscal court did not have proper purchase and procurement procedures. The findings below stem from a lack of adequate segregation of duties, improper accounting practices, and poor internal controls without oversight.

Of the 66 fiscal court disbursements that were tested for fiscal year 2015, the following deficiencies were noted:

- 11 expenditures were paid when budgeted funds were not available.
- Three purchase orders were not approved.
- One purchase order was approved after the disbursement had been made.
- Three checks issued did not clear within 45 days.
- 34 purchase orders were not issued for disbursements.
- One disbursement was not properly allocated.
- 12 disbursements did not have any supporting documentation.
- Three disbursements were paid using the statement amount without supporting documentation for those charges.
- 19 invoices were not paid within 30 days.
- One disbursement was overpaid \$27,499 and later refunded.
- Haul tickets do not have a signature of an individual receiving materials.
- Haul tickets are not maintained with the invoice. All road department invoices are reviewed by the supervisor then only the itemized statement is sent to the finance officer for payment.
- Haul tickets and road department invoices for paving cannot be traced to the fiscal court's approved bid.
- Of all the invoices tested, none were cancelled or marked as paid.

The State Local Finance Officer, given the authority by KRS 68.210, requires in the *County Budget Preparation and State Local Finance Officer Policy Manual* all expenditures to be accompanied by a purchase order and sufficiently documented. Additionally, KRS 65.140(2) states "Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing...." In addition, KRS 68.300 states "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." Good internal controls dictate that proper supporting documentation is maintained to support disbursements.

We recommend the fiscal court maintain supporting documentation, such as haul tickets, with the original invoices and purchase orders, cancel actual invoices upon payment to prevent duplicate payments. Also we recommend all invoices be accompanied by the signed haul ticket or packing slip showing receipt of the item purchased. In addition, we recommend the fiscal court pay all expenditures within 30 working days in compliance with KRS 65.140.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-001 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures (Continued)

County Judge/Executive's Response: The new finance officer has reconciled many of these issues and has adjusted the procedures to enable us to move forward without these recurring problems. Efforts have been taken to strengthen purchase and procurement procedures to avoid similar issues in the future. Invoices submitted for payment are reviewed by at least two staff for accuracy. The purchase order system has been strengthened to ensure proper authorization by the department heads and judge executive office staff. All paid invoices are being marked paid once checks are written. The problems with the haul tickets for the Road Department have been fixed and are currently being processed correctly. We continue to have an issue with some invoices not being paid within 30 days. This problem will be minimized as much as possible but will not be able to be eliminated completely until additional revenue is secured.

2015-002 The Payroll Account Was Not Properly Reconciled

The payroll revolving account did not reconcile to a zero balance as of June 30, 2015, and the remaining balance could not be readily explained. The remaining balance as of June 30, 2015 was \$82,723. Of this balance the auditor determined the county had outstanding liabilities of \$64,229 and outstanding checks of \$437, leaving an unexplained balance of \$18,057 for fiscal year 2015. In addition, the bank reconciliations were not reviewed by another employee to ensure accuracy.

The payroll account has not been properly reconciled since fiscal year 2011. In addition, reconciliations are not being reviewed. Balances at the end of each fiscal year have carried forward to the next fiscal year without explanation. The unreconciled payroll account could cause the fiscal court to have insufficient funds to meet payroll requirements or it could cause the fiscal court's liabilities to not be properly paid or not to be paid in a timely manner.

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

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

County Judge/Executive's Response: Due to the number of years (10+) of not being able to reconcile the payroll account and the unlikely ability to find the discrepancy from several years ago, it is agreed that the best way to move forward would be to transfer the long-term irreconcilable amount to other funds and begin at a zero balance. With the finance officer and the treasurer both currently using the same fiscal accounting software and balancing each month, this problem should be eliminated.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 The Fiscal Court Did Not Have Sufficient Controls Over Payroll

The fiscal court did not have sufficient controls over payroll as shown by the following deficiencies:

- 13 of 18 employees had a timesheet, but no supervisor approval was evidenced. And, one of those timesheets not signed by employee or supervisor.
- No timesheet was found for the finance officer.
- One employee's time was coded incorrectly. Per fiscal court minutes, the employee was hired for two positions, and as such the time/pay should have been divided between the two codes.
- One employee timesheet showed overtime earned, but no evidence of payment was found.
- The magistrates are on two committees as required, but no timesheets were found to substantiate retirement.

Weak internal controls over payroll have allowed the errors to go unnoticed or corrected. The lack of properly designed controls creates the possibility that employees will receive wages or benefits not actually earned, such as health insurance. In addition, by not properly coding wages, the fiscal court may have exceeded its approved budget for one or more line items.

Internal control procedures that are properly designed and implemented allow employees to detect misstatements in a timely manner while preventing misappropriation of assets or inaccurate financial reporting. The county administrative code SECTION 5.9 Classification of Employees (A)(1) "Full-Time Employee: An employee who works 40 hours per week on a regular scheduled basis." SECTION 5.24 (b) "Included timesheets must be signed by employee and supervisor in order to be considered valid and compensation authorized." Additionally, KRS 61.510(21) states, in part, "'Regular full-time positions,'...shall mean all positions that average one hundred (100) or more hours per month determined by using the number of months actually worked within a calendar or fiscal year."

We recommend *all* employees maintain a timesheet and *all* time sheets be approved by a supervisor or by the county judge/executive. Although magistrates are elected officials and as such not required to maintain timesheets, they should maintain them to ensure they receive proper credit for retirement. Further we recommend all employee wages be properly coded.

County Judge/Executive's Response: All issues have been corrected relative to this comment. The magistrates are elected officials and do not require a timesheet. The suggestion of verifying retirement with the use of time sheets has been discussed with them.

2015-004 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements

The fiscal court has not implemented proper internal control procedures over credit card disbursements. The deficiencies noted below stem from a lack of adequate segregation of duties, improper accounting practices and poor internal controls without oversight. Credit card disbursements had the following deficiencies:

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-004 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements (Continued)

- Two payments were paid without any supporting documentation.
- Finance charges of \$139 and other charges including late fees of \$234 were paid.
- An employee erroneously signed up for an online monthly service through checkfront.com, and the fiscal court made multiple payments totaling \$196.
- \$400 was overpaid by the emergency dispatch fund for conference registration fees.
- Four receipts for meals were not itemized.
- Two receipts were missing for a credit card payment.

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

We recommend the fiscal court ensure proper accounting practices by implementing additional internal controls in the area of credit card disbursements, such as assigning an individual other than the finance officer to review all transactions to ensure that they have proper documentation, purchase orders, etc. This could be evidenced by the reviewer’s initials and date on the credit card statement.

County Judge/Executive’s Response: Steps have been taken to properly account for all credit card uses with proper documentation as we move forward. The credit card is utilized primarily for travel purposes by my office and the fiscal court, or in times of emergency when no other purchase procedure is allowable. Use of the card is very limited, by a limited number of individuals. Every effort is being made as possible to avoid finance charges and late fees. The erroneous monthly service mentioned in this report was already discovered and discontinued prior to the time of the actual audit, howbeit it was after the audit period.

2015-005 Penalties And Interest Were Incurred Due To Not Paying Invoices Timely

The fiscal court incurred penalties and interest on disbursements, debt, and payroll as follows:

- Eight finance charges on credit card invoices totaled \$139.
- Six late payment fees on credit card invoices totaled \$234.
- Nine late payments on debt invoices incurred interest and penalties totaling \$692.
- Two miscalculations on 2015 fiscal year 941 payments to the IRS totaling \$1,225 were paid from 2016 fiscal year funds.
- The miscalculations noted above incurred interest and penalties totaling \$111.
- All insurance bills tested were paid late but did not incur penalties.
- For the Xerox copier lease, nine out of 12 payments were late but did not incur penalties or interest.
- The March 2015 payment to the Kentucky State Retirement System incurred penalties totaling \$2,000.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-005 Penalties And Interest Were Incurred Due To Not Paying Invoices Timely (Continued)

The payments of penalties and interest are due to invoices and payroll withholding not being remitted in a timely manner. The former finance officer did not ensure payments were made before the date due, and a total of \$3,065 of fiscal year 2015 funds and \$1,336 of fiscal year 2016 funds which could have been used for other purposes were instead used to pay penalties.

KRS 65.140(2) states “Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor.” In addition, KRS 61.675(3)(b) states “If the agency fails to file all contributions and reports on or before the tenth day of the month following the period being reported, interest on the delinquent contributions at the actuarial rate adopted by the board compounded annually, but not less than one thousand dollars (\$1,000), shall be added to the amount due the system.”

We recommend the fiscal court comply with KRS 65.140 and KRS 61.675 by ensuring all invoices are paid timely and ensuring all withholdings are paid to the proper agency in a timely manner to avoid unnecessary penalties and interest.

County Judge/Executive's Response: Sufficient cash flow remains an issue and payments are occasionally made later than 30 days. As mentioned in 2015-001, until additional revenue is secured, there will be times when payments made late. I believe the process implemented by this office and the staff, and internal changes that have been made, will minimize late payments and penalties.

2015-006 The Fiscal Court Did Not Comply With The United States Department Of Agriculture (USDA) Grant Agreement

In June 2013, the McCreary County Fiscal Court was awarded a grant by the USDA through the Rural Business Enterprise Grant (RBEG) Program in the amount of \$75,000. In accordance with the grant agreement, the fiscal court is required to provide matching funds in the amount of \$20,000. The grant agreement further requires documentation of the commitment of the matching funds prior to any disbursement of the grant funds and stipulates that the matching funds will be applied to the project first or not less than pro-rata.

In June 2014, the fiscal court approved a loan for \$50,000 of which \$40,000 was obtained from this RBEG grant. The remaining \$10,000 was paid from the Revolving Loan Fund. The Revolving Loan Fund contains funds and repayments from previous RBEG grants and loans.

The fiscal court considered the funds obtained from repayments of the loans as unrestricted funds and used the funds as their matching portion. By using funds from the Revolving Loan Fund, the fiscal court has not actually put up any matching funds.

The grant agreement states, “It is clearly understood that matching Revolving Loan Funds (RLF) will remain in perpetuity along with Rural Business Enterprise Grant funds that are likewise designated and referred to as the fund. The fund will contain a permanent Federal Interest equivalent to the dollar amount invested.” The agreement further states “Should you choose or are no longer able to operate the Fund in accordance with current regulation not less than the original amount of the grant funding (less any approved loss reductions) will be returned to the Federal Government.”

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-006 The Fiscal Court Did Not Comply With The United States Department Of Agriculture (USDA) Grant Agreement (Continued)

We recommend the fiscal court reimburse the Revolving Loan Fund for the matching funds from the Economic Development Fund previously expended and comply with the USDA grant agreement.

County Judge/Executive's Response: After discussions with USDA officials prior to utilizing the "revolved" monies as the match, we were informed that money loses its federal identity once it is received as payments from the original loan even though reporting should include that money to show the benefit and the multiplication value as it is loaned out to the other borrowers. We have not been able to obtain written documentation of this even though the USDA official restated what we were told before. Additionally, the money in the revolving loan fund comes from sources other than the USDA Rural Business Enterprise Grant. What was once separate loan accounts were combined into one account approximately four years ago. We therefore, still believe we were justified in utilizing money from those funds to provide our "match" but will pursue discussions with the USDA and will correct the issue if our action is determined to be improper.

2015-007 The Fiscal Court Did Not Maintain Accurate Capital Asset Records

The fiscal court is not maintaining accurate capital asset records. The audit adjustments to the fiscal court's beginning balances are a result of adjustments made in the prior year audit not being made in the fiscal court's capital asset records. These audit adjustments along with audit adjustments to current year additions are a result of a lack of oversight in this area.

By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset schedule, and assets can be insured that are no longer owned. The beginning balances in the fiscal court's capital asset records had to be adjusted to match prior year audited amounts. These adjustments resulted in total increases of the beginning balances to land by \$1,049,409, other equipment by \$149,193, and infrastructure by \$2,224. The adjustments also resulted in total decreases of the beginning balances to buildings by \$407,863 and vehicles by \$29,878. In addition, adjustments to current year additions resulted in total decreases to buildings by \$60,000, other equipment by \$216,911, and vehicles by \$61,637. Adjustments to additions to construction in progress for buildings and other equipment resulted in total increases of \$27,000 and \$33,625, respectively.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper valuation.

We recommend the employee(s) in charge of capital assets maintain accurate records throughout the year of any purchases and retirements of assets and provide periodic updates to the fiscal court. Records should also be changed for any audit adjustments agreed to by management. Purchases should be approved and records should include the date the asset was acquired, a description of the asset, the vendor name, the amount, salvage value, and useful life. Invoices and supporting documentation for asset acquisition should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. If possible, an inventory count at June 30 of each fiscal year should be conducted. We recommend the fiscal court provide the necessary oversight needed to insure accurate and complete records are maintained.

County Judge/Executive's Response: We will make every effort to provide the necessary oversight to insure accurate and complete capital asset records are maintained, as recommended in this report.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-008 The Fiscal Court Lacks Segregation Of Duties Over All Accounting Functions

A lack of segregation of duties exists over all accounting functions. The following issues were noted:

- The county treasurer prepares and deposits receipts, posts to the ledgers, prepares financial reports, and prepares the bank reconciliations.
- Items returned from the bank are handled by the county treasurer.
- The finance officer prepares a listing of bills for fiscal court's approval and prepares all checks.

A limited budget places restrictions on the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been in place to offset the lack of segregation of duties. Lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

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

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

County Judge/Executive's Response: The limited number of employees responsible for the oversight of accounting in our office limits our ability to allow for best case scenario for the segregation of duties as the auditors would like. We have, however, taken steps to ensure that each accounting action is observed by at least two individuals at all times and by three most of the time. We continue to search for the best way possible to ensure compliance with state laws and auditing standards.

2015-009 The Fiscal Court Did Not Have Sufficient Controls Over The Loan Program

The McCreary County Fiscal Court has been involved in a program from the United States Department of Agriculture (USDA) called the Rural Business Enterprise Grants-Revolving Loan Fund since approximately 1994 to present date. During this time period, the fiscal court was approved for various grants to encourage new employment opportunities in McCreary County by providing low cost financing to new and existing businesses. In June 2013, the McCreary County Fiscal Court was awarded an additional Rural Business Enterprise Grant for \$75,000. The additional award brought the grant total to \$585,000. The Rural Business Enterprise Grant funding will be used to recapitalize an existing revolving loan fund called SMART Works Loan Fund, which will continue to serve the small and emerging businesses located in McCreary County.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-009 The Fiscal Court Did Not Have Sufficient Controls Over The Loan Program (Continued)

Per the grant application, the SMART Works Loan Fund will be directly administered by the Director and the Board of the McCreary County Office of Economic Development. The Director of Economic Development will be responsible for administering and marketing the SMART Works Loan Program and for the servicing of such loans to ensure proper management and timely payment of the interest and principal. Once the grant funds are re-paid from the borrower to the SMART Works Loan Fund, the re-paid principal and interest will be used to make additional loans.

Upon reviewing the grant program, it was noted that proper documentation such as loan documents, liens, and payment schedules had not been properly maintained, and loan files had to be reconstructed to comply with the reporting requirements set by the grant agreement. In addition, the following issues were noted:

- The financial reports reflected that payments were made prior to the loans being entered into the financial program.
- The amounts entered into the financial program included the principal and the interest amounts, which indicate that interest is not being properly calculated on the outstanding balances of the loan based on payment dates.
- Deposits traced to the bank statement did not coincide with the dates the checks were received. One check was dated for September 1, 2014 but not deposited until January 13, 2015.

Per the documentation relating to the 34 loans made since June 2000:

- The total loans documented were \$1,586,245.
- Total uncollected loans were \$956,753.
- Six loans have been paid in full. Total loan amounts paid for these six loans were \$427,980.
- Nine loan recipients have filed bankruptcy. Total loan amounts were \$384,015, with payment of \$45,952 received and a remaining balance due of \$338,023.
- One loan is in litigation. Total loan amount was \$50,000, with payments of \$34,518 received and a remaining balance of \$15,482.
- Seven loans are considered active. Total loan amounts were \$300,087, with payments of \$78,279 received and a remaining balance of \$225,508.
- 11 loans are considered inactive. Total loan amounts are \$423,563, with payments of \$46,183 received and a remaining balance of \$377,380.
- Estimated uncollectable loans are \$807,578 or 84% of the uncollected loan balances.
- Four of 34 loans made went to a board member, county employee, or relatives of board members or county employees. These loans totaled \$200,268 of which only:
 - One loan is actively being paid (loan total is \$60,268 with a remaining balance due of \$14,005).
 - One loan recipient has filed bankruptcy (loan totaled \$50,000 with amount outstanding at time of bankruptcy being \$50,000).
 - Two loans have been turned over to the county attorney for action (loans total \$90,000 with a remaining balance due of \$84,474).
- Loans and payments were not reported to the credit bureau, which could allow the borrower to obtain additional loans.
- Payments, late payments, and non-payments were not being reported to the credit bureau.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-009 The Fiscal Court Did Not Have Sufficient Controls Over The Loan Program (Continued)

- 14 of the 34 loans have been submitted by the fiscal court to the county attorney for legal action. Of these 14 loans, 11 loans were considered inactive, including the two loans made to county employees or relatives, and two loans had payments in fiscal year 2016. These loans submitted to the county attorney represent \$563,379 in outstanding principal and interest.

The issues noted above reflect a lack of controls over the USDA loan program by the fiscal court and the Loan Board of Directors. Due to the weak controls and inadequate monitoring of the loan program, the fiscal court has foregone the ability to support viable business in the county that could have produced additional jobs and revenue for the fiscal court and the taxpayers.

The grant application states “Records will include an accurate accounting of any principal repayments, interest, or other proceeds generated by the loan fund and will document expenses paid for with interest, or other proceeds generated by the loan will be documented for the grant audits.” In addition, the application states, “The SMART Works Loan Fund is administered by the McCreary County Fiscal Court and all funds and accounting functions are maintained by the county treasurer in accordance to Kentucky state law.”

We recommend the McCreary County Fiscal Court comply with the requirements of the grant application and ensure that all loans are properly made, documented, collected and reported. Further, we recommend the fiscal court obtain an opinion from the county attorney regarding the legality of loans to related parties and board members and determine if any required disclosure is necessary. We also recommend the fiscal court ensure they meet the reporting requirements established by the USDA.

County Judge/Executive's Response: The problems with loan program have plagued my administration since the beginning. Prior to my administration, the program was not managed by the Fiscal Court and not properly audited, so many of these instances were not revealed until recent audits. Since I have taken over management of this program, my staff has worked closely with the USDA to ensure we are properly managing the program. Loans are being issued by their standards, all proper paperwork is being completed, and loan documentation is secured. By action of the Fiscal Court, in an attempt to adequately resolve the outstanding and delinquent loans, we are working with the County Attorney's Office to pursue resolution and/or enforcement of the collection of delinquent loans and are working with all amiable loan holders to renegotiate terms and ensure proper security documents are filed.

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

MCCREARY COUNTY FISCAL COURT

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

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

For The Fiscal Year Ended June 30, 2015

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



County Judge/Executive



County Treasurer

