

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Douglas Stephens, Former McCreary County Judge/Executive

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

Members of the McCreary County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

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

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the McCreary County Fiscal Court as of June 30, 2019, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary and Other 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 (supplementary information), and the Schedule of Capital Assets (other information) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

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Members of the McCreary County Fiscal Court

Other Matters (Continued)

Supplementary and Other Information (Continued)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2019, on our consideration of the McCreary County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the McCreary County Fiscal Court's internal control over financial reporting and compliance.

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

- 2019-001 Transfers Were Made Before Approval By The Fiscal Court
- 2019-002 The Payroll Revolving Account Was Not Properly Reconciled
- 2019-003 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures
- 2019-004 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements
- 2019-005 The Fiscal Court Did Not Segregate Duties Over Accounting Functions
- 2019-006 The Fiscal Court Did Not Have Sufficient Monitoring Or Internal Controls Over The Revolving Loan Program
- 2019-007 The Fiscal Court Did Not Have Sufficient Internal Controls Over Payroll
- 2019-008 Debt Was Materially Misstated On The Quarterly Financial Report

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

December 4, 2019

MCCREARY COUNTY OFFICIALS

For The Year Ended June 30, 2019

Fiscal Court Members:

Douglas Stephens (July 1, 2018 through December 31, 2018)	County Judge/Executive
Jimmie W. Greene II (January 1, 2019 through June 30, 2019)	County Judge/Executive
Roger Phillips	Magistrate
Oscar Perry (July 1, 2018 through January 6, 2019)	Magistrate
Jason Mann (July 1, 2018 through January 6, 2019)	Magistrate
Dustin Baird (July 1, 2018 through January 6, 2019)	Magistrate
Bobby Strunk (January 7, 2019 through June 30, 2019)	Magistrate
Randy Maxwell (January 7, 2019 through June 30, 2019)	Magistrate
Bill Hale (January 7, 2019 through June 30, 2019)	Magistrate

Other Elected Officials:

Conley D. Chaney (July 1, 2018 through January 6, 2019)	County Attorney
Austin Price (January 7, 2019 through June 30, 2019)	County Attorney
Jesse Hatfield	Jailer
Eric Haynes	County Clerk
Othel King	Circuit Court Clerk
Randy Waters	Sheriff
Bruce Lominac (July 1, 2018 through November 30, 2018)	Property Valuation Administrator
Dwight Ross (December 1, 2018 through June 30, 2019)	Property Valuation Administrator
Tim Corder	Coroner

Appointed Personnel:

Mark Sewell (July 1, 2018 through January 4, 2019)	County Treasurer
Geraldine Laxton (January 5, 2019 through June 30, 2019)	County Treasurer
Randy Jones	Chief Financial Officer

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 867,713	\$	\$	\$
In Lieu Tax Payments	340,746	343,323		
Excess Fees	16,754			
Licenses and Permits	45,543			
Intergovernmental	423,186	1,863,638	162,518	14,140
Charges for Services	1,524,785			
Miscellaneous	440,626	190,636	13,142	
Interest	733	433	34	88
Total Receipts	<u>3,660,086</u>	<u>2,398,030</u>	<u>175,694</u>	<u>14,228</u>
DISBURSEMENTS				
General Government	982,201			
Protection to Persons and Property	1,557,618		1,098,237	
General Health and Sanitation	150,183			
Recreation and Culture	187,195			
Roads		1,598,269		31,240
Airports	56,359			
Road Facilities		254,856		
Debt Service	93,299	1,205		
Administration	1,188,843	282,395	39,397	
Total Disbursements	<u>4,215,698</u>	<u>2,136,725</u>	<u>1,137,634</u>	<u>31,240</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(555,612)</u>	<u>261,305</u>	<u>(961,940)</u>	<u>(17,012)</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account	16,127			
Transfers From Other Funds	1,524,071		982,328	13,205
Transfers To Other Funds	(478,959)	(306,164)		
Total Other Adjustments to Cash (Uses)	<u>1,061,239</u>	<u>(306,164)</u>	<u>982,328</u>	<u>13,205</u>
Net Change in Fund Balance	505,627	(44,859)	20,388	(3,807)
Fund Balance - Beginning (Restated)	685,003	177,770	501	89,167
Fund Balance - Ending	<u>\$ 1,190,630</u>	<u>\$ 132,911</u>	<u>\$ 20,889</u>	<u>\$ 85,360</u>
Composition of Fund Balance				
Bank Balance	\$ 1,179,014	\$ 132,911	\$ 20,889	\$ 85,360
Payroll Revolving Account	16,127			
Less: Outstanding Checks	(4,511)			
Fund Balance - Ending	<u>\$ 1,190,630</u>	<u>\$ 132,911</u>	<u>\$ 20,889</u>	<u>\$ 85,360</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, 2019
(Continued)

Budgeted Funds						
Ambulance Equipment Fund	Solid Waste Fund	Parks and Recreation Fund	Occupational Tax Fund	McCreary County Airport Fund	Grant Fund	Emergency Dispatch Fund
\$	\$	\$	\$ 1,662,758	\$	\$	\$
					71,492	39,209
11			175	10	23	17
11			1,662,933	10	71,515	39,226
					32,495	
3,906					11,250	
38,376						76
	9					
42,282	9				43,745	76
(42,271)	(9)		1,662,933	10	27,770	39,150
60,000						
	(25,481)	(646)	(1,693,807)	(22,414)		(49,530)
60,000	(25,481)	(646)	(1,693,807)	(22,414)		(49,530)
17,729	(25,490)	(646)	(30,874)	(22,404)	27,770	(10,380)
16	25,490	646	75,014	22,404	1,415	10,380
\$ 17,745	\$ 0	\$ 0	\$ 44,140	\$ 0	\$ 29,185	\$ 0
\$ 17,745	\$	\$	\$ 44,140	\$	\$ 29,185	\$
\$ 17,745	\$ 0	\$ 0	\$ 44,140	\$ 0	\$ 29,185	\$ 0

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, 2019
(Continued)

	<u>Budgeted Funds</u>		<u>Unbudgeted Fund</u>	<u>Total</u>
	<u>Revolving</u>	<u>Economic</u>	<u>McCreary County</u>	
	<u>Loan</u>	<u>Development</u>	<u>Courthouse And</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Public Square</u>	<u>Funds</u>
			<u>Corporation</u>	
			<u>Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 2,530,471
In Lieu Tax Payments				684,069
Excess Fees				16,754
Licenses and Permits				45,543
Intergovernmental			420,480	2,994,663
Charges for Services				1,524,785
Miscellaneous	42,121			686,525
Interest	185			1,709
Total Receipts	<u>42,306</u>		<u>420,480</u>	<u>8,484,519</u>
DISBURSEMENTS				
General Government				1,014,696
Protection to Persons and Property				2,671,011
General Health and Sanitation				150,183
Recreation and Culture				187,195
Roads				1,629,509
Airports				56,359
Road Facilities				254,856
Debt Service			420,480	553,360
Administration	65,150			1,575,870
Total Disbursements	<u>65,150</u>		<u>420,480</u>	<u>8,093,039</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(22,844)</u>			<u>391,480</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account				16,127
Transfers From Other Funds				2,579,604
Transfers To Other Funds		(2,603)		(2,579,604)
Total Other Adjustments to Cash (Uses)		<u>(2,603)</u>		<u>16,127</u>
Net Change in Fund Balance	(22,844)	(2,603)		407,607
Fund Balance - Beginning (Restated)	<u>151,991</u>	<u>2,603</u>	<u>1,100</u>	<u>1,243,500</u>
Fund Balance - Ending	<u>\$ 129,147</u>	<u>\$ 0</u>	<u>\$ 1,100</u>	<u>\$ 1,651,107</u>
Composition of Fund Balance				
Bank Balance	\$ 129,147	\$	\$ 1,100	\$ 1,639,491
Payroll Revolving Account				16,127
Less: Outstanding Checks				(4,511)
Fund Balance - Ending	<u>\$ 129,147</u>	<u>\$ 0</u>	<u>\$ 1,100</u>	<u>\$ 1,651,107</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, 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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

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

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

Parks and Recreation 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 facility rentals and transfers from the general fund.

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

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

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

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

D. Budgetary Information

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

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

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

The state local finance officer does not require the public facilities construction corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. McCreary County Elected Officials

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

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

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

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2018, public funds were 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 \$737,621

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

Note 3. Transfers

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

	General Fund	Road Fund	Solid Waste Fund	Parks and Recreation Fund	Occupational Tax Fund	McCreary County Airport Fund	Emergency Dispatch Fund	Economic Development Fund	Total Transfers In
General Fund	\$	\$ 294,194	\$ 25,481	\$ 646	\$ 1,129,203	\$ 22,414	\$ 49,530	\$ 2,603	\$ 1,524,071
Jail Fund	417,724				564,604				982,328
LGEA Fund	1,235	11,970							13,205
Ambulance Equipment Fund	60,000								60,000
Total Transfers Out	\$ 478,959	\$ 306,164	\$ 25,481	\$ 646	\$ 1,693,807	\$ 22,414	\$ 49,530	\$ 2,603	\$ 2,579,604

Reason for transfers:

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

Note 4. Operating Leases

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

Fiscal Year Ended	Amount
June 30	
2020	\$ 1,610
Total Minimum Lease Payments	\$ 1,610

Note 5. Notes Receivable

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

Once grant funds are repaid from a borrower, the repaid principal and interest will be used to make additional loans as specified in the loan guidelines. The balance of both the SMART and RBEG receivables due as of June 30, 2019, is \$847,921.

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

Note 6. Long-term Debt

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

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

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

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

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

The principal balance as of June 30, 2019, was \$490,000. The future debt service requirements for the First Mortgage Refunding Revenue Bonds, Series 2009 are presented as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 415,000	\$ 12,105
2021	50,000	4,100
2022	25,000	475
Totals	<u>\$ 490,000</u>	<u>\$ 16,680</u>

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

Note 6. Long-term Debt (Continued)

B. Courthouse Renovations

On June 26, 2013, the McCreary County Fiscal Court borrowed \$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, 2019, was \$90,858. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 28,003	\$ 1,891
2021	32,075	1,152
2022	30,780	378
Totals	<u>\$ 90,858</u>	<u>\$ 3,421</u>

C. Economic Development Loan

In September 2009, the McCreary County Fiscal Court obtained a Rural Economic Development Finance Agreement for the construction of a multi-generational use building. The total amount financed was \$500,000 over a ten year period. The agreement requires an annual service fee with a zero rate of interest and payments of \$4,167 due the 1st of each month. The principal balance as of June 30, 2019, was \$8,333. Future principal and service fee requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 8,333	\$ 0
Totals	<u>\$ 8,333</u>	<u>\$ 0</u>

D. 911 Remodel

On February 6, 2015, the McCreary County Fiscal Court entered into a financing obligation with KACo Leasing Trust for the purpose of remodeling part of the Emergency Medical Services building to house the 911 dispatch center. The principal was \$50,000 at an effective interest rate of 3.25 percent for a period of five years, with principal due annually and interest paid monthly. The principal balance as of June 30, 2019, was \$7,154. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 7,154	\$ 87
Totals	<u>\$ 7,154</u>	<u>\$ 87</u>

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

Note 6. Long-term Debt (Continued)

E. Ambulance

On July 13, 2016, the McCreary County Fiscal Court entered into a financing obligation with KACo Leasing Trust to purchase an ambulance. The principle was \$88,195 at a variable interest rate for a period of five years, with principle and interest both paid monthly. The principle balance as of June 30, 2019, was \$38,781. Future principle and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 18,246	\$ 2,004
2021	18,927	783
2022	1,608	9
Totals	<u>\$ 38,781</u>	<u>\$ 2,796</u>

F. Ambulance

On June 15, 2018, the McCreary County Fiscal Court entered into a financing obligation with KACo Leasing Trust to purchase an ambulance. The principle balance was \$50,000 with an effective interest rate of 3.95 percent for a period of three years, with principle and interest paid monthly. The principle balance as of June 30, 2019, was \$34,045. Future principle and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 16,687	\$ 1,045
2021	17,358	374
Totals	<u>\$ 34,045</u>	<u>\$ 1,419</u>

G. Changes In Long-term Debt

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

	Beginning Balance (*Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 885,000	\$	\$ 395,000	\$ 490,000	\$ 415,000
Capital Leases*	58,333		50,000	8,333	8,333
Financing Obligations	244,807		73,969	170,838	70,090
Total Long-term Debt	<u>\$ 1,188,140</u>	<u>\$ 0</u>	<u>\$ 518,969</u>	<u>\$ 669,171</u>	<u>\$ 493,423</u>

* Beginning balance was restated by a decrease of \$4,167 from the prior year ending balance due to a FY19 payment made during FY18.

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

Note 7. Employee Retirement System

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

The county's contribution for FY 2017 was \$322,260, FY 2018 was \$343,545, and FY 2019 was \$424,523.

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

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

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

The county's contribution rate for nonhazardous employees was 21.48 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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

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

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

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

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

C. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

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

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

Note 7. Employee Retirement System (Continued)

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 8. Deferred Compensation

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

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

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

Note 9. Flexible Spending Account

The McCreary County Fiscal Court established a flexible spending account in 2010 to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$2,000 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 10. Insurance

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

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

Note 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2019, was added to the general fund cash balance for financial reporting purposes.

Note 12. Prior Period Adjustments

	General Fund	Road Fund	Parks and Recreation Fund	Economic Development Fund
Ending Balance, June 30, 2018	\$ 700,677	\$ 177,710	\$ 562	\$ 2,598
Adjustments:				
Unexplained Payroll Balance	(15,674)			
Voided Checks		60	84	5
Restated Beginning Balance, July 1, 2019	<u>\$ 685,003</u>	<u>\$ 177,770</u>	<u>\$ 646</u>	<u>\$ 2,603</u>

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 were made available to eligible businesses from Enterprise Community Program funds, which were passed through to the county from the U.S. Department of Health and Human Services. In 1998, the county was also awarded Rural Business Enterprise Grants (RBEG) for SMART-approved low interest rate loans to eligible businesses, which were passed through the U.S. Department of Agriculture. The program has awarded 38 loans totaling \$1,666,345 over the program's existence. Five of the loans were to related parties as listed below:

Relationship	Loans To Related Parties	Disposition Of Loan
McCreary County Fiscal Court Deputy Judge/Executive and Wife	\$22,519 loan in July 2003	Ten payments received in FY 2019 Note - interest rate lowered to one percent
Borrower was related to the President of the Loan Board	\$50,000 loan in November 2006	Filed bankruptcy January 20, 2010
Former McCreary County Fiscal Court Deputy Judge/Executive and Wife	\$15,000 loan in January 2008	Ten payments received in FY 2019 Note - interest rate lowered to one percent
President of the Loan Board	\$60,268 loan in November 2009	Paid Off in FY 2017
Mother-In-Law to the former McCreary County Deputy Judge/Executive	\$75,000 loan in September 2011	Five payments received in FY 2019 Note - interest rate lowered to one percent

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MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

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MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,451,116	\$ 2,451,116	\$ 867,713	\$ (1,583,403)
In Lieu Tax Payments	287,000	287,000	340,746	53,746
Excess Fees	24,500	24,500	16,754	(7,746)
Licenses and Permits	69,595	69,595	45,543	(24,052)
Intergovernmental	442,200	445,362	423,186	(22,176)
Charges for Services	1,418,100	1,418,100	1,524,785	106,685
Miscellaneous	98,050	728,147	440,626	(287,521)
Interest	300	300	733	433
Total Receipts	<u>4,790,861</u>	<u>5,424,120</u>	<u>3,660,086</u>	<u>(1,764,034)</u>
DISBURSEMENTS				
General Government	893,579	1,026,621	982,201	44,420
Protection to Persons and Property	1,503,473	1,582,060	1,557,618	24,442
General Health and Sanitation	214,506	172,358	150,183	22,175
Recreation and Culture	128,379	196,687	187,195	9,492
Airports	49,050	57,451	56,359	1,092
Debt Service	99,048	99,682	93,299	6,383
Administration	1,241,825	2,123,506	1,188,843	934,663
Total Disbursements	<u>4,129,860</u>	<u>5,258,365</u>	<u>4,215,698</u>	<u>1,042,667</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>661,001</u>	<u>165,755</u>	<u>(555,612)</u>	<u>(721,367)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	223,032	346,296	1,524,071	1,177,775
Transfers To Other Funds	(1,195,553)	(1,195,553)	(478,959)	716,594
Total Other Adjustments to Cash (Uses)	<u>(972,521)</u>	<u>(849,257)</u>	<u>1,045,112</u>	<u>1,894,369</u>
Net Change in Fund Balance	(311,520)	(683,502)	489,500	1,173,002
Fund Balance - Beginning (Restated)	<u>311,520</u>	<u>685,003</u>	<u>685,003</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 1,501</u>	<u>\$ 1,174,503</u>	<u>\$ 1,173,002</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 25,000	\$ 322,780	\$ 343,323	\$ 20,543
Intergovernmental	1,727,073	1,727,073	1,863,638	136,565
Miscellaneous	83,000	83,000	190,636	107,636
Interest	500	500	433	(67)
Total Receipts	<u>1,835,573</u>	<u>2,133,353</u>	<u>2,398,030</u>	<u>264,677</u>
DISBURSEMENTS				
Roads	1,578,741	1,667,589	1,598,269	69,320
Road Facilities	195,800	259,147	254,856	4,291
Debt Service	15,000	1,205	1,205	
Administration	373,000	410,614	282,395	128,219
Total Disbursements	<u>2,162,541</u>	<u>2,338,555</u>	<u>2,136,725</u>	<u>201,830</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(326,968)</u>	<u>(205,202)</u>	<u>261,305</u>	<u>466,507</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(223,032)</u>	<u>(346,296)</u>	<u>(306,164)</u>	<u>40,132</u>
Total Other Adjustments to Cash (Uses)	<u>(223,032)</u>	<u>(346,296)</u>	<u>(306,164)</u>	<u>40,132</u>
Net Change in Fund Balance	(550,000)	(551,498)	(44,859)	506,639
Fund Balance - Beginning (Restated)	<u>550,000</u>	<u>550,000</u>	<u>177,770</u>	<u>(372,230)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (1,498)</u>	<u>\$ 132,911</u>	<u>\$ 134,409</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 126,000	\$ 126,000	\$ 162,518	\$ 36,518
Miscellaneous	28,500	28,500	13,142	(15,358)
Interest	25	25	34	9
Total Receipts	<u>154,525</u>	<u>154,525</u>	<u>175,694</u>	<u>21,169</u>
DISBURSEMENTS				
Protection to Persons and Property	1,202,760	1,201,960	1,098,237	103,723
Administration	87,818	88,618	39,397	49,221
Total Disbursements	<u>1,290,578</u>	<u>1,290,578</u>	<u>1,137,634</u>	<u>152,944</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,136,053)</u>	<u>(1,136,053)</u>	<u>(961,940)</u>	<u>174,113</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,135,553	1,135,553	982,328	(153,225)
Total Other Adjustments to Cash (Uses)	<u>1,135,553</u>	<u>1,135,553</u>	<u>982,328</u>	<u>(153,225)</u>
Net Change in Fund Balance	(500)	(500)	20,388	20,888
Fund Balance - Beginning	<u>500</u>	<u>500</u>	<u>501</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,889</u>	<u>\$ 20,889</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 35,614	\$ 35,614	\$ 14,140	\$ (21,474)
Interest	125	125	88	(37)
Total Receipts	<u>35,739</u>	<u>35,739</u>	<u>14,228</u>	<u>(21,511)</u>
DISBURSEMENTS				
Roads	84,739	84,739	31,240	53,499
Administration	40,000	40,000		40,000
Total Disbursements	<u>124,739</u>	<u>124,739</u>	<u>31,240</u>	<u>93,499</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(89,000)</u>	<u>(89,000)</u>	<u>(17,012)</u>	<u>71,988</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			13,205	13,205
Total Other Adjustments to Cash (Uses)			<u>13,205</u>	<u>13,205</u>
Net Change in Fund Balance	(89,000)	(89,000)	(3,807)	85,193
Fund Balance - Beginning	<u>89,000</u>	<u>89,000</u>	<u>89,167</u>	<u>167</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 85,360</u>	<u>\$ 85,360</u>

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

AMBULANCE EQUIPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 35	\$ 35	\$ 11	\$ (24)
Total Receipts	35	35	11	(24)
DISBURSEMENTS				
Protection to Persons and Property	59,435	41,535	3,906	37,629
Debt Service	20,600	38,500	38,376	124
Total Disbursements	80,035	80,035	42,282	37,753
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(80,000)	(80,000)	(42,271)	37,729
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	60,000	60,000	60,000	
Total Other Adjustments to Cash (Uses)	60,000	60,000	60,000	
Net Change in Fund Balance	(20,000)	(20,000)	17,729	37,729
Fund Balance - Beginning	20,000	20,000	16	(19,984)
Fund Balance - Ending	\$ 0	\$ 0	\$ 17,745	\$ 17,745

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

SOLID WASTE FUND			
<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Original	Final		
DISBURSEMENTS			
Administration	\$	\$	\$ 9
Total Disbursements			\$ (9)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			(9)
Other Adjustments to Cash (Uses)			
Transfers To Other Funds		(25,481)	(25,481)
Total Other Adjustments to Cash (Uses)		(25,481)	(25,481)
Net Change in Fund Balance		(25,490)	(25,490)
Fund Balance - Beginning		25,490	25,490
Fund Balance - Ending	\$ 0	\$ 0	\$ 0

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

PARKS AND RECREATION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	\$	\$	\$ (646)	\$ (646)
Total Other Adjustments to Cash (Uses)			(646)	(646)
Net Change in Fund Balance			(646)	(646)
Fund Balance - Beginning (Restated)			646	646
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

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

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$	\$	\$ 1,662,758	\$ 1,662,758
Interest			175	175
Total Receipts			1,662,933	1,662,933
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			1,662,933	1,662,933
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(1,693,807)	(1,693,807)
Total Other Adjustments to Cash (Uses)			(1,693,807)	(1,693,807)
Net Change in Fund Balance			(30,874)	(30,874)
Fund Balance - Beginning			75,014	75,014
Fund Balance - Ending	\$	0	\$ 44,140	\$ 44,140

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

MCCREARY COUNTY AIRPORT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	\$	\$ 10	\$ 10
Total Receipts			10	10
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			10	10
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(22,414)	(22,414)
Total Other Adjustments to Cash (Uses)			(22,414)	(22,414)
Net Change in Fund Balance			(22,404)	(22,404)
Fund Balance - Beginning			22,404	22,404
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

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

	GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 65,000	\$ 65,000	\$ 71,492	\$ 6,492
Interest			23	23
Total Receipts	<u>65,000</u>	<u>65,000</u>	<u>71,515</u>	<u>6,515</u>
DISBURSEMENTS				
General Government		32,495	32,495	
Protection to Persons and Property	67,000	34,505	11,250	23,255
Total Disbursements	<u>67,000</u>	<u>67,000</u>	<u>43,745</u>	<u>23,255</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,000)</u>	<u>(2,000)</u>	<u>27,770</u>	<u>29,770</u>
Net Change in Fund Balance	(2,000)	(2,000)	27,770	29,770
Fund Balance - Beginning	<u>2,000</u>	<u>2,000</u>	<u>1,415</u>	<u>(585)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,185</u>	<u>\$ 29,185</u>

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

EMERGENCY DISPATCH FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$	\$ 39,209	\$ 39,209
Interest			17	17
Total Receipts			39,226	39,226
DISBURSEMENTS				
Administration			76	(76)
Total Disbursements			76	(76)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			39,150	39,150
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(49,530)	(49,530)
Total Other Adjustments to Cash (Uses)			(49,530)	(49,530)
Net Change in Fund Balance			(10,380)	(10,380)
Fund Balance - Beginning			10,380	10,380
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

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

	REVOLVING LOAN FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 30,000	\$ 30,000	\$ 42,121	\$ 12,121
Interest	100	100	185	85
Total Receipts	<u>30,100</u>	<u>30,100</u>	<u>42,306</u>	<u>12,206</u>
DISBURSEMENTS				
Administration	180,250	180,100	65,150	114,950
Total Disbursements	<u>180,250</u>	<u>180,100</u>	<u>65,150</u>	<u>114,950</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(150,150)</u>	<u>(150,000)</u>	<u>(22,844)</u>	<u>127,156</u>
Net Change in Fund Balance	(150,150)	(150,000)	(22,844)	127,156
Fund Balance - Beginning	<u>150,000</u>	<u>150,000</u>	<u>151,991</u>	<u>1,991</u>
Fund Balance - Ending	<u>\$ (150)</u>	<u>\$ 0</u>	<u>\$ 129,147</u>	<u>\$ 129,147</u>

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

ECONOMIC DEVELOPMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
General Government	\$ 2,603	\$	\$	\$
Total Disbursements	<u>2,603</u>			
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,603)</u>			
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(2,603)	(2,603)
Total Other Adjustments to Cash (Uses)			<u>(2,603)</u>	<u>(2,603)</u>
Net Change in Fund Balance	(2,603)		(2,603)	(2,603)
Fund Balance - Beginning (Restated)			<u>2,603</u>	<u>2,603</u>
Fund Balance - Ending	<u>\$ (2,603)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MCCREARY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2019

Note 1. Budgetary Information

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

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

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

Note 2. Reconciliation of the General Fund

The *Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis* differs from the *Budgetary Comparison Schedule* for the general fund's other adjustments to cash (uses) and ending balance by \$16,127 due to the inclusion of the payroll revolving account's reconciled balance.

Note 3. Excess of Disbursements Over Appropriations

Solid waste fund administration exceeded budgeted appropriations by \$9.

Emergency dispatch fund administration exceeded budgeted appropriations by \$76.

Note 4. Unbalanced Budget

The overall final budget is out of balance by \$3. Therefore, the final budget does not net to zero across all funds.

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

For The Year Ended June 30, 2019

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MCCREARY COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land	\$ 2,096,783	\$	\$	\$ 2,096,783
Buildings	9,159,877			9,159,877
Vehicles and Equipment *	1,162,348			1,162,348
Other Equipment	1,722,655			1,722,655
Infrastructure	9,054,473			9,054,473
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 23,196,136</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,196,136</u>

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

June 30, 2019

Note 1. Capital Assets

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

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

Note 2. Beginning Balance Restated

Vehicles and Equipment beginning balance was restated and increased by \$100 due to an error in the prior year.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Douglas Stephens, Former McCreary County Judge/Executive
The Honorable Jimmie W. Greene, II, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCreary County Fiscal Court for the fiscal year ended June 30, 2019, 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 December 4, 2019.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-003, 2019-005, 2019-006, 2019-007, and 2019-008 to be material weaknesses.



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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-002 and 2019-004 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, 2019-003, 2019-006, 2019-007, and 2019-008.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

December 4, 2019

**MCCREARY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

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**MCCREARY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 Transfers Were Made Before Approval By The Fiscal Court

This is a repeat finding and was included in the prior year audit report as finding 2018-001. The county treasurer made 61 interfund transfers during fiscal year 2019. Of the 61 transfers, all 61 transfers received approval after the transfer was issued and made.

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

KRS 68.290 states, "[t]he fiscal court may transfer money from one (1) budget fund to another to provide for emergencies or increases or decreases in county employment pursuant to KRS 64.530(4). The order of the fiscal court making the transfer shall show the nature of the emergency or personnel increase or decrease and the reason for making the transfer. The fiscal court shall not have any power to transfer money from any sinking fund or special fund raised for a specific purpose until the obligation or purpose for which the fund was raised has been satisfied."

According to page 73 of the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, "[a]ll transfers require a court order." Additionally, the McCreary County Fiscal Court's Administrative Code Section 4.4(H) states, in part, "[t]he original appropriation and all amendments and transfers authorized by order of the Fiscal Court shall be entered."

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

County Judge/Executive's Response: County Treasurer has started doing an anticipated interfund cash transfer report to be approved by Fiscal Court.

2019-002 The Payroll Revolving Account Was Not Properly Reconciled

This is a repeat finding and was included in the prior year audit report as finding 2018-002. The payroll revolving account did not reconcile to zero as of June 30, 2019, and the remaining balance could not be readily explained. According to the information available to auditors, the account balance as of June 30, 2019, was \$71,507. Of this balance, the county had receivables of \$4,094, outstanding checks of \$833, and outstanding liabilities of \$58,641, leaving an unexplained balance of \$16,127 for fiscal year 2019.

In addition, the employee benefits account, which primarily receives funds from the payroll account, did not reconcile to zero. According to the information available to auditors, as of June 30, 2019, the account had a balance of \$573. There were \$2,279 of deposits-in-transit, \$2,955 of receivables, and \$5,425 of outstanding liabilities, leaving an unexplained balance of \$382 for fiscal year 2019. Auditors noted the finance officer verified that funds were deposited and checks or electronic withdrawals had cleared but no evidence of a monthly bank reconciliation was found for these accounts. In addition, the account was overdrawn three times during the fiscal year which indicates a lack of oversight.

According to the finance officer, a new payroll account was opened in July 2018 and he thought this corrected the prior year issue since he transfers payroll funds according to the summary produced by the computer software.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Payroll Revolving Account Was Not Properly Reconciled (Continued)

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

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

Good internal controls dictate that revolving accounts be reconciled to a zero balance. In addition, monthly bank reconciliations should be prepared and reviewed by someone independent of the reconciliation process.

We recommend the fiscal court properly reconcile the payroll revolving account and the employee benefits account to a zero balance monthly. Additionally, we recommend the bank reconciliations be reviewed by an employee independent of the reconciliation process. These reviews should be dated and initialed by both the preparer and the reviewer to document evidence of oversight, accuracy, and completeness.

County Judge/Executive's Response: The official did not provide a response.

2019-003 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures

This is a repeat finding and was included in the prior year audit report as finding 2018-004. The fiscal court did not have proper purchase and procurement procedures as noted by the following deficiencies:

Of the 69 invoices tested:

- Fiscal court did not bid out one disbursement for \$20,000 to purchase materials for the construction of the Aerospace Academy building.
- Forty-eight invoices tested did not have purchase orders.
- Five invoices tested had purchase orders dated after receipt.
- Two invoices tested had cancelled checks with only one signature.
- Three invoices tested did not have original supporting receipts.
- Two invoices tested did not have any supporting receipts.
- One invoice did not get properly approved by the fiscal court.

The deficiencies are a direct result of the lack of adequate segregation of duties, improper accounting practices, and poor internal controls without sufficient management oversight. These deficiencies could have resulted in significant overpayments, misappropriations, inaccurate financial reporting, or penalties being assessed.

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 assigned in advance of the purchase to a fund with each disbursement to be sufficiently documented. In addition, good internal controls dictate that proper supporting documentation be maintained to validate disbursements.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-003 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures (Continued)

The McCreary County Administrative Code Section 9.2 (C) states, “[a]ny expenditure or contract for materials, supplies (except perishable meat, fish, and vegetables), equipment, or for contractual services other than professional, involving an expenditure of more than Twenty Thousand Dollars (\$20,000) shall be subject to competitive bidding.”

We recommend the fiscal court take the steps necessary to ensure they are in compliance with the state local finance officer and the McCreary County Administrative Code. We recommend all disbursements be assigned a purchase order before the purchase is made and supporting documentation, such as approved bid specifications and purchase orders, be maintained with the original invoices. We also recommend two check signers ensure supporting documentation is reviewed for correct billing (such as accepted bid price), that all disbursements agree to the supporting documentation attached, and the fiscal court approve the disbursement before authorizing the checks. The authorized signers could document evidence of a review by initialing the invoices as well as the supporting documents (bid sheets, purchase order, invoice, fiscal court approval, etc.).

County Judge/Executive’s Response: We have instituted new procedures and all employees are aware of these procedures.

2019-004 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements

This is a repeat finding included in the prior year audit report as finding 2018-005. The fiscal court has not implemented proper internal control procedures over credit card disbursements. Credit card disbursements had the following deficiencies:

- Three charges were based on a receipt with only a total instead of an itemized listing. Without an itemized listing the purchase may have included unallowable items.
- Twenty-eight of 36 credit card charges were not supported with a purchase order.
- One item was paid for using a purchase order dated after receipt.
- Three statements were paid in excess of 30 days incurring a total of \$117 in penalties.

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

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

The state local finance officer, given the authority by KRS 68.210, requires in the *County Budget Preparation and State Local Finance Officer Policy Manual* that all disbursements be accompanied by a purchase order, within budgeted amounts, sufficiently documented, and paid within 30 working days. KRS 65.140(2) states in part, “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice[.]” Additionally, good internal controls dictate that proper supporting documentation is maintained to support disbursements and the fiscal court should not pay sales tax since they are a tax exempt entity.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-004 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements (Continued)

We recommend the fiscal court take the steps necessary to ensure compliance with applicable statutes and proper accounting practices, by implementing additional internal controls in the area of credit card disbursements. This could be accomplished by assigning an individual other than the finance officer to review all transactions to ensure that they have proper documentation (such as a purchase order, itemized receipts, etc.) before being submitted for approval to the fiscal court. We further recommend that the authorized check signers ensure credit card disbursements are properly supported before authorizing the checks.

County Judge/Executive's Response: Several months ago we established an online account to alleviate this matter.

2019-005 The Fiscal Court Did Not Segregate Duties Over Accounting Functions

This is a repeat finding and was included in the prior year audit report as finding 2018-006. A lack of segregation of duties exists over accounting functions. The following issues were noted:

- The county treasurer prepares and deposits receipts, posts to the ledgers, prepares financial reports, and prepares the monthly bank reconciliations.
- Items returned from the bank are handled by the county treasurer.
- The finance officer picks up mail from the post office then distributes to the proper department. He prepares a list of bills for the fiscal court's approval, prepares all checks, and makes adjustments to the appropriations ledger. The finance officer submits the financial statement electronically to the Department for Local Government. Also, the finance officer maintains timesheets, prepares payroll, posts payroll to the ledgers and transfers funds from the appropriate accounts to the revolving payroll account. In addition, the finance officer is responsible for employee benefits payments (health insurance, life insurance and payments to the employee benefit bank account).

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

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

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

County Judge/Executive's Response: Only by hiring more staff could we be in compliance.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-006 The Fiscal Court Did Not Have Sufficient Monitoring Or Internal Controls Over The Revolving Loan Program

This is a repeat finding and was included in the prior year audit report as finding 2018-007. Since 1994, the McCreary County Fiscal Court has utilized United States Department of Agriculture (USDA) grants to run a Rural Business Enterprise Grant (RBEG) program. The program is designed to encourage new employment opportunities within the county by providing low cost financing to new businesses. The fiscal court has made 38 loans, totaling \$1,666,345 from fiscal year 1994 through fiscal year 2019. The following issues were noted for fiscal year 2019 as a result of reviewing the program:

- In fiscal year 2017 and 2018, the fiscal court made an attempt to collect payment on an inactive loans originally made totaling \$593,082 by way of refinancing. The loans were refinanced to a 1 percent interest rate and had their principal balances lowered dependent on their payment history. According to the former county judge/executive, the prior payments made on these loans were converted to all principal. Due to records the fiscal court maintained in regards to payment history not being complete, the new beginning balances could not be verified for accuracy.
- According to the former county judge/executive, the decision to refinance the inactive loans were discussed and approved by the USDA. However, the auditor was informed the approval was not in writing and the official at the USDA involved with the discussion is now retired.
- The grant agreement requires the fiscal court to report the status of the loans to the USDA semi-annually. However, the fiscal court did not submit a report during fiscal year 2019.

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

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

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

The USDA Application For Federal Assistance SF-424 states, “[r]ecords will include an accurate accounting of any principal repayments, interest, or other proceeds generated by the loan fund and will document expenses paid for with interest, or other proceeds generated by the loan and will be documented for the grant audits.”

We recommend the fiscal court properly monitor the activities of the revolving loan program. Additionally, we recommend the fiscal court comply with the requirements of the USDA Application For Federal Assistance SF-424 and ensure that all loans are properly made, documented, collected, and reported. This matter will be referred to the United States Department of Agriculture.

County Judge/Executive’s Response: The official did not provide a response.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-007 The Fiscal Court Did Not Have Sufficient Internal Controls Over Payroll

This is a repeat finding included in the prior year audit report as comment 2018-008. The fiscal court lacked sufficient internal controls over payroll as shown by the following deficiencies:

- Of the 33 employees tested:
 - The former treasurer did not have a timesheet to substantiate hours worked or health and retirement benefits received. The former treasurer did not meet the four criteria to be exempted as an executive or salaried employee per Kentucky Administrative Regulations (KAR).
 - The current treasurer was hired at 30 hours per week which fulfills the 100 hour per month requirement for retirement benefits per the Kentucky Retirement System but this is not sufficient hours for full time health, vacation, sick or holiday benefits per the county's administrative code. The current treasurer did not meet the four criteria to be exempted as an executive or salaried employee per Kentucky Administrative Regulations (KAR).
 - Four employees had timesheets listing hours worked, but no supervisor approval was evidenced. All were jail employees.
- Magistrates and constables received health insurance and retirement benefits but no timesheets or affidavits were found to justify the county paying these benefits.

According to the former county judge/executive, he believed he had instituted sufficient controls to prevent the deficiency. He also stated that he believed the former treasurer met the qualifications to be considered salaried.

The lack of properly designed internal controls increased the possibility of employees receiving wages or benefits not actually earned, such as an individual working part-time hours receiving full time benefits while other part-time individuals receive no benefits.

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

McCreary County Administrative Code Section 5.9 Classification of Employees (A)(1) defines a full-time employee as, “[a]n employee who works 40 hours per week on a regular scheduled basis.” Section 5.24 (B) requires timesheets to be signed by employee and supervisor in order to be considered valid and compensation authorized.

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

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

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-007 The Fiscal Court Did Not Have Sufficient Internal Controls Over Payroll (Continued)

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

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

County Judge/Executive’s Response: The official did not provide a response.

2019-008 Debt Was Materially Misstated On The Quarterly Financial Report

The fourth quarterly financial report listed liabilities (debt) as of June 30, 2019, with a combined principal balance of \$1,188,140 but the actual amount was \$669,172 and combined interest was listed as \$48,741 but was actually \$24,402. This reported \$518,968 and \$24,339 of combined principal and interest, respectively, in excess of the amount the county owed.

The county treasurer relied upon the computer software to reduce the liabilities listed without verifying the debt balances were reduced by the payments made. The largest payment being the 2009 bond issue paid during the fiscal year by the Administrative Offices of the Courts.

The lack of oversight resulted in an inaccurate financial report to the Department for Local Government (DLG) and to the citizens of the county.

The proper implementation of internal controls is essential for providing protection from inaccurate financial reporting.

Additionally, KRS 68.210 states, in part, “[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe . . . a system of uniform system of accounts[.]” Good internal controls dictate reports be accurate.

We recommend the fiscal court implement internal controls such as reviews of financial statements by an individual independent of the reporting process to ensure that all reporting is accurate.

County Judge/Executive’s Response: The official did not provide a response.

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

MCCREARY COUNTY FISCAL COURT

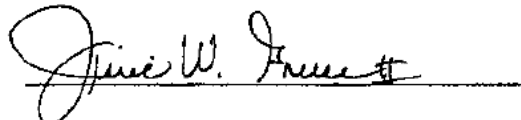
For The Year Ended June 30, 2019

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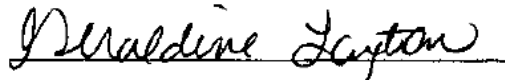
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MCCREARY COUNTY FISCAL COURT

For The Year Ended June 30, 2019

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.

A handwritten signature in cursive script, reading "Jim W. Innes", written over a horizontal line.

County Judge/Executive

A handwritten signature in cursive script, reading "Geraldine Layton", written over a horizontal line.

County Treasurer