

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

**For The Year Ended
June 30, 2017**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable 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, 2017, 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
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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 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, 2017, 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, 2017, 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

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The 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 February 27, 2018, 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:

- 2017-001 The Mercer County Fiscal Court Did Not Have An Effective Purchase Order System
- 2017-002 The Mercer County Fiscal Court Did Not Comply With Bidding Requirements
- 2017-003 The Mercer County Fiscal Court Did Not Have Adequate Controls In Place Over Payroll

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 27, 2018

MERCER COUNTY OFFICIALS**For The Year Ended June 30, 2017****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, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,867,214	\$	\$
Excess Fees	117,685		
Licenses and Permits	6,345		
Intergovernmental	588,572	1,506,324	114,093
Charges for Services	93,685		
Miscellaneous	105,391	1,642	
Interest	7,685	5,612	2,814
Total Receipts	<u>2,786,577</u>	<u>1,513,578</u>	<u>116,907</u>
DISBURSEMENTS			
General Government	898,582	14,528	
Protection to Persons and Property	404,097	170	903,788
General Health and Sanitation	121,950	3,888	
Social Services	50,171		
Recreation and Culture	161,521		
Transportation Facility and Services		358	
Roads		1,391,541	
Other Transportation Facilities and Services		650	
Debt Service	19,082		
Capital Projects		255	
Administration	997,851	222,147	
Total Disbursements	<u>2,653,254</u>	<u>1,633,537</u>	<u>903,788</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>133,323</u>	<u>(119,959)</u>	<u>(786,881)</u>
Other Adjustments to Cash (Uses)			
Loan Proceeds		346,682	
Transfers From Other Funds	500,000		925,000
Transfers To Other Funds			
Total Other Adjustments to Cash (Uses)	<u>500,000</u>	<u>346,682</u>	<u>925,000</u>
Net Change in Fund Balance	633,323	226,723	138,119
Fund Balance - Beginning	869,537	545,183	541,765
Fund Balance - Ending	<u>\$ 1,502,860</u>	<u>\$ 771,906</u>	<u>\$ 679,884</u>
Composition of Fund Balance			
Bank Balance	\$ 1,359,462	\$ 682,494	\$ 160,759
Less: Outstanding Checks	(59,509)	(20,588)	(2,483)
Certificates of Deposit	202,907	110,000	521,608
Fund Balance - Ending	<u>\$ 1,502,860</u>	<u>\$ 771,906</u>	<u>\$ 679,884</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, 2017
(Continued)

Budgeted Funds			Unbudgeted Funds		
Local Government Economic Assistance Fund	Federal Grant Fund	Landfill Fund	Payroll and Net Profit Fund	Public Properties Corporation Fund	Total Funds
\$	\$	\$	\$ 1,614,552	\$	\$ 3,481,766
					117,685
					6,345
57,245		91,577		868,190	3,226,001
		205,506			299,191
		36,377	14,329		157,739
236		119	2,605		19,071
<u>57,481</u>		<u>333,579</u>	<u>1,631,486</u>	<u>868,190</u>	<u>7,307,798</u>
35,000		358,761	38,124		1,344,995
					1,308,055
					125,838
3,000					53,171
6,994					168,515
					358
					1,391,541
					650
25,341				864,884	909,307
					255
		108	238	2,200	1,222,544
<u>70,335</u>		<u>358,869</u>	<u>38,362</u>	<u>867,084</u>	<u>6,525,229</u>
(12,854)		(25,290)	1,593,124	1,106	782,569
					346,682
					1,425,000
			(1,425,000)		(1,425,000)
			(1,425,000)		346,682
(12,854)		(25,290)	168,124	1,106	1,129,251
346,383		203,462	1,443,255	9,979	3,959,564
<u>\$ 333,529</u>	<u>\$ 0</u>	<u>\$ 178,172</u>	<u>\$ 1,611,379</u>	<u>\$ 11,085</u>	<u>\$ 5,088,815</u>
\$ 333,529	\$	\$ 181,310	\$ 943,945	\$ 11,085	\$ 3,672,584
		(3,138)	(189)		(85,907)
			667,623		1,502,138
<u>\$ 333,529</u>	<u>\$ 0</u>	<u>\$ 178,172</u>	<u>\$ 1,611,379</u>	<u>\$ 11,085</u>	<u>\$ 5,088,815</u>

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

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**MERCER COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2017

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 function.

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

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

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

Federal Grant Fund - The primary purpose of this fund is to account for federal grants funds received and expended.

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 - The primary purpose of this fund is for collection of local payroll taxes and net profit tax, which is the primary revenue source. These funds are used to support the operation 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.

E. Mercer County Elected Officials

Kentucky law provides for election of the officials listed 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

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Mercer County Elected Officials (Continued)

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.

H. Tax Abatements

GASB Statement No. 77 - Tax Abatement Disclosures is effective for reporting periods beginning after December 15, 2015.

The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public presently. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

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.

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, 2017, 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 2017.

	Payroll and Net Profit Fund	Total Transfers In
General Fund	\$ 500,000	\$ 500,000
Jail Fund	925,000	925,000
Total Transfers Out	<u>\$ 1,425,000</u>	<u>\$ 1,425,000</u>

Reason for transfers:

To move resources from the payroll and net profit fund, 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 issuances 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 (AOC); (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, 2017, is \$2,460,000. Future principal and interest requirements are:

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Long-term Debt (Continued)

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

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 585,000	\$ 71,960
2019	605,000	53,505
2020	625,000	33,200
2021	645,000	11,288
Totals	<u>\$ 2,460,000</u>	<u>\$ 169,953</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 varies from three percent to four percent, is payable semi-annually on February 1 and August 1. The outstanding principal balance as of June 30, 2017, is \$6,170,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$	\$ 229,150
2019		229,150
2020		229,150
2021		229,150
2022	545,000	218,250
2023-2027	3,860,000	663,550
2028-2029	1,765,000	53,325
Totals	<u>\$ 6,170,000</u>	<u>\$ 1,851,725</u>

C. Tractors with Mowers

In September 2016, the Mercer County Fiscal Court entered into a four-year lease agreement with AGCO Finance to lease-purchase three Massey Ferguson Tractors and mowers for the road department. The lease was for \$346,682 with principal and interest payments due annually in September. The county had trade ins and made down payments totaling \$110,427. The final balloon payment to purchase the vehicles will be due September 1, 2020. The first payment is due September 1, 2017, and the balance as of June 30, 2017, was \$236,255. Future principal and interest requirements are:

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Long-term Debt (Continued)

C. Tractors with Mowers (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 47,820	\$ 10,608
2019	49,967	8,461
2020	52,210	6,217
2021	86,258	3,873
Totals	<u>\$ 236,255</u>	<u>\$ 29,159</u>

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. Principal and interest payments are due annually in March. The principal balance was paid in full as scheduled.

E. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 9,200,000	\$	\$ 570,000	\$ 8,630,000	\$ 585,000
Financing Obligations	18,576	346,682	129,003	236,255	47,820
Total Long-term Debt	<u>\$ 9,218,576</u>	<u>\$ 346,682</u>	<u>\$ 699,003</u>	<u>\$ 8,866,255</u>	<u>\$ 632,820</u>

Note 5. Interlocal Cooperative 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 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 monitoring activities. Post-closure costs are included in the landfill fund. Mercer County expended \$33,900 for post-closure costs for fiscal year ended June 30, 2017. Future costs are estimated to be the same as what was expended this fiscal year and have been budgeted in the landfill fund. Inflation, deflation, technology, or applicable laws and regulations could affect these costs.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(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 2015 was \$317,191, FY 2016 was \$309,000, and FY 2017 was \$339,935.

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 be allocated as follows: five percent will go to the member's account and one 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 five percent of their annual creditable compensation. Nonhazardous members also contribute 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 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 four 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 18.68 percent.

Health Insurance Coverage

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

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

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

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 7. Employee Retirement System (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.

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 8. 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 9. Health Reimbursement Account/Flexible Spending Account

The Mercer County 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.

Note 10. Insurance

For the fiscal year ended June 30, 2017, 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

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 10. Insurance (Continued)

members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. 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, 2017, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 12. Tax Abatement

The occupational tax license fee was abated under the authority of the Kentucky Business Investment (KBI) Program. Hitachi Automotive Systems Americas, Inc. (the company) is eligible to receive this tax abatement as a result of its commitment to create certain jobs and investments in Harrodsburg, Kentucky. The taxes are abated by allowing the company to retain or have rebated to them 0.33 percent of subject wages and compensation earned in Mercer County, Kentucky in accordance with the Mercer County Occupational License Fee ordinance for ten years from approval of the project by KBI. Abatement of taxes can be suspended if the company does not maintain the required baseline of 626 employees and at least 10 employees associated with the new Kentucky Business Investment Program Project. For fiscal year ended June 30, 2017, Mercer County Fiscal Court abated occupational taxes totaling \$15,717.

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

For The Year Ended June 30, 2017

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MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,735,140	\$ 1,735,140	\$ 1,867,214	\$ 132,074
Excess Fees	64,921	64,921	117,685	52,764
Licenses and Permits	6,300	6,300	6,345	45
Intergovernmental	845,600	845,600	588,572	(257,028)
Charges for Services	88,750	88,750	93,685	4,935
Miscellaneous	66,700	66,700	105,391	38,691
Interest	2,050	2,050	7,685	5,635
Total Receipts	<u>2,809,461</u>	<u>2,809,461</u>	<u>2,786,577</u>	<u>(22,884)</u>
DISBURSEMENTS				
General Government	998,120	1,007,925	898,582	109,343
Protection to Persons and Property	554,650	551,150	404,097	147,053
General Health and Sanitation	164,500	164,500	121,950	42,550
Social Services	61,500	64,250	50,171	14,079
Recreation and Culture	555,340	556,690	161,521	395,169
Debt Service	20,000	20,000	19,082	918
Administration	1,831,891	1,821,486	997,851	823,635
Total Disbursements	<u>4,186,001</u>	<u>4,186,001</u>	<u>2,653,254</u>	<u>1,532,747</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,376,540)</u>	<u>(1,376,540)</u>	<u>133,323</u>	<u>1,509,863</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>532,228</u>	<u>532,228</u>	<u>500,000</u>	<u>(32,228)</u>
Total Other Adjustments to Cash (Uses)	<u>532,228</u>	<u>532,228</u>	<u>500,000</u>	<u>(32,228)</u>
Net Change in Fund Balance	(844,312)	(844,312)	633,323	1,477,635
Fund Balance - Beginning	<u>844,312</u>	<u>844,312</u>	<u>869,537</u>	<u>25,225</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,502,860</u>	<u>\$ 1,502,860</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,465,090	\$ 1,509,489	\$ 1,506,324	\$ (3,165)
Miscellaneous	30,000	30,000	1,642	(28,358)
Interest	3,150	3,150	5,612	2,462
Total Receipts	<u>1,498,240</u>	<u>1,542,639</u>	<u>1,513,578</u>	<u>(29,061)</u>
DISBURSEMENTS				
General Government	16,750	16,750	14,528	2,222
Protection to Persons and Property	1,500	1,500	170	1,330
General Health and Sanitation	25,000	25,000	3,888	21,112
Transportation Facilities and Services	8,500	8,500	358	8,142
Roads	1,479,358	1,518,757	1,391,541	127,216
Other Transportation Facilities and Services	700	700	650	50
Capital Projects	30,000	35,000	255	34,745
Administration	637,900	637,900	222,147	415,753
Total Disbursements	<u>2,199,708</u>	<u>2,244,107</u>	<u>1,633,537</u>	<u>610,570</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(701,468)</u>	<u>(701,468)</u>	<u>(119,959)</u>	<u>581,509</u>
Other Adjustments to Cash (Uses)				
Loan Proceeds			346,682	346,682
Transfers From Other Funds	198,448	198,448		(198,448)
Transfers To Other Funds	(51,480)	(51,480)		51,480
Total Other Adjustments to Cash (Uses)	<u>146,968</u>	<u>146,968</u>	<u>346,682</u>	<u>199,714</u>
Net Change in Fund Balance	(554,500)	(554,500)	226,723	781,223
Fund Balance - Beginning	554,500	554,500	545,183	(9,317)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 771,906</u>	<u>\$ 771,906</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 101,000	\$ 101,000	\$ 114,093	\$ 13,093
Miscellaneous	1,000	1,000		(1,000)
Interest	375	375	2,814	2,439
Total Receipts	<u>102,375</u>	<u>102,375</u>	<u>116,907</u>	<u>14,532</u>
DISBURSEMENTS				
Protection to Persons and Property	1,042,029	1,051,294	903,788	147,506
Administration	551,308	542,043		542,043
Total Disbursements	<u>1,593,337</u>	<u>1,593,337</u>	<u>903,788</u>	<u>689,549</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,490,962)</u>	<u>(1,490,962)</u>	<u>(786,881)</u>	<u>704,081</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	960,854	960,854	925,000	(35,854)
Total Other Adjustments to Cash (Uses)	<u>960,854</u>	<u>960,854</u>	<u>925,000</u>	<u>(35,854)</u>
Net Change in Fund Balance	(530,108)	(530,108)	138,119	668,227
Fund Balance - Beginning	<u>530,108</u>	<u>530,108</u>	<u>541,765</u>	<u>11,657</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 679,884</u>	<u>\$ 679,884</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 45,000	\$ 45,000	\$ 57,245	\$ 12,245
Interest	250	250	236	(14)
Total Receipts	<u>45,250</u>	<u>45,250</u>	<u>57,481</u>	<u>12,231</u>
DISBURSEMENTS				
General Government	35,000	35,000	35,000	
Social Services	5,000	5,000	3,000	2,000
Recreation and Culture		7,000	6,994	6
Road Facilities	100,000	100,000	25,341	74,659
Capital Projects	261,950	254,950		254,950
Total Disbursements	<u>401,950</u>	<u>401,950</u>	<u>70,335</u>	<u>331,615</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(356,700)</u>	<u>(356,700)</u>	<u>(12,854)</u>	<u>343,846</u>
Net Change in Fund Balance	(356,700)	(356,700)	(12,854)	343,846
Fund Balance - Beginning	<u>356,700</u>	<u>356,700</u>	<u>346,383</u>	<u>(10,317)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 333,529</u>	<u>\$ 333,529</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	FEDERAL GRANT FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 424,000	\$ 424,000	\$ 0	\$ (424,000)
Total Receipts	<u>424,000</u>	<u>424,000</u>		<u>(424,000)</u>
DISBURSEMENTS				
Protection to Persons and Property	424,000	424,000		424,000
Total Disbursements	<u>424,000</u>	<u>424,000</u>		<u>424,000</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	LANDFILL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 126,849	\$ 126,849	\$ 91,577	\$ (35,272)
Charges for Services	165,500	165,500	205,506	40,006
Miscellaneous	11,500	11,500	36,377	24,877
Interest	50	50	119	69
Total Receipts	<u>303,899</u>	<u>303,899</u>	<u>333,579</u>	<u>29,680</u>
DISBURSEMENTS				
General Government	397,949	410,114	358,761	51,353
Administration	25,400	13,235	108	13,127
Total Disbursements	<u>423,349</u>	<u>423,349</u>	<u>358,869</u>	<u>64,480</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(119,450)</u>	<u>(119,450)</u>	<u>(25,290)</u>	<u>94,160</u>
Net Change in Fund Balance	(119,450)	(119,450)	(25,290)	94,160
Fund Balance - Beginning	<u>119,450</u>	<u>119,450</u>	<u>203,462</u>	<u>84,012</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 178,172</u>	<u>\$ 178,172</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	PAYROLL AND NET PROFIT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,100,000	\$ 1,100,000	\$ 1,614,552	\$ 514,552
Miscellaneous	12,500	12,500	14,329	1,829
Interest	350	350	2,605	2,255
Total Receipts	<u>1,112,850</u>	<u>1,112,850</u>	<u>1,631,486</u>	<u>518,636</u>
DISBURSEMENTS				
General Government	65,300	65,300	38,124	27,176
Administration	678,023	678,023	238	677,785
Total Disbursements	<u>743,323</u>	<u>743,323</u>	<u>38,362</u>	<u>704,961</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>369,527</u>	<u>369,527</u>	<u>1,593,124</u>	<u>1,223,597</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(1,640,050)</u>	<u>(1,640,050)</u>	<u>(1,425,000)</u>	<u>215,050</u>
Total Other Adjustments to Cash (Uses)	<u>(1,640,050)</u>	<u>(1,640,050)</u>	<u>(1,425,000)</u>	<u>215,050</u>
Net Change in Fund Balance	(1,270,523)	(1,270,523)	168,124	1,438,647
Fund Balance - Beginning	<u>1,270,523</u>	<u>1,270,523</u>	<u>1,443,255</u>	<u>172,732</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,611,379</u>	<u>\$ 1,611,379</u>

**MERCER COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES**

June 30, 2017

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.

MERCER COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

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MERCER COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and Land Improvements	\$ 319,884	\$	\$	\$ 319,884
Buildings and Building Improvements	16,321,232			16,321,232
Vehicles	643,668	6,500		650,168
Machinery and Equipment	1,334,301	430,858	150,113	1,615,046
Infrastructure	8,123,723	416,204		8,539,927
 Total Capital Assets	 <u>\$ 26,742,808</u>	 <u>\$ 853,562</u>	 <u>\$ 150,113</u>	 <u>\$27,446,257</u>

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

June 30, 2017

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	\$ 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 THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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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, 2017, 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 February 27, 2018.

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.

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. *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies as items 2017-002 and 2017-003.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 2017-001 and 2017-002.

Views of Responsible Official 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

February 27, 2018

**MERCER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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**MERCER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Mercer County Fiscal Court Did Not Have An Effective Purchase Order System

This is a repeat finding and was included in the prior year audit report as finding 2016-002. During testing of disbursements, auditors noted the following issues:

- Twenty-three of 64 invoices tested did not have a purchase order, with examples of purchases being asphalt, elevator maintenance, and reimbursement for conference hotel expenses. Of the 23 exceptions, 11 of the disbursements were for utilities.
- The county paid two invoices for asphalt that did not use bid prices, which resulted in an overpayment of \$2,809.

Although policies were in place requiring the issuance of purchase orders, the fiscal court did not ensure that all departments adhered to established policies. The Mercer County Judge/Executive stated that the asphalt invoice paid with non-bid prices was due to the location of the project at the park. The county judge/executive believed that the park had their own contract with the vendor and paid the vendor's contracted rates.

The lack of purchase orders is neither compliant with purchasing requirement for counties, nor an effective implementation of internal control. As a result, 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. Paying non-contract prices for items that have been previously bid out can result in the county overpaying for goods and services.

KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The Department for Local Government's *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 (1) purchases shall not be made without approval by the judge/executive (or designee) and/or a department head and (2) purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made. Furthermore, per the manual, purchase order systems are required for fiscal courts and should be issued for all goods and services utilized by the fiscal court. This allows for fiscal court to ensure that sufficient budget allocation is available for all expenses and provides a better representation of financial status by reflecting more accurate encumbrances.

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 for the fiscal court to ensure that sufficient budget allocation is available for all expenses.

We recommend the fiscal court improve procedures over purchase orders to ensure they are obtained for all purchases of goods and services. Additionally, the fiscal court should ensure that all purchases of bid items utilize the contract pricing.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: At the end of Fiscal Year 2016-2017, we began issuing Purchase Orders for ALL purchases, utility bills, payrolls, and anything else that requires a check to be written. All departments have been made aware that they must call for a purchase order BEFORE they can make a purchase. The asphalt invoices were for blacktopping a parking lot at Anderson/Dean Community Park. The company who paves our county roads had a third party perform the work, due to their equipment being too large for the park. We were unaware there was a difference in pricing, but will check pricing in the future.

**MERCER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Mercer County Fiscal Court Did Not Comply With Bidding Requirements

During testing of disbursements, auditors noted there were two purchases that should have been bid by the fiscal court. One purchase was for a forklift for the county landfill, totaling \$41,889. The second purchase was for three leased tractors with mowers. The purchase price for all three tractors combined totaled \$345,227, which includes a down payment of \$58,427 and trade-in value of \$52,000.

Internal controls were not in place to ensure that purchases and leases exceeding \$20,000 were bid out prior to purchase.

Competitive bidding ensures that the county procures materials and services at the best price available. By limiting competition, the county may not get this benefit. Additionally, the county is not in compliance with KRS 424.260.

KRS 424.260(1) states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except for perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

We recommend the fiscal court follow the requirements of KRS 424.260 by requiring purchases of \$20,000 or more to be competitively bid.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The Mercer County Judge Executive joined the National Joint Powers Alliance under the impression that membership enabled the county to make purchases that fulfilled the procurement process under KRS 45A.300. This membership was used for the purchase of the tractors.

The forklift was purchased using funds from a Solid Waste Grant. The Kentucky Division of Solid Waste asked for a quote on the forklift and approved the grant. It was the county judge executive’s opinion that when awarded the grant, it was ok to make the purchase. Through this audit we learned bids should have been obtained. Mercer County will follow the requirements of KRS 424.260 in the future and make certain all purchases of \$20,000.00 or more are competitively bid per our Administrative Code.

2017-003 The Mercer County Fiscal Court Did Not Have Adequate Controls In Place Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2016-003. The fiscal court has a lack of segregation of duties over payroll processing. The finance officer is responsible for handling payroll for the fiscal court. All timecards are turned in to the finance officer, who enters employee time into the payroll system and processes the payroll. The tax administrator reviews payroll summary reports and compares to timecards for accuracy. The finance officer is also responsible for entering new employees, removing terminated employees, maintaining personnel files, and posting payroll to the disbursements ledgers.

The county treasurer and finance officer indicated duties had not been segregated because the county operates with limited staff.

**MERCER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Mercer County Fiscal Court Did Not Have Adequate Controls In Place Over Payroll
(Continued)

When control procedures are performed by the same employee, the risk for material misstatement significantly increases due to undetected error or fraud. The employee could change pay rates, create fake employees, or adjust leave time without detection.

Good internal controls dictate that adequate controls and segregation of duties would prevent the same person from having a significant role over all phases of the payroll process.

We recommend the fiscal court implement adequate controls over payroll by segregating the duties over the handling of payroll. If that is not possible, we recommend the fiscal court provide strong oversight with compensating controls.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Mercer County Fiscal Court will continue to provide strong oversight with compensating controls. The tax administrator will continue reviewing payroll summary reports and compare them to timecards for accuracy.

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

MERCER COUNTY FISCAL COURT

For The Year Ended June 30, 2017

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MERCER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

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



County Judge/Executive



County Treasurer