

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

**For The Fiscal Year Ended
June 30, 2016**



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

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

EXECUTIVE SUMMARY
AUDIT OF THE
MERCER COUNTY FISCAL COURT

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Mercer County Fiscal Court for the fiscal year ended June 30, 2016.

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

Financial Condition:

The Mercer County Fiscal Court had total receipts of \$7,739,082 and disbursements of \$7,058,280 in fiscal year 2016. This resulted in a total ending fund balance of \$3,959,564, which is an increase of \$756,043 from the prior year.

Findings:

- 2016-001 The Fiscal Court Did Not Expend Local Government Economic Assistance (LGEA) Funds In Compliance With Requirements
- 2016-002 The Fiscal Court Did Not Have An Effective Purchase Order System
- 2016-003 The Fiscal Court Did Not Have Adequate Controls In Place Over Payroll
- 2016-004 The Fiscal Court Did Not Implement Adequate Segregation Of Duties Over Receipts And Reconciliations

Deposits:

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

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT..... 1

MERCER COUNTY OFFICIALS.....4

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS6

NOTES TO FINANCIAL STATEMENT9

BUDGETARY COMPARISON SCHEDULES21

NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES27

SCHEDULE OF CAPITAL ASSETS31

NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS32

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*35

SCHEDULE OF FINDINGS AND RESPONSES39



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer 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 Mercer County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Mercer County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Mercer 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 Mercer County Fiscal Court as of June 30, 2016, 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 Mercer County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Mercer County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2017, on our consideration of the Mercer 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 Mercer 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:

- 2016-001 The Fiscal Court Did Not Expend Local Government Economic Assistance (LGEA) Funds In Compliance With Requirements
- 2016-002 The Fiscal Court Did Not Have An Effective Purchase Order System
- 2016-003 The Fiscal Court Did Not Have Adequate Controls In Place Over Payroll
- 2016-004 The Fiscal Court Did Not Implement Adequate Segregation Of Duties Over Receipts And Reconciliations

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 19, 2017

MERCER COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Milward Dedman	County Judge/Executive
Ronnie Simms	Magistrate
Donnie Webb	Magistrate
Wayne T. Jackson	Magistrate
Dennis Holiday	Magistrate
Tim Darland	Magistrate
Jackie Claycomb	Magistrate

Other Elected Officials:

Ted Dean	County Attorney
Bret Chamberlain	Jailer
Chris Horn	County Clerk
Allison Buchanan	Circuit Court Clerk
Ernie Kelty	Sheriff
David Best	Property Valuation Administrator
Sonny Ransdell	Coroner

Appointed Personnel:

Sandra Sanders	County Treasurer
Billy Humphrey	Road Supervisor

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

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 1,746,753	\$	\$
Excess Fees	95,379		
Licenses and Permits	6,341		
Intergovernmental	495,990	2,042,931	110,711
Charges for Services	90,969		
Miscellaneous	119,476	20,756	1,238
Interest	2,953	3,074	
Total Receipts	<u>2,557,861</u>	<u>2,066,761</u>	<u>111,949</u>
DISBURSEMENTS			
General Government	981,063	14,399	
Protection to Persons and Property	671,621	264	914,207
General Health and Sanitation	139,304	4,666	
Social Services	47,621		
Recreation and Culture	148,204		
Transportation Facility and Services		3,438	
Roads		1,256,746	
Other Transportation Facilities and Services		650	
Debt Service	104,399		
Capital Projects		117	
Administration	1,025,376	203,956	
Total Disbursements	<u>3,117,588</u>	<u>1,484,236</u>	<u>914,207</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(559,727)</u>	<u>582,525</u>	<u>(802,258)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds			
Bond Reoffering Premium			
Bond Underwriters Discount			
Bond Proceeds To Escrow Agent			
Transfers From Other Funds	350,000	250,000	730,000
Transfers To Other Funds	(10,952)	(250,000)	
Total Other Adjustments to Cash (Uses)	<u>339,048</u>	<u></u>	<u>730,000</u>
Net Change in Fund Balance	(220,679)	582,525	(72,258)
Fund Balance - Beginning	1,090,216	(37,342)	614,023
Fund Balance - Ending	<u>\$ 869,537</u>	<u>\$ 545,183</u>	<u>\$ 541,765</u>
Composition of Fund Balance			
Bank Balance	\$ 905,286	\$ 466,482	\$ 24,151
Less: Outstanding Checks	(238,656)	(31,299)	(3,994)
Certificates of Deposit	<u>202,907</u>	<u>110,000</u>	<u>521,608</u>
Fund Balance - Ending	<u>\$ 869,537</u>	<u>\$ 545,183</u>	<u>\$ 541,765</u>

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

MERCER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

Budgeted Funds		Unbudgeted Funds		
Local Government Economic Assistance Fund	Landfill Fund	Payroll and Net Profit Fund	Public Properties Corporation Fund	Total Funds
\$	\$	\$ 1,591,588	\$	\$ 3,338,341
				95,379
				6,341
70,335	120,364		911,247	3,751,578
	191,720			282,689
	14,252	25,160	75,249	256,131
244	62	2,290		8,623
<u>70,579</u>	<u>326,398</u>	<u>1,619,038</u>	<u>986,496</u>	<u>7,739,082</u>
30,000		38,210		1,063,672
				1,586,092
	381,532			525,502
6,000				53,621
				148,204
				3,438
25,794				1,282,540
				650
			1,058,476	1,162,875
				117
		37	2,200	1,231,569
<u>61,794</u>	<u>381,532</u>	<u>38,247</u>	<u>1,060,676</u>	<u>7,058,280</u>
8,785	(55,134)	1,580,791	(74,180)	680,802
			6,170,000	6,170,000
			665,687	665,687
			(60,466)	(60,466)
			(6,699,980)	(6,699,980)
	115,952	250,000		1,695,952
		(1,435,000)		(1,695,952)
	<u>115,952</u>	<u>(1,185,000)</u>	<u>75,241</u>	<u>75,241</u>
8,785	60,818	395,791	1,061	756,043
337,598	142,644	1,047,464	8,918	3,203,521
<u>\$ 346,383</u>	<u>\$ 203,462</u>	<u>\$ 1,443,255</u>	<u>\$ 9,979</u>	<u>\$ 3,959,564</u>
\$ 347,883	\$ 207,770	\$ 778,068	\$ 9,979	\$ 2,739,619
(1,500)	(4,308)	(2,436)		(282,193)
		667,623		1,502,138
<u>\$ 346,383</u>	<u>\$ 203,462</u>	<u>\$ 1,443,255</u>	<u>\$ 9,979</u>	<u>\$ 3,959,564</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	9
NOTE 2.	DEPOSITS.....	11
NOTE 3.	TRANSFERS	12
NOTE 4.	LONG-TERM DEBT	12
NOTE 5.	INTERLOCAL COOPERATION AGREEMENT.....	14
NOTE 6.	SOLID WASTE LANDFILL	14
NOTE 7.	CONTINGENCIES.....	15
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM	15
NOTE 9.	DEFERRED COMPENSATION	16
NOTE 10.	HEALTH REIMBURSEMENT ACCOUNT/FLEXIBLE SPENDING ACCOUNT	16
NOTE 11.	INSURANCE.....	17
NOTE 12.	CONDUIT DEBT	17
NOTE 13.	SUBSEQUENT EVENTS	17

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(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, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

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

Landfill Fund - This fund includes post-closure maintenance and monitoring costs of the landfill. This fund also includes activities related to the collection and disposal of garbage and recycling materials from residents of Mercer County.

Payroll and Net Profit Fund - This fund is for the collection of local payroll taxes and net profit tax, which is the primary revenue source. These funds are used to supplant operations of county government.

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

Public Properties 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. The State Local Finance Officer does not require the fiscal court to report or budget this fund.

D. Budgetary Information

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

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 properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Mercer County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

Note 2. Deposits

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

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

	General Fund	Road Fund	Payroll and Net Profit Fund	Total Transfers In
General Fund	\$	\$	\$ 350,000	\$ 350,000
Road Fund			250,000	250,000
Jail Fund			730,000	730,000
Landfill Fund	10,952		105,000	115,952
Payroll and Net Profit Fund		250,000		250,000
Total Transfers Out	<u>\$ 10,952</u>	<u>\$ 250,000</u>	<u>\$ 1,435,000</u>	<u>\$ 1,695,952</u>

Reason for transfers:

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

Note 4. Long-Term Debt

A. Revenue Bonds, Series 2009 - Judicial Center

On August 1, 2009, the Mercer County Public Properties Corporation issued \$12,385,000 of First Mortgage Revenue Bonds. The proceeds from this issuance were used to (a) provide financing for the acquisition, development, and construction of a new courthouse facility, located within the city, to be used and leased by the Administrative Office the of Courts; (b) pay the principal and interest of the First Mortgage Revenue Bond Anticipation Note; (c) pay capitalized and/or accrued interest, if any; and (d) pay the cost of issuance incurred with respect to the issuance of bonds. Principal payments are due annually on August 1, and interest, which varies at a rate of 1.2 percent to 4.125 percent, is payable semi-annually on February 1 and August 1. In March 2016, these bonds were partially defeased with First Mortgage Refunding Revenue Bonds, Series 2016. The outstanding principal balance as of June 30, 2016, is \$3,030,000. Future principal and interest requirements are:

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-Term Debt (Continued)

A. Revenue Bonds, Series 2009 - Judicial Center (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 570,000	\$ 89,285
2018	585,000	71,960
2019	605,000	53,505
2020	625,000	33,200
2021	645,000	11,288
Totals	<u>\$ 3,030,000</u>	<u>\$ 259,238</u>

B. Revenue Bond, Series 2016 – Judicial Center

On March 8, 2016, the Mercer County Public Properties Corporation issued \$6,170,000 of First Mortgage Refunding Revenue Bonds. Proceeds from the Bonds will be used for the purpose of (i) the advance refunding of all or certain maturities of the \$12,385,000 Mercer County, Kentucky Public Properties Corporation First Mortgage Revenue Bonds (Judicial Center Project), Series 2009, dated August 1, 2009; (ii) the payment of accrued interest, if any; and (iii) the payment of the cost of issuance incurred with respect to the issuance of the bonds. Principal payments are due annually on August 1 beginning August 1, 2021. Interest payments, which vary from three percent to four percent, are payable semi-annually on February 1 and August 1. The outstanding principal balance as of June 30, 2016, is \$6,170,000. Future principle and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2017		\$ 205,598
2018		229,150
2019		229,150
2020		229,150
2021		229,150
2022-2026	3,565,000	812,050
2027-2029	2,605,000	123,075
Totals	<u>\$ 6,170,000</u>	<u>\$ 2,057,323</u>

C. Gateway Building

In September 2008, the Mercer County Fiscal Court entered into a six-year lease with the Kentucky Association of Counties (KACo) Leasing Trust, in the amount of \$1,700,000 to finance the construction and renovation of an office building to be used by the county. This agreement was scheduled to be paid off on September 20, 2013, but the county refinanced the remaining \$325,000 balance by entering into a two-year lease agreement with KACo. Principal payments are due semi-annually in March and September, and interest at a rate of 3.05 percent is due monthly. This obligation was paid off as scheduled.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-Term Debt (Continued)

D. Sheriff Vehicles

In March 2013, the Mercer County Fiscal Court entered into a four-year lease agreement with Magnolia Bank to purchase three Dodge Chargers for the sheriff's department. The lease was for \$95,410 at an interest rate of 3.9 percent. The outstanding principal balance as of June 30, 2016, is \$18,576. Future principal and interest payments are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 18,576	\$ 506
Totals	<u>\$ 18,576</u>	<u>\$ 506</u>

E. Changes in Long-Term Debt

Long-term debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 9,780,000	\$ 6,170,000	\$ 6,750,000	\$ 9,200,000	\$ 570,000
Financing Obligations	117,682		99,106	18,576	18,576
Total Long-term Debt	<u>\$ 9,897,682</u>	<u>\$ 6,170,000</u>	<u>\$ 6,849,106</u>	<u>\$ 9,218,576</u>	<u>\$ 588,576</u>

Note 5. Interlocal Cooperation Agreement

Mercer County has entered into an interlocal cooperation agreement with Boyle County to share in the cost of a regional jail facility. The facility is owned by Boyle County. Mercer County agreed to pay a percentage, not below 35 percent and not to exceed 50 percent, of the yearly costs in exchange for the use of the facility for Mercer County prisoners. Debt service for the jail is allocated when the annual operation budget is determined.

Note 6. Solid Waste Landfill

The Mercer County Fiscal Court (county) operated a landfill, which ceased operations on June 30, 1992. The county initiated closure operations in April 1991. Closure costs were estimated to be \$52,700 and the county completed the steps necessary to close the landfill. The county believes that it has met all federal, state, and local laws and regulations in regard to the closure of the landfill. Post-closure care consists primarily of groundwater monitoring and landscape maintenance. The county is required to file reports with the appropriate regulatory agencies regarding the findings and groundwater maintenance activities. Post-closure costs are included in the landfill fund. Mercer County expended \$56,228 for post-closure costs for the fiscal year ended June 30, 2016. During fiscal year 2016, the county was approved for a different type of permit that reduces the required amount of groundwater monitoring, which is expected to reduce future costs beginning in fiscal year 2017.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Contingencies

The county has a potential liability from a lawsuit that arose from the normal course of doing business that could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 8. Employee Retirement System

Plan Description

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

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

The county's contribution for FY 2014 was \$340,711, FY 2015 was \$317,191, and FY 2016 was \$309,000.

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.

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

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

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 8. Employee Retirement System (Continued)

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

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

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 a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/employers/Resources/Pages/GASB.aspx>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 9. Deferred Compensation

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

These deferred compensation plans 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 10. Health Reimbursement Account/Flexible Spending Account

The Mercer Fiscal Court established a flexible spending account 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 \$1,500 each year to pay for qualified medical expenses.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 11. Insurance

For the fiscal year ended June 30, 2016, the Mercer County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to industries in Mercer County for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Mercer County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2016, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 13. Subsequent Events

After the end of the fiscal year ending June 30, 2016, the county entered into three operating lease agreements for the use of tractors with an aggregate total of \$293,227, each for a three-year period.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,538,000	\$ 1,538,000	\$ 1,746,753	\$ 208,753
Excess Fees	70,339	70,339	95,379	25,040
Licenses and Permits	5,000	5,000	6,341	1,341
Intergovernmental	547,630	947,630	495,990	(451,640)
Charges for Services	86,750	86,750	90,969	4,219
Miscellaneous	115,500	115,500	119,476	3,976
Interest	5,000	5,000	2,953	(2,047)
Total Receipts	<u>2,368,219</u>	<u>2,768,219</u>	<u>2,557,861</u>	<u>(210,358)</u>
DISBURSEMENTS				
General Government	1,086,887	1,117,037	981,063	135,974
Protection to Persons and Property	541,300	695,185	671,621	23,564
General Health and Sanitation	165,400	162,400	139,304	23,096
Social Services	65,500	66,000	47,621	18,379
Recreation and Culture	142,040	551,540	148,204	403,336
Debt Service	102,524	105,944	104,399	1,545
Administration	1,360,025	1,128,870	1,025,376	103,494
Total Disbursements	<u>3,463,676</u>	<u>3,826,976</u>	<u>3,117,588</u>	<u>709,388</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,095,457)</u>	<u>(1,058,757)</u>	<u>(559,727)</u>	<u>499,030</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	832,598	832,598	350,000	(482,598)
Transfers To Other Funds	(768,798)	(768,798)	(10,952)	757,846
Total Other Adjustments to Cash (Uses)	<u>63,800</u>	<u>63,800</u>	<u>339,048</u>	<u>275,248</u>
Net Change in Fund Balance	(1,031,657)	(994,957)	(220,679)	774,278
Fund Balance - Beginning	<u>1,031,657</u>	<u>1,031,657</u>	<u>1,090,216</u>	<u>58,559</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 36,700</u>	<u>\$ 869,537</u>	<u>\$ 832,837</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,524,460	\$ 1,724,460	\$ 2,042,931	\$ 318,471
Miscellaneous	35,000	35,000	20,756	(14,244)
Interest	3,000	3,000	3,074	74
Total Receipts	<u>1,562,460</u>	<u>1,762,460</u>	<u>2,066,761</u>	<u>304,301</u>
DISBURSEMENTS				
General Government	17,300	17,300	14,399	2,901
Protection to Persons and Property	1,200	1,200	264	936
General Health and Sanitation	24,206	24,206	4,666	19,540
Transportation Facilities and Services	8,500	8,500	3,438	5,062
Roads	1,516,736	1,716,986	1,256,746	460,240
Other Transportation Facilities	700	700	650	50
Capital Assets	30,000	30,000	117	29,883
Administration	590,250	590,000	203,956	386,044
Total Disbursements	<u>2,188,892</u>	<u>2,388,892</u>	<u>1,484,236</u>	<u>904,656</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(626,432)</u>	<u>(626,432)</u>	<u>582,525</u>	<u>1,208,957</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			250,000	250,000
Transfers To Other Funds	<u>(63,800)</u>	<u>(63,800)</u>	<u>(250,000)</u>	<u>(186,200)</u>
Total Other Adjustments to Cash (Uses)	<u>(63,800)</u>	<u>(63,800)</u>		<u>63,800</u>
Net Change in Fund Balance	(690,232)	(690,232)	582,525	1,272,757
Fund Balance - Beginning	<u>690,232</u>	<u>690,232</u>	<u>(37,342)</u>	<u>(727,574)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 545,183</u>	<u>\$ 545,183</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 109,200	\$ 109,200	\$ 110,711	\$ 1,511
Miscellaneous	1,000	1,000		(1,000)
Interest	1,800	1,800	1,238	(562)
Total Receipts	<u>112,000</u>	<u>112,000</u>	<u>111,949</u>	<u>(51)</u>
DISBURSEMENTS				
Protection to Persons and Property	889,598	936,098	914,207	21,891
Administration	25,200	5,200		5,200
Total Disbursements	<u>914,798</u>	<u>941,298</u>	<u>914,207</u>	<u>27,091</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(802,798)</u>	<u>(829,298)</u>	<u>(802,258)</u>	<u>27,040</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	768,798	768,798	730,000	(38,798)
Total Other Adjustments to Cash (Uses)	<u>768,798</u>	<u>768,798</u>	<u>730,000</u>	<u>(38,798)</u>
Net Change in Fund Balance	(34,000)	(60,500)	(72,258)	(11,758)
Fund Balance - Beginning	<u>34,000</u>	<u>34,000</u>	<u>614,023</u>	<u>580,023</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (26,500)</u>	<u>\$ 541,765</u>	<u>\$ 568,265</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 70,000	\$ 70,000	\$ 70,335	\$ 335
Interest	500	500	244	(256)
Total Receipts	<u>70,500</u>	<u>70,500</u>	<u>70,579</u>	<u>79</u>
DISBURSEMENTS				
General Government	30,000	30,000	30,000	
Social Services	5,000	6,000	6,000	
Roads	100,000	99,000	25,794	73,206
Total Disbursements	<u>135,000</u>	<u>135,000</u>	<u>61,794</u>	<u>73,206</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(64,500)</u>	<u>(64,500)</u>	<u>8,785</u>	<u>73,285</u>
Net Change in Fund Balance	(64,500)	(64,500)	8,785	73,285
Fund Balance - Beginning	<u>64,500</u>	<u>64,500</u>	<u>337,598</u>	<u>273,098</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 346,383</u>	<u>\$ 346,383</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	LANDFILL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 148,820	\$ 148,820	\$ 120,364	\$ (28,456)
Charges for Services	111,000	111,000	191,720	80,720
Miscellaneous	19,000	19,000	14,252	(4,748)
Interest	150	150	62	(88)
Total Receipts	<u>278,970</u>	<u>278,970</u>	<u>326,398</u>	<u>47,428</u>
DISBURSEMENTS				
General Health and Sanitation	<u>395,220</u>	<u>405,420</u>	<u>381,532</u>	<u>23,888</u>
Total Disbursements	<u>395,220</u>	<u>405,420</u>	<u>381,532</u>	<u>23,888</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	<u>(116,250)</u>	<u>(126,450)</u>	<u>(55,134)</u>	<u>71,316</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>53,750</u>	<u>53,750</u>	<u>115,952</u>	<u>62,202</u>
Total Other Adjustments to Cash (Uses)	<u>53,750</u>	<u>53,750</u>	<u>115,952</u>	<u>62,202</u>
Net Change in Fund Balance	(62,500)	(72,700)	60,818	133,518
Fund Balance - Beginning	<u>62,500</u>	<u>62,500</u>	<u>142,644</u>	<u>80,144</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (10,200)</u>	<u>\$ 203,462</u>	<u>\$ 213,662</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	PAYROLL AND NET PROFIT TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 880,000	\$ 880,000	\$ 1,591,588	\$ 711,588
Miscellaneous	10,000	10,000	25,160	15,160
Interest	1,548	1,548	2,290	742
Total Receipts	<u>891,548</u>	<u>891,548</u>	<u>1,619,038</u>	<u>727,490</u>
DISBURSEMENTS				
General Government	58,300	58,300	38,210	20,090
Administration	10,700	10,700	37	10,663
Total Disbursements	<u>69,000</u>	<u>69,000</u>	<u>38,247</u>	<u>30,753</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>822,548</u>	<u>822,548</u>	<u>1,580,791</u>	<u>758,243</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			250,000	250,000
Transfers To Other Funds	(822,548)	(822,548)	(1,435,000)	(612,452)
Total Other Adjustments to Cash (Uses)	<u>(822,548)</u>	<u>(822,548)</u>	<u>(1,185,000)</u>	<u>(362,452)</u>
Net Change in Fund Balance			395,791	395,791
Fund Balance - Beginning			<u>1,047,464</u>	<u>1,047,464</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,443,255</u>	<u>\$ 1,443,255</u>

MERCER COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

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.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

MERCER COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 319,884			\$ 319,884
Building and Building Improvements	16,321,232			16,321,232
Vehicles	719,497	54,683	130,512	643,668
Machinery and Equipment	1,228,836	105,465		1,334,301
Infrastructure	7,637,421	486,302		8,123,723
Total Capital Assets	<u>\$ 26,226,870</u>	<u>\$ 646,450</u>	<u>\$ 130,512</u>	<u>\$ 26,742,808</u>

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

June 30, 2016

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 and Land Improvements	\$ 12,500	10-45
Buildings and Building Improvements	\$ 25,000	10-60
Machinery and Equipment	\$ 5,000	3-20
Vehicles	\$ 5,000	3-20
Infrastructure	\$ 10,000	10-40

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of 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 Mercer County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Mercer County Fiscal Court's financial statement and have issued our report thereon dated May 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Mercer 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 Mercer County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mercer 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 a certain deficiency in internal control that we consider to be a material weakness 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 deficiency described in the accompanying Schedule of Findings and Responses as item 2016-002 to be a material weakness.



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 2016-003 and 2016-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mercer 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 2016-001 and 2016-002.

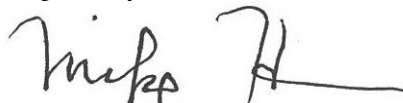
Views of Responsible Officials and Planned Corrective Action

Mercer 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

May 19, 2017

**MERCER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2016

MERCER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Fiscal Court Did Not Expend Local Government Economic Assistance (LGEA) Funds In Compliance With Requirements

The Mercer County Fiscal Court had nine disbursements during fiscal year 2016 from the Local Government Economic Assistance (LGEA) Fund. Of the nine disbursements, one was not in compliance with allowability requirements established by statute. The disbursement was for parking lot paving at a county owned building, which is not considered an allowable use of LGEA funds.

The county did not recognize that this was not an acceptable use for the funds. This resulted in funds being expended in a manner that is not compliant with state statute.

KRS 42.455 outlines acceptable uses for LGEA funds. Mercer County does not receive coal impact funds, only mineral severance funds. One hundred percent of expenditures for mineral severance funds must be directly related to the priority categories of public safety; environmental protection; public transportation (including mass transit, streets, and roads); services for the poor, aged, and handicapped; industrial and economic development; and vocational education. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* provides distinction between allowable and non-allowable expenditures by account codes.

We recommend the fiscal court improve procedures over the expending of LGEA funds to ensure that purposes are compliant with KRS 42.455. Compliance can be checked by reviewing criteria found on page eight of the *County Budget Preparation and State Local Finance Officer Policy Manual* produced by the Department for Local Government.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court was unaware that paving a county parking lot was not an appropriate expenditure of LGEA funds. We have used these funds to pave at our park in the past (which was allowed) and did not realize this would be any different. In the future we will get the projects approved through the Department for Local Government prior to performing any work.

Auditor's Reply

For clarification, the pavement at the park referred to in the County Judge/Executive's response was related to a recreational purpose, which is an acceptable use of LGEA funds.

2016-002 The Fiscal Court Did Not Have An Effective Purchase Order System

During fiscal year 2016, the fiscal court issued purchase orders when sufficient budget appropriation was not available to cover the requested expense. Inquiry with staff indicated that the budget appropriation amount was not amended prior to issuing the purchase order, but rather amended just prior to the fiscal court meeting where the claim will be paid. By transferring budget appropriation after the invoice is received, the claim was already obligated to the court.

In addition, 58 of 125 invoices did not have purchase orders, with examples of purchases being fuel, maintenance and groundwater monitoring for landfill, and services for veterinarian, HVAC, and mapping. Also, the fiscal court has not implemented the purchase order system for utilities or payroll.

**MERCER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Fiscal Court Did Not Have An Effective Purchase Order System (Continued)

The cause appears to be a lack of understanding of when a purchase order is needed and the necessity of sufficient appropriation in each line, rather than the fund as a whole. This is neither compliant with purchasing requirements for counties, nor an effective implementation of internal control. Management is unable to determine where potential issues with spending are before the expense is already incurred, creating the opportunity for waste, fraud, or abuse.

KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling of public funds, including required purchasing procedures for counties. These requirements prescribe that, “[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.”

Good internal controls for purchase requests exceeding budget appropriations would lead to discussions with both the county treasurer and county judge/executive as to whether the purchase order will be issued, the necessity and appropriateness of a budget transfer to cover the expense, and if other issues need to be addressed related to spending. Purchase orders should be issued for all goods and services utilized by the fiscal court. The Department for Local Government issued a memorandum on August 4, 2016, in which it “highly recommends” implementation of issuing purchase orders for payroll and utilities. This control allows the fiscal court to ensure that sufficient budget allocation is available for all expenses.

We recommend that the fiscal court improve procedures over purchase orders to ensure they are obtained for all purchases of goods and services and not approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The invoices that did not have purchase orders were from vendors who provide services or goods for the Mercer County Fiscal Court where specific amounts could not be determined until the work or product was delivered. The corrective action plan is for the Finance Officer in charge of purchase orders estimate the charges and produce a purchase order for all invoices. The Finance Officer will be instructed to begin producing purchase orders for utilities and payroll. She will also be instructed to consult with the County Treasurer about making the appropriate transfer if line item appropriations will not support the purchase order amount and the proper transfer will be made if the purchase is deemed necessary.

2016-003 The Fiscal Court Did Not Have Adequate Controls In Place Over Payroll

The Mercer County Fiscal Court lacks segregation of duties over payroll processing. The finance officer is responsible for handling payroll for the fiscal court. All timecards are turned into the finance officer, who enters employee time into the payroll system and processes the payroll. The employee is also responsible for entering new employees, removing terminated employees, maintaining personnel files, and posting payroll to the disbursements ledgers.

The fiscal court operates with limited staff and has not implemented compensating controls to address the limitation. When controls procedures are performed by the same employee and no compensating controls are in place, the risk for material misstatement significantly increases due to undetected error or fraud. The employee could change pay rates, create fictitious employees, or adjust leave time, all without detection.

MERCER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Fiscal Court Did Not Have Adequate Controls In Place Over Payroll (Continued)

Good internal controls dictate that adequate controls and segregation of duties would prevent one individual from having a significant role in the payroll process.

We recommend the fiscal court implement adequate controls over payroll by segregating the duties over the handling of payroll or by implementing compensating controls. One example of a good compensating control is having an independent county employee compare payroll data to payroll reports for accuracy. The independent person should then sign off on the payroll reports that this compensating control was completed.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: With limited staff it is extremely hard to provide the amount of segregation that this government office needs to have; however, we have begun to work on this by having the Tax Administrator cross-train with the Payroll Clerk. She will compare the payroll data to payroll reports for accuracy. She will then sign off on the payroll report.

2016-004 The Fiscal Court Did Not Implement Adequate Segregation Of Duties Over Receipts And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2015-006. The Mercer County Fiscal Court lacks segregation of duties over receipts and reconciliations. Receipts are received by the finance officer, who prepares a receipt log that is given to the treasurer and county judge/executive. The treasurer prepares the deposit tickets, records to ledgers and takes deposits to the bank. Occupational tax receipts are received, processed, and the bank deposit is created by the occupational tax administrator. The deposit is given to the treasurer for review and posting to the receipts ledger. The treasurer performs reconciliations on all accounts.

The fiscal court operates with limited staff and has not implemented compensating controls to address the limitation. Inadequately segregated duties significantly increase the risk of and provide the opportunity for undetected financial misstatements, errors, and fraud.

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. When segregation of duties is not possible due to limited staff size, officials can implement compensating controls to mitigate associated risks. An example of a compensating control is:

- The county judge/executive could review bank reconciliations, initialing the reconciliation to document the review.

We recommend the fiscal court implement a system of adequately segregated duties over receipts and reconciliations. If duties cannot be adequately segregated due to limited staff size, we recommend the fiscal court implement compensating controls to mitigate risks.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court will start requiring the Finance Officer review the Treasurers reconciliations. If everything is in proper order, she will sign off and date.

