

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Curtis Dame, McLean County Judge/Executive
The Honorable Ed West, Former McLean County Judge/Executive
Members of the McLean 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 McLean County Fiscal Court, for the year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the McLean 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.



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Auditor's Responsibility (Continued)

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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the McLean 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 McLean County Fiscal Court as of June 30, 2019, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary and Other Information

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

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Other Matters (Continued)

Supplementary and Other Information (Continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2021, on our consideration of the McLean 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 McLean 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, which discusses the following report findings:

- 2019-001 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained
- 2019-002 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Cash Processes And Financial Reporting
- 2019-003 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Debt And Debt Service
- 2019-004 The Current McLean County Judge/Executive And County Treasurer Declined Signing The Required Certification Of Compliance With The Local Government Economic Assistance And Development Programs
- 2019-005 The McLean County Fiscal Court Failed To Implement Sufficient Internal Controls Over Their Service Organization's Collection Of Ambulance Receipts
- 2019-006 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over The Collection Of Receipts At Off-Site Locations
- 2019-007 The McLean County Fiscal Court Does Not Have Adequate Internal Controls Over Payroll Processing
- 2019-008 The Former McLean County Treasurer Failed To Reconcile The Payroll Revolving Account
- 2019-009 The Former McLean County Treasurer Failed To Present Her Annual Settlement To The Fiscal Court As Required Per KRS 68.020(5) And KRS 68.030

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Other Reporting Required by *Government Auditing Standards* (Continued)

- 2019-010 The Former McLean County Judge Executive Failed To Require Encumbrances Be Properly Reported On The Fourth Quarter Financial Report
- 2019-011 The McLean County Fiscal Court Did Not Have Adequate Controls Over Disbursements And ACH Transactions
- 2019-012 The McLean County Fiscal Court Inappropriately Used Restricted Monies

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

February 16, 2021

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

Edward West	County Judge/Executive
Clay Troutman	Magistrate
Matt Hayden	Magistrate
Joey Lowery	Magistrate
Robert Bishop	Magistrate

Other Elected Officials:

Donna Dant	County Attorney
Christopher Ellis	Jailer
Carol Eaton	County Clerk
Stephanie King-Logsdon	Circuit Court Clerk
Kenneth Frizzell	Sheriff
Dale Ayer	Property Valuation Administrator
John Muster, IV	Coroner

Appointed Personnel:

Sarah Hawkins	County Treasurer
Dana Mason	Administrative Assistant/Finance Officer

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 1,718,852	\$ 134,385	\$
Excess Fees	101,388		
Licenses and Permits	4,069		
Intergovernmental	335,170	1,300,696	82,242
Charges for Services	34,275		
Miscellaneous	187,123	3,210	11,187
Interest	201	61	4
Total Receipts	<u>2,381,078</u>	<u>1,438,352</u>	<u>93,433</u>
DISBURSEMENTS			
General Government	1,102,501	27,461	
Protection to Persons and Property	22,634		185,714
General Health and Sanitation	173,657	19,733	
Social Services	3,705		
Recreation and Culture	56,714		
Roads		922,118	
Debt Service	58,440	30,770	
Capital Projects	5,000		
Administration	609,369	261,923	19,229
Total Disbursements	<u>2,032,020</u>	<u>1,262,005</u>	<u>204,943</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>349,058</u>	<u>176,347</u>	<u>(111,510)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			
Change in Payroll Revolving Account	(8,452)		
Transfers From Other Funds	80,896	215,797	179,421
Transfers To Other Funds	(619,959)	(768,476)	(307)
Total Other Adjustments to Cash (Uses)	<u>(547,515)</u>	<u>(552,679)</u>	<u>179,114</u>
Net Change in Fund Balance	(198,457)	(376,332)	67,604
Fund Balance - Beginning	216,097	497,870	(67,604)
Fund Balance - Ending	<u>\$ 17,640</u>	<u>\$ 121,538</u>	<u>\$ 0</u>
Composition of Fund Balance			
Bank Balance	\$ 32,793	\$ 121,869	\$ 14,588
Payroll Revolving Account Reconciled Balance	17,640		
Less: Outstanding Checks	(32,793)	(1,690)	(14,588)
Certificates of Deposit		1,359	
Fund Balance - Ending	<u>\$ 17,640</u>	<u>\$ 121,538</u>	<u>\$ 0</u>

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

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

Budgeted Funds				
Local Government Economic Assistance Fund	Ambulance Fund	Fire Department Fund	911 Fund	Senior Citizens Fund
\$	\$	\$	\$ 35,084	\$
637,592	10,000	138,684	142,443	29,228
	610,276	164,693		
1,896	403	11,043		2,379
268	43	382	9	2
<u>639,756</u>	<u>620,722</u>	<u>314,802</u>	<u>177,536</u>	<u>31,609</u>
60				
24,748	706,063	267,813	241,190	
11,406				152,942
115,495				
21,274	10,000			
361,334				
15,000	247,735		61,007	49,764
<u>549,317</u>	<u>963,798</u>	<u>267,813</u>	<u>302,197</u>	<u>202,706</u>
<u>90,439</u>	<u>(343,076)</u>	<u>46,989</u>	<u>(124,661)</u>	<u>(171,097)</u>
	90,741			
105,491	784,786		310,570	224,411
(388,368)		(124,262)		
<u>(282,877)</u>	<u>875,527</u>	<u>(124,262)</u>	<u>310,570</u>	<u>224,411</u>
(192,438)	532,451	(77,273)	185,909	53,314
192,438	(532,451)	131,378	(185,909)	(53,314)
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 54,105</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 18,559	\$ 8,240	\$ 17,455	\$ 22,828	\$ 1,846
(33,284)	(8,240)	(13,991)	(22,828)	(1,846)
14,725		50,641		
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 54,105</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

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

	<u>Unbudgeted Fund</u>	
	Justice Center Corporation Fund	Total Funds
RECEIPTS		
Taxes	\$	\$ 1,888,321
Excess Fees		101,388
Licenses and Permits		4,069
Intergovernmental	245,288	2,921,343
Charges for Services		809,244
Miscellaneous		217,241
Interest	108	1,078
Total Receipts	<u>245,396</u>	<u>5,942,684</u>
DISBURSEMENTS		
General Government		1,130,022
Protection to Persons and Property		1,448,162
General Health and Sanitation		193,390
Social Services		168,053
Recreation and Culture		56,714
Roads		1,037,613
Debt Service	245,288	365,772
Capital Projects		366,334
Administration		1,264,027
Total Disbursements	<u>245,288</u>	<u>6,030,087</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>108</u>	<u>(87,403)</u>
Other Adjustments to Cash (Uses)		
Financing Obligation Proceeds		90,741
Change in Payroll Revolving Account		(8,452)
Transfers From Other Funds		1,901,372
Transfers To Other Funds		(1,901,372)
Total Other Adjustments to Cash (Uses)		<u>82,289</u>
Net Change in Fund Balance	108	(5,114)
Fund Balance - Beginning	<u>3,915</u>	<u>202,420</u>
Fund Balance - Ending	<u>\$ 4,023</u>	<u>\$ 197,306</u>
Composition of Fund Balance		
Bank Balance	\$ 4,023	\$ 242,201
Payroll Revolving Account Reconciled Balance		17,640
Less: Outstanding Checks		(129,260)
Certificates of Deposit		66,725
Fund Balance - Ending	<u>\$ 4,023</u>	<u>\$ 197,306</u>

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

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TO THE FINANCIAL STATEMENT**

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**MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of McLean County includes all budgeted and unbudgeted funds under the control of the McLean 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

Ambulance Fund - The primary purpose of this fund is to account for the county's ambulance service. The primary source of receipts for this fund are grants and fees for services.

Fire Department Fund - The primary purpose of this fund is to account for the county's emergency services. The primary sources of receipts for this fund are grants and fire dues.

911 Fund - The primary purpose of this fund is to account county's 911 services. The primary sources of receipts for this fund is 911 telephone surcharges.

Senior Citizens Fund - The primary purpose of this fund is to account for the activity of the senior citizens center. The primary source of receipts for this fund is grants and fees for meals.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Justice Center Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

D. Budgetary Information

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. McLean County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting McLean 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 McLean 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. Jointly Governed Organizations and Joint Ventures

Regional governments or other multi-governmental arrangements that are governed by representatives from each of the governments that created the organizations but are not joint ventures because the participants do not retain an ongoing financial interest or responsibility. Based on this criteria, the following are considered jointly governed organizations of the McLean Fiscal Court:

Four Star Regional Industrial Park
 Green River Regional Industrial Development Authority (GRRIDA)
 Paradise Industrial Park
 McLean County Park Board
 McLean County Cemetery Board

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

Note 1. Summary of Significant Accounting Policies (Continued)

H. Jointly Governed Organizations and Joint Ventures (Continued)

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

McLean Joint City - County Planning Commission
 Connect GRADD

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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

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

Approved Transfers:

	General Fund	Jail Fund	LGEA Fund	Fire Department Fund	Total Approved Transfers In
General Fund	\$	\$ 307	\$ 4,079	\$ 724	\$ 5,110
Road Fund	183,987		31,810		215,797
Jail Fund	91,411				91,411
LGEA Fund	105,491				105,491
Ambulance Fund	92,096				92,096
911 Fund	49,521		8,271		57,792
Senior Citizens Fund	97,453		11,795		109,248
Total Approved Transfers Out	\$ 619,959	\$ 307	\$ 55,955	\$ 724	\$ 676,945

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

Note 3. Transfers (Continued)

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.

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

Unapproved Transfers:	Road Fund	LGEA Fund	Fire Department Fund	Total Unapproved Transfers In
General Fund	\$ 75,787	\$	\$	\$ 75,787
Jail Fund		88,010		88,010
Ambulance Fund	692,689			692,689
911 Fund		129,239	123,538	252,777
Senior Citizens Fund		115,164		115,164
Total Unapproved Transfers Out	<u>\$ 768,476</u>	<u>\$ 332,413</u>	<u>\$ 123,538</u>	<u>\$ 1,224,427</u>

Reason for transfers:

Prior to November 2018, all funds were maintained in a combined bank account, which maintained a positive balance, however, this balance was a result of the road and fire department funds having large cash balances. Beginning in fiscal year 2016 through fiscal year 2019, the former county treasurer would use the balances of these funds to offset funds with negative cash balances in the combined bank account. The road and fire department funds are restricted funds and cannot be used to cover a deficit in any other fund.

Note 4. Agency Trust Fund

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

The fiscal court has the following agency trust fund:

Senior Citizens/GRADD Fund - This fund accounts for donations received from senior meals and are paid over to the Green River Area Development District (GRADD) on a monthly basis. The balance in the senior citizens/GRADD fund as of June 30, 2019, was \$12.

Note 5. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Sewer Project

On July 26, 2001, the McLean County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust in the amount of \$400,000 for the construction of and improvements to the McLean County sewer system. The interest rate is variable, with payments due monthly for twenty years. There are no moneys, sources of funds, securities or obligations that have been, or will be, pledged as collateral for the payment of principal of, premium, if any, or interest on the lease.

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

Note 5. Long-term Debt

A. Direct Borrowings and Direct Placements (Continued)

1. Sewer Project (Continued)

Whenever any event of default has occurred and is continuing, the lessor may (or upon the direction of the credit facility provider shall) or the credit facility provider may, without any further demand or notice, take one or any combination of the following remedial steps:

- (a) Terminate the lease term and give notice to the lessee to vacate or surrender the project within 60 days from the date of such notice;
- (b) Sell or re-lease the project or any portion thereof;
- (c) Recover from the lessee:
 - (i) The lease rental payments which would otherwise have been payable hereunder during any period in which the lessee continues to use, occupy or retain possession of the project; and
 - (ii) Lease rental payments which would otherwise have been payable hereunder after the lessee vacates or surrenders the project during the remainder of the fiscal year in which such event of default occurs; or
- (d) Take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease and any collateral documents (including, without limitation, the right to possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law), subject, however, to the limitations contained in this lease with respect to the lessee's obligations upon the occurrence of an event of non-appropriation; and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreements of the lessee under this lease (subject, however, to the limitation thereon contained in this lease) and to recover damages for the breach thereof.

The principal balance at June 30, 2019, was \$60,000. Future interest and principal requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 30,000	\$ 2,566
2021	30,000	945
Totals	<u>\$ 60,000</u>	<u>\$ 3,511</u>

2. Park Improvements

On September 8, 2008, the McLean County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust in the amount of \$275,000 for the purpose of improving county parks. The interest rate is variable, with payments due monthly for twenty-five years. There are no moneys, sources of funds, securities or obligations that have been, or will be, pledged as collateral for the payment of principal of, premium, if any, or interest on the lease.

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

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

2. Park Improvements (Continued)

Whenever any event of default has occurred and is continuing, the lessor may (or upon the direction of the credit facility provider shall) or the credit facility provider may, without any further demand or notice, take one or any combination of the following remedial steps:

- (a) Terminate the lease term and give notice to the lessee to vacate or surrender the project within 60 days from the date of such notice;
- (b) Sell or re-lease the project or any portion thereof;
- (c) Recover from the lessee:
 - (iii) The lease rental payments which would otherwise have been payable hereunder during any period in which the lessee continues to use, occupy or retain possession of the project; and
 - (iv) Lease rental payments which would otherwise have been payable hereunder after the lessee vacates or surrenders the project during the remainder of the fiscal year in which such event of default occurs; or
- (d) Take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease and any collateral documents (including, without limitation, the right to possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law), subject, however, to the limitations contained in this lease with respect to the lessee's obligations upon the occurrence of an event of non-appropriation; and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreements of the lessee under this lease (subject, however, to the limitation thereon contained in this lease) and to recover damages for the breach thereof.

The principal balance at June 30, 2019, was \$163,861. Future interest and principal requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 10,000	\$ 10,646
2021	10,000	9,997
2022	10,000	9,377
2023	10,000	8,750
2024	10,000	8,135
2025-2029	55,000	31,211
2030-2033	58,861	10,552
Totals	<u>\$ 163,861</u>	<u>\$ 88,668</u>

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

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

3. Courthouse Renovations Refinance

On November 30, 2012, the McLean County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust in the amount of \$220,000 for the purpose of refinancing a lease agreement dated December 3, 2011, by and between the Kentucky Area Development Districts Financing Trust and the County of McLean County, Kentucky, proceeds of which were used to complete the renovations of the McLean County Courthouse. The interest rate is variable, with payments due until February 1, 2028. There are no moneys, sources of funds, securities or obligations that have been, or will be, pledged as collateral for the payment of principal of, premium, if any, or interest on the financing agreement.

Whenever any event of default has occurred and is continuing, the lessor may, without any further demand or notice, take one or any combination of the following remedial steps:

- (a) By appropriate court action, enforce the pledge as set forth in section 2 of the ordinance and section 11 of this lease so that during the remaining lease term there is levied on all the taxable property in the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to pay the lease rental payments when and as due;
- (b) Take legal title to, and sell or re-lease the project of any portion thereof;
- (c) Take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease (including, without limitation, the right to possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law); and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreements of the lessee under this lease (subject, however, to the limitations thereon contained in this lease) and to recover damages for the breach thereof.

The principal balance at June 30, 2019, was \$140,000. Future interest and principal requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 15,000	\$ 4,223
2021	15,000	3,885
2022	15,000	3,547
2023	15,000	3,195
2024	15,000	2,813
2025-2028	<u>65,000</u>	<u>6,712</u>
Totals	<u>\$ 140,000</u>	<u>\$ 24,375</u>

4. Ambulance and Fire Truck

On May 2, 2014, the McLean County Fiscal Court entered into a promissory note and loan agreement with the Green River Area Development District in the amount of \$50,000. The interest rate is fixed at 2.44%. Five equal annual installments of principal and interest in the amount of \$10,744 are due. The principal balance at June 30, 2019, was \$0.

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

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

5. Excavator

On April 25, 2018, the McLean County Fiscal Court entered into a promissory note and loan agreement in the amount of \$115,858 for the purchase of an excavator for the road department. The interest rate is fixed at 2.99%. Payments of principal and interest are due monthly for 48 months. This note is secured by the excavator. Upon default, including failure to pay upon final maturity, the interest rate on this note shall be increased to 12.00% per annum. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law. Additionally, upon default, the lender may declare the entire unpaid principal balance under this note and all accrued unpaid interest immediately due, and then the borrower will pay that amount. The principal balance at June 30, 2019, was \$83,472.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 28,661	\$ 2,105
2021	29,530	1,237
2022	25,281	355
Totals	<u>\$ 83,472</u>	<u>\$ 3,697</u>

6. Ambulance

On May 29, 2019 the McLean County Fiscal Court entered into a promissory note and loan agreement in the amount of \$90,741 for the purchase of an ambulance. The interest rate is fixed at 3.50%. Payments of principal and interest are due annually for five years with a final balloon payment due in the sixth year. This note is secured by the ambulance. Upon default, including failure to pay upon final maturity, the interest rate on this note shall be increased to 12.00% per annum. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law. Additionally, upon default, the lender may declare the entire unpaid principal balance under this note and all accrued unpaid interest immediately due, and then the borrower will pay that amount. The principal balance at June 30, 2019, was \$81,002.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 7,119	\$ 2,881
2021	7,372	2,628
2022	7,634	2,366
2023	7,905	2,094
2024	50,972	1,817
Totals	<u>\$ 81,002</u>	<u>\$ 11,786</u>

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

Note 5. Long-term Debt (Continued)

B. Other Debt

1. Series 2010 First Mortgage Refunding Revenue Bonds

On November 30, 2010, the McLean County Justice Center Corporation issued First Mortgage Refunding Revenue Bonds, Series 2010 in the amount of \$2,570,000. The bonds were dated November 30, 2010, payable semi-annually on March 1 and September 1, beginning March 1, 2011. The interest rate on the bonds ranges from 2.0% to 4.0%. The McLean County Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the McLean County Judicial Center. The bonds were issued in denominations of \$5,000 each or integral multiples thereof and mature at various dates beginning March 1, 2015 through March 1, 2027.

The fiscal court issued the bonds to refund the First Mortgage Revenue Bonds, Series 2001A due on or after March 1, 2011. The refunding of the series 2001A bonds have been accomplished pursuant to the escrow agreement by and between the county and U.S. Bank, National Association, the paying agent for the series 2001A bonds (the “escrow agent”) by depositing with the escrow agent a sum of initial cash provided from the proceeds of the bonds.

Amounts deposited with the escrow agent bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid according to their respective terms, sufficient moneys together with any amounts of cash then on deposit with the escrow agent, will be available to fully provide for the scheduled principal and interest payments outstanding for the series 2001A bonds.

In order to secure the payment of the principal of, interest on, and premium, if any, on the bonds, the corporation has executed a mortgage to the trustee for the security, benefit and protection of the owners of the bonds, as a first priority mortgage lien upon the project site, together with all improvements constructed and installed thereon constituting the project and, pursuant to the mortgage, all rights, title and interest of the corporation in and to the lease, the proceeds of the bonds, the project, the pledged receipts, as defined in the mortgage, and all payments to be made by the county and/or AOC, pursuant to the lease (except the operating cost allowance) shall be, upon issuance of the bonds, assigned by the corporation to the trustee.

Upon the happening and continuance of any event of default to protect and enforce its rights and the rights of the owners of the bonds by such of the following remedies, as the trustee, being advised by counsel, will deem most effectual to protect and enforce such rights:

- (a) by enforcement of the foreclosable mortgage lien on the project site and improvements granted by the mortgage, and in such event the trustee will take over possession, custody and control of the project and will operate or carry out decretal sale of same with due regard to state and federal law and the covenants contained in the lease for the benefit of the owners of the bonds. Provided, however, that no such foreclosure sale will result in a deficiency judgment of any type or in any amount against AOC, the county or the corporation, and until such sale the county may at any time by the discharge of the bonds and interest and any premium thereon receive an unencumbered fee simple title to the mortgaged facilities; provided that in the event of any such enforcement of said lien by the trustee, there will first be paid all expenses incident to said document, and thereafter the bonds then outstanding will be paid and retired;
- (b) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the owners of the bonds, including the right to require the corporation to enforce fully the lease and to charge, collect and fully account for the pledged receipts, and to require the corporation to carry out any and all other covenants or agreements with the bondholders and to perform its duties under the act;
- (c) by bringing suit upon the bonds;

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

Note 5. Long-term Debt (Continued)

B. Other Debt (Continued)

1. Series 2010 First Mortgage Refunding Revenue Bonds (Continued)

- (d) by action or suit in equity, require the corporation to account as if it were the trustee of an express trust for the owners of the bonds;
- (e) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the owners of the bonds;
- (f) by declaring all bonds due and payable, and if all defaults will be made good, then, with the written consent of the owners of not less than twenty-five percent (25%) in a principal amount of the outstanding bonds, by annulling such declaration and its consequences; and
- (g) in the event that all bonds are declared due and payable, by selling investment obligations of the corporation (to the extent not theretofore set aside for redemption of the bonds for which call has been made), and enforcing all chooses in action of the corporation to the fullest legal extent in the name of the corporation for the use and benefit of the owners of the bonds.

Principal outstanding as of June 30, 2019, was \$1,650,000. Future debt service requirement are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 190,000	\$ 59,887
2021	190,000	54,188
2022	200,000	48,250
2023	205,000	41,750
2024	205,000	34,575
2025-2027	660,000	55,200
Totals	<u>\$ 1,650,000</u>	<u>\$ 293,850</u>

C. Aggregate Debt Schedules

The amounts of required principal and interest payments on long-term obligations at June 30, 2019, were as follows:

Fiscal Year Ended June 30	Direct Borrowings and Direct Placements		Other Debt	
	Principal	Interest	Principal	Interest
2020	\$ 90,780	\$ 22,421	\$ 190,000	\$ 59,887
2021	91,902	18,692	190,000	54,188
2022	57,915	15,645	200,000	48,250
2023	32,905	14,039	205,000	41,750
2024	75,972	12,765	205,000	34,575
2025-2029	120,000	37,923	660,000	55,200
2030-2033	58,861	10,552		
Totals	<u>\$ 528,335</u>	<u>\$ 132,037</u>	<u>\$ 1,650,000</u>	<u>\$ 293,850</u>

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

Note 5. Long-term Debt (Continued)

D. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 539,540	\$ 90,741	\$ 101,946	\$ 528,335	\$ 90,780
Other Debt	1,830,000		180,000	1,650,000	190,000
Total Long-term Debt	<u>\$ 2,369,540</u>	<u>\$ 90,741</u>	<u>\$ 281,946</u>	<u>\$ 2,178,335</u>	<u>\$ 280,780</u>

Note 6. Employee Retirement System

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

The county's contribution for FY 2017 was \$370,958, FY 2018 was \$419,786, and FY 2019 was \$435,964.

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

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

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

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

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

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

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

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

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

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

C. Cost of Living Adjustments - Tier 1

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

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 7. Deferred Compensation

The McLean 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 501 high Street, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

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

Note 8. Insurance

For the fiscal year ended June 30, 2019, the McLean 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 9. Subsequent Events

- A. Sarah Hawkins, former McLean County Treasurer, was not reappointed at the end of her term. On May 22, 2019, the McLean Fiscal Court approved advertising for the treasurer's position to be appointed in June. On June 28, 2019, the fiscal court appointed Belinda Stirsman as the new McLean County Treasurer.
- B. On July 2, 2019, the McLean County Fiscal Court entered into an agreement in the amount of \$120,200 in order to be able to meet their payroll. Then on July 10, 2019, the McLean County Fiscal Court entered into another agreement in the amount of \$499,000 for a promissory note to be used as a line of credit. An initial draw in the amount \$120,200 was made on July 18, 2019, to pay-off the original loan. To date an additional \$396,907 has been borrowed against this line of credit and \$519,894 has been paid in principal and interest as of August 14, 2020. The balance on the line of credit as of August 14, 2020 was \$0.
- C. On July 23, 2020, the McLean County Fiscal Court entered into an agreement in the amount of \$300,000 for operating purposes. To date \$181,966 has been borrowed against this line of credit. The balance on the line of credit as of September 1, 2020, was \$181,966.
- D. On July 23, 2020 the McLean County Fiscal Court entered into an agreement in the amount of \$300,000 for road projects. To date only \$250 in fees has been attributed to this line of credit. The balance on the road line of credit as of September 1, 2020 was \$250.

Note 10. Related Party Transaction

The McLean County Fiscal Court paid \$3,127 for fiscal year June 30, 2019 to a lawn care business owned by a magistrate's son.

Note 11. Loans From Restricted Funds

	General Fund	Jail Fund	Ambulance Fund	911 Fund	Senior Citizens Fund	Total Due To Restricted Funds
Road Fund	\$ 168,741	\$	\$ 692,689	\$	\$	\$ 861,430
Fire Department Fund	(10,646)	14,737	23,382	150,050	11,575	189,098
Total Loaned From Restricted Funds	<u>\$ 158,095</u>	<u>\$ 14,737</u>	<u>\$ 716,071</u>	<u>\$ 150,050</u>	<u>\$ 11,575</u>	<u>\$ 1,050,528</u>

Beginning in fiscal year 2016 through fiscal year 2019, the former county treasurer made transfers from restricted funds and never repaid these loans made from the restricted funds.

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

Note 12. Payroll Revolving Account

The change in balance of the payroll revolving account of (\$8,452), as of June 30, 2019, was added to the general fund cash balance for financial reporting purposes.

Note 13. Conduit Debt

From time to time, the county has issued bonds to provide financial assistance to various entities 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 McLean 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, 2019, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

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

For The Year Ended June 30, 2019

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MCLEAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,636,075	\$ 1,736,260	\$ 1,718,852	\$ (17,408)
Excess Fees	27,100	101,388	101,388	
Licenses and Permits	4,134	4,134	4,069	(65)
Intergovernmental	314,431	318,567	335,170	16,603
Charges for Services	42,000	42,000	34,275	(7,725)
Miscellaneous	177,360	239,338	187,123	(52,215)
Interest	300	300	201	(99)
Total Receipts	<u>2,201,400</u>	<u>2,441,987</u>	<u>2,381,078</u>	<u>(60,909)</u>
DISBURSEMENTS				
General Government	1,193,918	1,142,955	1,102,501	40,454
Protection to Persons and Property	42,560	24,561	22,634	1,927
General Health and Sanitation	127,371	168,947	173,657	(4,710)
Social Services	4,800	4,800	3,705	1,095
Recreation and Culture	54,700	56,575	56,714	(139)
Debt Service	56,051	61,051	58,440	2,611
Capital Projects	5,000	5,000	5,000	
Administration	534,349	1,159,709	609,369	550,340
Total Disbursements	<u>2,018,749</u>	<u>2,623,598</u>	<u>2,032,020</u>	<u>591,578</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>182,651</u>	<u>(181,611)</u>	<u>349,058</u>	<u>530,669</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	223,032	223,032	80,896	(142,136)
Transfers To Other Funds	<u>(529,937)</u>	<u>(529,937)</u>	<u>(619,959)</u>	<u>(90,022)</u>
Total Other Adjustments to Cash (Uses)	<u>(306,905)</u>	<u>(306,905)</u>	<u>(539,063)</u>	<u>(232,158)</u>
Net Change in Fund Balance	(124,254)	(488,516)	(190,005)	298,511
Fund Balance - Beginning	<u>124,254</u>	<u>488,516</u>	<u>190,005</u>	<u>(298,511)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 125,000	\$ 125,339	\$ 134,385	\$ 9,046
Intergovernmental	1,188,956	1,284,203	1,300,696	16,493
Miscellaneous	60,000	60,000	3,210	(56,790)
Interest			61	61
Total Receipts	<u>1,373,956</u>	<u>1,469,542</u>	<u>1,438,352</u>	<u>(31,190)</u>
DISBURSEMENTS				
General Government	28,000	28,000	27,461	539
General Health and Sanitation	19,735	19,735	19,733	2
Roads	945,921	1,039,278	922,118	117,160
Debt Service	31,000	31,000	30,770	230
Administration	267,325	836,950	261,923	575,027
Total Disbursements	<u>1,291,981</u>	<u>1,954,963</u>	<u>1,262,005</u>	<u>692,958</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>81,975</u>	<u>(485,421)</u>	<u>176,347</u>	<u>661,768</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			215,797	215,797
Transfers To Other Funds	(223,032)	(223,032)	(768,476)	(545,444)
Total Other Adjustments to Cash (Uses)	<u>(223,032)</u>	<u>(223,032)</u>	<u>(552,679)</u>	<u>(329,647)</u>
Net Change in Fund Balance	(141,057)	(708,453)	(376,332)	332,121
Fund Balance - Beginning	<u>141,057</u>	<u>708,453</u>	<u>497,870</u>	<u>(210,583)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 121,538</u>	<u>\$ 121,538</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 83,525	\$ 86,741	\$ 82,242	\$ (4,499)
Miscellaneous	4,500	9,727	11,187	1,460
Interest			4	4
Total Receipts	<u>88,025</u>	<u>96,468</u>	<u>93,433</u>	<u>(3,035)</u>
DISBURSEMENTS				
Protection to Persons and Property Administration	173,737	184,380	185,714	(1,334)
	22,171	19,971	19,229	742
Total Disbursements	<u>195,908</u>	<u>204,351</u>	<u>204,943</u>	<u>(592)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(107,883)</u>	<u>(107,883)</u>	<u>(111,510)</u>	<u>(3,627)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	107,883	107,883	179,421	71,538
Transfers To Other Funds			(307)	(307)
Total Other Adjustments to Cash (Uses)	<u>107,883</u>	<u>107,883</u>	<u>179,114</u>	<u>71,231</u>
Net Change in Fund Balance			67,604	67,604
Fund Balance - Beginning			(67,604)	(67,604)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 647,000	\$ 679,380	\$ 637,592	\$ (41,788)
Miscellaneous		1,912	1,896	(16)
Interest			268	268
Total Receipts	<u>647,000</u>	<u>681,292</u>	<u>639,756</u>	<u>(41,536)</u>
DISBURSEMENTS				
General Government	500	60	60	
Protection to Persons and Property	16,000	22,697	24,748	(2,051)
Social Services	8,500	9,944	11,406	(1,462)
Roads	117,800	117,800	115,495	2,305
Debt Service	20,906	20,906	21,274	(368)
Capital Projects	168,000	601,440	361,334	240,106
Administration	15,000	207,371	15,000	192,371
Total Disbursements	<u>346,706</u>	<u>980,218</u>	<u>549,317</u>	<u>430,901</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>300,294</u>	<u>(298,926)</u>	<u>90,439</u>	<u>389,365</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			105,491	105,491
Transfers To Other Funds	(350,294)	(350,294)	(388,368)	(38,074)
Total Other Adjustments to Cash (Uses)	<u>(350,294)</u>	<u>(350,294)</u>	<u>(282,877)</u>	<u>67,417</u>
Net Change in Fund Balance	(50,000)	(649,220)	(192,438)	456,782
Fund Balance - Beginning	<u>50,000</u>	<u>649,220</u>	<u>192,438</u>	<u>(456,782)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 10,000	\$ 10,000	\$ 10,000	\$
Charges for Services	523,400	569,827	610,276	40,449
Miscellaneous	500	500	403	(97)
Interest	125	125	43	(82)
Total Receipts	<u>534,025</u>	<u>580,452</u>	<u>620,722</u>	<u>40,270</u>
DISBURSEMENTS				
Protection to Persons and Property	605,000	651,427	706,063	(54,636)
Debt Service			10,000	(10,000)
Administration	279,991	279,991	247,735	32,256
Total Disbursements	<u>884,991</u>	<u>931,418</u>	<u>963,798</u>	<u>(32,380)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(350,966)</u>	<u>(350,966)</u>	<u>(343,076)</u>	<u>7,890</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			90,741	90,741
Transfers From Other Funds	420,966	420,966	784,786	363,820
Total Other Adjustments to Cash (Uses)	<u>420,966</u>	<u>420,966</u>	<u>875,527</u>	<u>454,561</u>
Net Change in Fund Balance	70,000	70,000	532,451	462,451
Fund Balance - Beginning	<u>(70,000)</u>	<u>(70,000)</u>	<u>(532,451)</u>	<u>(462,451)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

	FIRE DEPARTMENT FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 54,500	\$ 138,684	\$ 138,684	\$
Charges for Services	173,000	173,000	164,693	(8,307)
Miscellaneous	11,400	17,650	11,043	(6,607)
Interest			382	382
Total Receipts	<u>238,900</u>	<u>329,334</u>	<u>314,802</u>	<u>(14,532)</u>
DISBURSEMENTS				
Protection to Persons and Property	148,600	275,026	267,813	7,213
Administration	90,300	238,261		238,261
Total Disbursements	<u>238,900</u>	<u>513,287</u>	<u>267,813</u>	<u>245,474</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(183,953)</u>	<u>46,989</u>	<u>230,942</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			<u>(124,262)</u>	<u>(124,262)</u>
Total Other Adjustments to Cash (Uses)			<u>(124,262)</u>	<u>(124,262)</u>
Net Change in Fund Balance		(183,953)	(77,273)	106,680
Fund Balance - Beginning		<u>183,953</u>	<u>131,378</u>	<u>(52,575)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 54,105</u>	<u>\$ 54,105</u>

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

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 45,000	\$ 45,000	\$ 35,084	\$ (9,916)
Intergovernmental	150,000	150,000	142,443	(7,557)
Interest			9	9
Total Receipts	<u>195,000</u>	<u>195,000</u>	<u>177,536</u>	<u>(17,464)</u>
DISBURSEMENTS				
Protection to Persons and Property	260,600	257,697	241,190	16,507
Administration	75,172	78,075	61,007	17,068
Total Disbursements	<u>335,772</u>	<u>335,772</u>	<u>302,197</u>	<u>33,575</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(140,772)</u>	<u>(140,772)</u>	<u>(124,661)</u>	<u>16,111</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	180,772	180,772	310,570	129,798
Total Other Adjustments to Cash (Uses)	<u>180,772</u>	<u>180,772</u>	<u>310,570</u>	<u>129,798</u>
Net Change in Fund Balance	40,000	40,000	185,909	145,909
Fund Balance - Beginning	<u>(40,000)</u>	<u>(40,000)</u>	<u>(185,909)</u>	<u>(145,909)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

SENIOR CITIZENS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 28,000	\$ 28,000	\$ 29,228	\$ 1,228
Miscellaneous	3,000	3,300	2,379	(921)
Interest			2	2
Total Receipts	<u>31,000</u>	<u>31,300</u>	<u>31,609</u>	<u>309</u>
DISBURSEMENTS				
Social Services	148,760	149,060	152,942	(3,882)
Administration	52,850	52,850	49,764	3,086
Total Disbursements	<u>201,610</u>	<u>201,910</u>	<u>202,706</u>	<u>(796)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(170,610)</u>	<u>(170,610)</u>	<u>(171,097)</u>	<u>(487)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>170,610</u>	<u>170,610</u>	<u>224,411</u>	<u>53,801</u>
Total Other Adjustments to Cash (Uses)	<u>170,610</u>	<u>170,610</u>	<u>224,411</u>	<u>53,801</u>
Net Change in Fund Balance			53,314	53,314
Fund Balance - Beginning			<u>(53,314)</u>	<u>(53,314)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MCLEAN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2019

Note 1. Budgetary Information

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

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

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

Note 2. Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ (539,063)
To adjust for change in payroll revolving account	<u>(8,452)</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (547,515)</u>
Fund Balance - Ending - Budgetary Basis	\$
To adjust for balance of payroll revolving account	<u>17,640</u>
Total Fund Balance - Ending - Regulatory Basis	<u>\$ 17,640</u>

Note 3. Excess of Disbursements Over Appropriations

General fund, general health and sanitation and recreations and culture line items, exceeded budgeted appropriations by \$4,710 and \$139, respectively.

Jail fund, protection to persons and property line item, exceeded budgeted appropriations by \$1,334. Also, exceeded total budget by \$592.

LGEA fund, protection to persons and property, social services, and debt service line items exceeded budgeted appropriations by \$2,051, \$1,462, and \$368, respectively.

Ambulance fund, protection to persons and property and debt service line items exceeded budgeted appropriations by \$54,636 and \$10,000, respectively. Also, exceeded total budget by \$32,380.

Senior citizens fund, social services line item exceeded budgeted appropriations by \$3,882. Also, exceeded total budget by \$796.

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

For The Year Ended June 30, 2019

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MCLEAN COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 1,250,309	\$	\$	\$ 1,250,309
Buildings	8,418,636			8,418,636
Vehicles and Equipment	2,237,755	170,464		2,408,219
Other Equipment	2,749,020			2,749,020
Infrastructure	4,419,340			4,419,340
 Total Capital Assets	 <u>\$ 19,075,060</u>	 <u>\$ 170,464</u>	 <u>\$ 0</u>	 <u>\$19,245,524</u>

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

June 30, 2019

Note 1. Capital Assets

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

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

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Curtis Dame, McLean County Judge/Executive
The Honorable Ed West, Former McLean County Judge/Executive
Members of the McLean 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 McLean County Fiscal Court for the fiscal year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the McLean County Fiscal Court's financial statement and have issued our report thereon dated February 16, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the McLean 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 McLean County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the McLean County Fiscal Court's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, 2019-003 2019-005, and 2019-012 to be material weaknesses.



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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-006, 2019-007, 2019-008, 2019-009, 2019-010, and 2019-011 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McLean County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, 2019-003, 2019-004, and 2019-012.

Views of Responsible Official and Planned Corrective Action

McLean 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 16, 2021

**MCLEAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

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**MCLEAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained

This is a repeat finding and was included in the prior year audit report as finding 2018-001. There were no functioning internal controls in place over the work performed by the former county treasurer. The fiscal court failed to provide adequate oversight, allowing the former county treasurer complete control over the accounting and reporting functions. The following deficiencies and errors were noted during the performance of the audit:

- The fourth quarter financial report was incomplete and inaccurate:
 - The total budgeted amounts for receipts and disbursements per the approved budget did not agree to the amount reported as budgeted amounts per the fourth quarter report. Budgeted receipts and disbursements were understated by \$2,229,143 and \$2,185,568, respectively. The former county treasurer failed to properly enter the amounts per the budget amendment.
 - There were numerous classification errors noted within the funds, which required audit adjustments to correct.
 - The former county treasurer failed to record all of the June direct deposits of the general fund and had not recorded any of the ambulance fund's June receipts, \$4,159 and \$44,647, respectively. Additionally, none of the interest earned per the June bank statements had been recorded to the appropriate funds.
 - A \$28,000 check of the road fund was voided, but had not been voided out of the accounting software.
 - A complete and correct fourth quarter financial report, including cash and fund balances as well as encumbrances was provided to the Department of Local Government (DLG) on August 28, 2019. This report was due on the 20th day following the close of the fourth quarter, which is July 20, 2019. The fourth quarter financial report that was submitted to DLG on August 28, 2019, and later provided to auditors did not include reconciled cash and fund balances or encumbrances.
 - Liabilities were misstated on the fourth quarter report by \$807,071 (see finding 2019-003).
 - Bank reconciliations were not performed for fiscal year 2019 (see finding 2019-002).
- The jail, ambulance, and senior citizens funds exceeded approved total budget, by \$592, \$32,380, and \$796, respectively.
- The former county treasurer failed to present financial reports to the fiscal court for June 2019.
- The jail, ambulance, 911, and senior citizens funds all had negative beginning fund balances, in the amounts of \$67,604, \$532,451, \$185,909 and \$53,314, respectively.
- Overspent the amount budgeted for transfers in and out for the following funds: general, road, jail, LGEA, ambulance, fire department, 911 and senior citizens.
- The general health and sanitation and recreation and culture line items in the general fund were overspent by \$4,710 and \$139, respectively.
- The protection to persons and property line item in the jail fund was overspent by \$1,334.
- The protection to persons and property, social services, and debt service line items in the LGEA fund were overspent by \$2,051, \$1,462, and \$368, respectively.
- The protection to persons and property and debt service line items in the ambulance fund were overspent by \$54,636 and \$10,000 respectively.
- The social services line item in the senior citizens fund was overspent by \$3,882.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-001 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained (Continued)

Additional internal control issues noted were:

- An emergency was declared for the approval and adoption of the fiscal year 2018-2019 budget on June 29, 2019, and then on June 28, 2019, for a fiscal year 2019 budget amendment. An emergency budget amendment was declared because there was not time to publish and advertise before the end of the fiscal year. Time constraints and lack of proper planning do not meet the definition of a legitimate emergency.
- Financial reports remitted to each fire district were inaccurate and did not agree to amounts remitted on quarterly financial statements.

The McLean County Fiscal Court failed to implement a strong internal control system or provide proper oversight to ensure complete and accurate accounting records were maintained, and instead relied on a single person without adequate oversight. Additionally, the former county treasurer lacked sufficient understanding of all accounting concepts and responsibilities.

Due to the lack of oversight of the former treasurer's functions by the fiscal court and the treasurer's lack of understanding of her duties as prescribed by the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, the deficiencies, non-compliances, and undetected errors noted above pertaining to required record-keeping were allowed to occur. Additionally the fiscal court was unable to properly budget and plan for the following fiscal year due to inaccurate financial information being presented. The inaccurate and incomplete financial reporting also hid the deficits that were occurring in several county funds.

Strong internal controls over the reporting process are vital to ensure the fiscal court's financial reports accurately reflect the financial activity of the fiscal court, as well as, adherence to applicable laws and regulations.

KRS 65.905(2) states, "[t]he final quarterly report filed by a county within fifteen (15) days after the end of the last quarter of the fiscal year, in accordance with KRS 68.360(2), shall be deemed the uniform financial information report for that county for purposes of compliance with KRS 65.900 to 65.925."

KRS 68.260(1) states, "[t]he proposed county budget, tentatively approved by the fiscal court and approved by the state local finance officer as to form and classification, shall be submitted to the fiscal court for adoption not later than July 1 of each year. The budget as presented and amended shall be adopted as of July 1. The county judge/executive shall cause a copy of the proposed budget to be posted in a conspicuous place in the courthouse near the front door, and be published pursuant to KRS Chapter 424, at least seven (7) days before final adoption by the fiscal court."

KRS 68.020(4) states that county treasurer, "shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of account of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer."

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-001 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained (Continued)

KRS 68.110(1) forbids expenditures in excess of revenues and states “[t]he fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year or levied, collected or appropriated for any special purpose.”

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the county treasurer to “[p]repare a quarterly financial report for the State Local Finance Officer.” The manual also provide a format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, and actual receipts and disbursements and totals available in each line item. The manual goes on to state, “[a] budget amendment is an ordinance and must be approved by the fiscal court in the statutorily prescribed manner including advertising and publishing requirements. All amendments to a county budget must be approved by the State Local Finance Officer as mandated by KRS 68.280.” It further states, “[a]ny amendments to a county budget submitted to the State Local Finance Officer on an emergency basis must strictly adhere to the provisions of KRS 67.078 and a photocopy of the fiscal court order naming and describing the emergency much accompany the budget amendment pursuant to KRS 68.280.”

In addition, KRS 68.360(1) states, “[t]he county treasurer shall balance his books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made, and shall within ten (10) days file with the county judge/executive and members of the fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all cash receipts and the cash balance at the beginning and at the end of the month, and certifying that each warrant or contract is within the budget appropriation.”

We recommend the McLean County Fiscal Court strengthen oversight and internal controls in order to ensure complete and accurate accounting records are maintained and that no one individual has control over the accounting functions without establishing checks and balances to verify amounts recorded and reported are accurate.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The current McLean County Judge/Executive and Treasurer fully understand and realize the implications of insufficient internal controls regarding accounting records that were conducted during FY2018 by prior staff and elected officials. The Fiscal Court has approved, upon recommendation by the current Judge/Executive, the purchase and installation of improved financial management software. The software adheres to standards included in KRS 68.210 regarding the implementation of a uniform system of accounts.

In addition, the current Judge/Executive and treasurer also realize the brevity and necessity of following KRS 68.020, 68.110, 65.905, 68.260, and 68.360 regarding proper reporting, deadlines and budget creation. The strength and fiscal soundness of McLean County relies on having our fiscal house in order which has not been the case for a number of years.

Lastly, the Judge/Executive and Treasurer will continue to consult with neighboring counties for ideas and procedures to streamline duties and reporting procedures.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Cash Processes And Financial Reporting

This is a repeat finding and was included in the prior year audit report as finding 2018-002. The McLean County Fiscal Court had internal control weaknesses and non-compliances regarding cash processes and financial reporting. The following findings were noted with McLean County Fiscal Court's cash processes and financial reporting:

- The former treasurer failed to perform monthly bank reconciliations for all bank accounts, including, the payroll revolving account for the entire fiscal year ending June 30, 2019. The former county treasurer stopped preparing monthly reconciliations in February 2016. The fiscal court entered into an agreement on December 18, 2018, with an outside CPA firm to prepare the bank reconciliations for fiscal years 2017-2018 and 2018-2019. However, the fiscal court terminated this agreement prior to the May and June 2019 bank reconciliations being performed. The county obtained the help from a county treasurer from a surrounding county to prepare the May and June 2019 bank reconciliations.
- The former county treasurer failed to record interest earned on certificates of deposit in the amount of \$571. This amount includes \$248 in interest earned in the LGEA fund and \$323 earned in the fire department fund.
- The former county treasurer failed to record a \$10 withdrawal from the fire department fund truck account to the disbursement ledger.
- The former county treasurer failed to maintain and report the financial activity for the justice center corporation. This fund had \$245,396 and \$244,288 in receipts and disbursement, respectively for the fiscal year ended June 30, 2019.
- The former treasurer presented \$154,100 cash transfers for the month of December 2018 to the fiscal court on January 24, 2019. Additionally, we noted 7 cash transfers totaling \$183,730 that were never approved by the fiscal court.

The former county treasurer's lack of understanding of accounting concepts and responsibilities caused the findings noted above. Additionally, there were no internal controls implemented by the fiscal court to discover the aforementioned problems.

The failure to maintain accurate and detailed accounting information does not provide a true picture of the activities within the fiscal court's accounts and increases the risk that undetected misstatements due to error or fraud could occur. Furthermore, the McLean County Fiscal Court's lack of controls resulted in the LGEA fund and fire department fund cash balances being understated by \$248 and \$313, respectively, as well as, the financial activity of the justice center corporation not being presented at all.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires monthly bank reconciliations. Additionally, strong internal controls over bank reconciliations are vital in ensuring that cash balances have been accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Cash Processes And Financial Reporting (Continued)

We make the following recommendations to address these findings:

- Monthly bank reconciliations should be performed and submitted to the fiscal court for approval for all funds of the McLean County Fiscal Court.
- All interest earned on certificates of deposit should be recorded to the appropriate fund's receipts ledger.
- All financial activity for the justice center corporation should accurately be maintained by the county treasurer.
- All cash transfers should be approved by the fiscal court prior to the county treasurer making the transfer. Fiscal court approval of all transfers should be documented in the fiscal court orders.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Since July of 2019, the McLean County Fiscal Court has approved substantial changes regarding adequate internal controls which have included changing staff, following proper cash accounting procedures, following proper budget transfers and amendments, and the presentation of reports prior to fiscal court meetings.

Lastly, proper adoption of procedures listed in KRS 68.210 gives an adequate framework for the treasurer and court to report cash activity. For FY2021 the Judge/Executive has implemented enhanced daily cash receipt tracking to help with proper documentation of receipts for each fund, site and department.

2019-003 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Debt And Debt Service

This is a repeat finding and was included in the prior year audit report as finding 2018-003. Material internal control weaknesses existed over the reporting of debt and debt service of the McLean County Fiscal Court, and the following discrepancies were noted:

- The June 30, 2019 outstanding debt balances reported on the fourth quarter financial report were materially misstated when compared to the actual debt balances confirmed with lenders. According to the fourth quarter financial report, total long-term liabilities were \$2,985,408 as of June 30, 2019. This balance is overstated for three debt issues, for a total misstatement of \$807,071.
- Interest balances were overstated by \$685,044.
- The McLean County Fiscal Court borrowed \$90,741 in May 2019, for the purchase of a 2018 ambulance. The loan proceeds were paid directly to the vendor on behalf of the fiscal court for this purchase. Therefore, it was not included in the county's financial statements as a budgeted disbursement for the fiscal year ended June 30, 2019.
- A loan payment made on June 28, 2019, for the ambulance loan was not included on the fourth quarter financial report. This payment was recorded in the county's accounting software, but it failed to be recorded to the appropriate line item on the fourth quarter financial report.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-003 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Debt And Debt Service (Continued)

The county failed to implement a strong internal control system over debt and debt service, and instead relied on a single person without adequate oversight. Additionally, the former county treasurer was not aware that she needed to budget for or record loan proceeds when they were paid directly by the lender to the vendor, since she did not directly receive these funds.

This lack of internal controls resulted in the county's fourth quarter financial report being materially misstated. Additionally, by not properly budgeting these items or properly recording all transactions, the fiscal court overspent the protection to persons and property and debt service line items of the ambulance fund by \$54,636 and \$10,000, respectively. Furthermore, as a result of the aforementioned transactions, the overall ambulance fund budget was overspent by \$32,380.

Strong internal controls over outstanding debt and debt service are necessary to ensure accurate financial reporting. Also, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum requirements for the handling of public funds, including outstanding debt and liabilities. It also requires all borrowed money received and repaid must be reflected in the county budget. 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.

We recommend the county strengthen internal controls over the reporting of debt service payments and outstanding liability balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. The fiscal court should also, ensure that they properly budget and record all borrowed money and any related purchases. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The McLean County Fiscal Court and Judge/Executive, as of FY21, have an accurate view of current debt and debt service due to the extensive work of new staff. Our review has allowed for current debts to be accurately reflected. Surprisingly, the debt load previously reported were grossly overstated which added fund restraints that did not exist at the level previous reported by former elected officials and prior treasurers.

Additionally, with the adoption of new accounting software, the court now possesses the assets necessary to effectively record the reduction in county debt and debt service. With training, assistance from the department of local government, and the state auditor's office, we feel that our representation of current county debt is accurate to date.

Regarding new debts, the county currently adheres to the completion of Notice of Intent to Finance documentation as required by KRS 68.210.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-004 The Current McLean County Judge/Executive And County Treasurer Declined Signing The Required Certification Of Compliance With The Local Government Economic Assistance And Development Programs

This is a repeat finding and was included in the prior year audit report as finding 2018-005. The current judge/executive and county treasurer did not sign the certification of compliance with the local government economic assistance and development program. Since the judge/executive and county treasurer did not sign the certification, it is not included in the audit report. LGEA expenditures for fiscal year 2019 were \$549,317.

The current judge/executive and county treasurer did not feel comfortable certifying that the local government economic assistance and development program funds had been expended appropriately, since neither of them were the judge/executive or county treasurer for the fiscal year 2019. Furthermore, the former county treasurer and former county judge executive failed to maintain adequate records to document that the funds were expended for the intended purposes. Funds may not have been expended for the intended purposes of the local government economic assistance and development program. Additionally, the fiscal court was not in compliance with KRS 42.460.

KRS 42.460, states, “[e]xcept as provided in KRS 91A.040(7)(b), any assistance granted under KRS 42.450 to 42.495 shall include an agreement that an independent annual audit shall be conducted and that the audit report shall include a certification that the funds were expended for the purpose intended. A copy of the audit and certification of compliance shall be forwarded to the Department for Local Government, in the case of assistance granted from the local government economic assistance fund or the local government economic development fund as allocated in KRS 42.4592(1)(a) and (b), or to the Cabinet for Economic Development and the Kentucky Economic Development Finance Authority, in the case of assistance granted from the local government economic development fund, within eighteen (18) months after the end of the fiscal year.”

We recommend the fiscal court maintain adequate records to determine that the funds expended under the local government economic assistance and development program were expended for the intended purposes, so that the county judge executive and treasurer can attest to the proper spending of those funds.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The current Judge/Executive and Treasurer realize and believe that it is not in their best interests to certify the actions conducted by previous officials and staff. There are numerous issues with the FY2017, FY2018, and FY2019 budget reports, account totals and actions that are not verifiable to current staff and elected officials due to deficiencies in previous oversight, reporting and control. The current Judge/Executive and Treasurer believe that work conducted since their activation can be verified as required by statute and will attest to those procedures when those auditing requirements are completed for FY2021 forward.

2019-005 The McLean County Fiscal Court Failed To Implement Sufficient Internal Controls Over Their Service Organization’s Collection Of Ambulance Receipts

This is a repeat finding and was included in the prior year audit report as finding 2018-006. The fiscal court failed to oversee the ambulance billing service organization that handles all of the billing and receipt collections for the McLean County Ambulance Service. In the fiscal year ended June 30, 2019, the amount of ambulance receipts reported on the quarterly report was \$561,427. The following findings were noted with the collection of receipts at the service organization:

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-005 The McLean County Fiscal Court Failed To Implement Sufficient Internal Controls Over Their Service Organization's Collection Of Ambulance Receipts (Continued)

- The county does not review the service organization's billing and collections to ensure all the McLean County Ambulance Service runs and collections are accounted for properly. There was no documentation of the review of internal controls implemented at the service organization. The service organization did not have a Service Organization Report (SOC) Report. A SOC 1 report focuses on controls at the service organization that would be useful to user entities and their auditors for the purpose of planning a financial statement audit of the user entity and evaluating internal control over financial reporting at the user entity.
- The service organization failed to respond to numerous information requests from auditors. Two months after the last auditor inquiry, county officials were able to get the service organization to respond to information requests. The fiscal court has minimal oversight and control over the collection of ambulance receipts process. Although the service organization sent a month end report to the fiscal court that documented charges, credits, the accounts receivable balance, and daily deposit amounts, the fiscal court was not able to determine if all amounts intended for them were actually collected and deposited since the total amount of ambulance runs and corresponding charges were not presented to the fiscal court. Because of the lack of detail in the service organization reports, the fiscal court was unable to verify the amount of ambulance revenue due to them.

The findings listed above are due to the lack of effective internal controls. Because of the lack of adequate internal controls over service organization activities, the ambulance billing receipts were left vulnerable to misappropriation and loss.

Strong internal controls over the collection of receipts are vital in ensuring that receipts are accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes.

We recommend the McLean County Fiscal Court strengthen internal controls regarding the ambulance service's service organization.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The realization of risk regarding the collection of ambulance receipts by a contract service organization is both troubling and a point of concern for the current Judge/Executive. The Treasurer and Judge/Executive have addressed the issue with the ambulance service and are in discussions with staff to improve redundant oversight of billing, which historically, has been deficient and has placed the ambulance service at risk for loss of receipts.

Given the current financial state of the McLean County Fiscal Court, the adoption of improved internal control regarding ambulance receipts will be given top priority.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-006 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over The Collection Of Receipts At Off-Site Locations

This is a repeat finding and was included in the prior year audit report as finding 2018-007. The McLean County Fiscal Court has poor internal controls over the collection of receipts at off-site locations. The following findings were noted with McLean County Fiscal Court's collection of receipts at off-site locations:

- Receipts were not issued for all applicable transactions as required by KRS 64.840.
- Receipts collected at the road department, Myers Creek Park, and transfer site are not turned over to the county treasurer daily, as required by KRS 68.210.
- Copies of donation receipts at Eastern fire department were not maintained by the fire department. Out of five donations tested, only one donation had supporting documentation.

The findings listed above are due to the lack of effective internal controls. Because of the aforementioned findings, receipts were left vulnerable to misappropriation and loss. Also, the McLean County Fiscal Court failed to issue and maintain required documentation as prescribed by state statutes.

Strong internal controls over the collection of receipts are vital in ensuring that receipts are accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. KRS 64.840(1) states, in part "all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid:

- (a) In cash;
- (b) By a party appearing in person to pay; or
- (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt.

KRS 64.840(2) states, "[o]ne (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit[.]" Also, KRS 68.210 states, in part, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe. . . a system of uniform accounts for all counties and county officials[.]"

We make the following recommendations to address these findings:

- Pre-Numbered, triplicate receipts should be issued for all applicable transactions according to KRS 64.840.
- All receipts collected at Off-Site Locations should be turned over to the county treasurer daily to be deposited according to KRS 68.210.
- All off-site locations should keep a receipts ledger to document all types of receipts, dates received, and amounts collected.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The McLean County Fiscal Court and Judge/Executive are currently conducting a review of procedures and equipment that will help to improve internal controls regarding the collection of receipts at off-site locations.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-007 The McLean County Fiscal Court Does Not Have Adequate Internal Controls Over Payroll Processing

This is a repeat finding and was included in the prior year audit report as finding 2018-009. The McLean County Fiscal Court failed to implement adequate internal controls over the payroll and timekeeping processes. The following findings were noted during testing of McLean County Fiscal Court's payroll:

- One employee was not paid according to the approved salary schedule, and was paid \$.49 an hour over their approved hourly rate for the time period tested.
- Thirteen employees did not have the current withholding forms in their personnel file.
- One employee did not have the correct amount of local tax withholding withheld.
- Two employees received health insurance benefits while receiving workers compensation insurance. The county paid the \$2,193 employee portion of the premiums and also \$7,354 in employer premiums for a total of \$9,547 paid on behalf of these two employees.
- Two employees accrued sick time totaling 104 hours resulting in \$1,477, while not working full time.

Based on county records there was a lack of segregation of duties over payroll preparation and no independent review of payroll items before processing and disbursing payroll. Due to the lack of internal controls over payroll, payments for payroll were not properly supported, employees received benefits for which they were not entitled, payroll taxes were not properly withheld, and the fiscal court made payments in violation of the county's administrative code.

Strong internal controls over payroll and timekeeping are vital in ensuring the payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes.

The McLean County Administrative Code Section 5.27 (2) states, "[f]ull time employees shall be eligible to accrue sick leave at the rate of one day per month accruing at the end of each month for each full month worked."

We make the following recommendations to address these findings:

- An individual independent of the payroll process should review payroll calculations, withholding amounts, etc., to verify that all amounts have been calculated properly and that they are properly supported.
- Personnel files should be updated regularly.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The McLean County Fiscal Court is in the process of approving payroll processing and accounts at monthly fiscal court meetings. This will be a new process that has not been in place previously. The Judge/Executive and Treasurer believe this process will increase transparency and oversight of this process. In addition, the current staff also realize that previous payroll processing was not conducted properly nor reconciled correctly. As listed in the audit findings, the current Judge/Executive also believes that the lack of adherence, by previous administrations, has created a risk to the county regarding employee time accounts and lacks equitable distribution of funds to county employees outside the bounds of approved procedures. The current Judge/Executive has installed timeclocks for employees and has integrated the purchase of new time management software to better safeguard the county from previously mentioned risks. In addition, the Judge/Executive is also researching third-party options to independently verify employee payroll account totals to further improve oversight of these accounts.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-008 The Former McLean County Treasurer Failed To Reconcile The Payroll Revolving Account

This is a repeat finding and was included in the prior year audit report as finding 2018-010. The McLean County Fiscal Court uses a clearing bank account for payroll processing. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. Deposits are made into the bank account from the county's operating accounts to pay for salaries, taxes, matching portion of taxes, retirement, health insurance, and other payments to benefit vendors. The former county treasurer stopped preparing monthly reconciliations in February 2016. The fiscal court entered into an agreement with an outside CPA firm to prepare the bank reconciliations for fiscal years 2017-2018 and 2018-2019. The fiscal court terminated this agreement prior to the CPA firm completing the May and June 2019 bank reconciliations. We determined that as of June 30, 2019, a balance of \$17,640 existed in the account.

The former county treasurer neglected her duty to reconcile bank accounts monthly as described in the *County Budget Preparation and State Local Finance Officer Policy Manual*. There were no internal controls in place to ensure the payroll account was properly reconciled each month.

The payroll revolving account should zero out at the end of the year or reconcile to a minimal carrying balance. However, because the account had not been reconciled, the payroll revolving account had an ending balance of \$17,640 as of June 30, 2019. Funds held in a clearing account when they are not needed to pay liabilities removes those funds from accounts where they could be used in the regular operations of the county. Additionally, a lack of payroll reconciliation to the ledgers on a regular basis increases risk of misstatement in the financial statements, and can result in errors or fraud going undetected.

Good internal controls require timely, accurate reconciliations for bank accounts and all other reports concerning payroll, to ensure all funds are properly accounted for and to prevent misappropriation of funds and inaccurate financial reporting. Due to the nature of revolving accounts, only the funds necessary to pay employees and government agencies are transferred from other funds. Therefore, the reconciled balance each month of the payroll revolving account should be zero. Also, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires monthly bank reconciliations.

We recommend the payroll revolving account be properly reconciled on a monthly basis. Because the payroll revolving account is a clearing account, this account should reconcile to a zero ending cash balance or a minimal carrying balance at the end of each month.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The McLean County Fiscal Court, Judge/Executive and Treasurer have adopted proper controls regarding the reconciliation and control of the payroll revolving account in accordance with County Budget Preparation and State Local Finance Office Policy Manual. Changes include keeping a minimum balance in the clearing account and reporting such activity to the fiscal court.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-009 The Former McLean County Treasurer Failed To Present Her Annual Settlement To The Fiscal Court As Required Per KRS 68.020(5) And KRS 68.030

This is a repeat finding and was included in the prior year audit report as finding 2018-011. The former McLean County Treasurer failed to present her annual treasurer's settlement for the fiscal year ending June 30, 2019, to the fiscal court.

The former county treasurer lacked understanding of her job responsibilities. The fiscal court was not presented with the cumulative information for the fiscal year ending June 30, 2019. The lack of a treasurer's settlement also hid the deficits that were occurring in several county funds, and the lack of proper accounting for all county financial activity. Additionally, by not submitting the treasurer's settlement, the fiscal court was not in compliance with KRS 68.020(5) and KRS 68.030.

KRS 68.020(5) states, in part, "[t]he county treasurer shall, when required by the fiscal court, settle his accounts as county treasurer, and within thirty (30) days after the close of each fiscal court, he shall, unless his immediate predecessor has done so, make a full and complete settlement for the preceding fiscal year with the fiscal court or with a person or persons whom the fiscal court, by order of record, appoints to make settlement with him[.]" Additionally, KRS 68.030, states, in part, "[e]ach settlement made by the county treasurer shall be approved by the fiscal court in open court, and shall, by order of the fiscal court, be recorded by the county clerk in a book kept for that purpose[.]" Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them.

We recommend the fiscal court ensure the treasurer's annual settlement is prepared and approved in accordance with KRS 68.020(5) and KRS 68.030.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The current county treasurer is knowledgeable of required duties and has completed required reports to-date.

In addition, the treasurer also understands the requirements to seek training and guidance on reporting standards and due dates.

2019-010 The Former McLean County Judge Executive Failed To Require Encumbrances Be Properly Reported On The Fourth Quarter Financial Report

This is a repeat finding and was included in the prior year audit report as finding 2018-012. McLean County's encumbrances at year-end were not properly reported on the fourth quarter financial report. Upon further examination, auditor also determined that a list of encumbrances had not been maintained as of June 30, 2019. The former county judge/executive failed to require encumbrances be properly reported on the fourth quarter financial report. By not properly reporting encumbrances, the fiscal court is not in compliance with reporting requirements per the Department for Local Government. In addition, failure to report encumbrances will not accurately reflect cash balances and alert management to any possible cash flow issues.

KRS 68.360(2) states, in part, "[t]he county judge/executive shall within (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund[.]"

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-010 The Former McLean County Judge Executive Failed To Require Encumbrances Be Properly Reported On The Fourth Quarter Financial Report (Continued)

Furthermore, the *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county to disclose encumbrances on the face of the fourth quarter financial report. Good internal controls dictate the fiscal court monitor line items to ensure that there is ample cash and budget prior to approving payment of bills.

We recommend that the county maintain an encumbrance listing and properly report encumbrances on the fourth quarter financial report in order to accurately disclose unencumbered fund balances.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The current Judge/Executive is aware of the duties and responsibility of county elected officials. The Judge/Executive also realizes that accurate representation of encumbrances to the fiscal court is crucial to effective decision-making procedures. The current Judge/Executive has thorough understanding and has installed the new financial software on his computer in order to view encumbrances weekly.

2019-011 The McLean County Fiscal Court Did Not Have Adequate Controls Over Disbursements And ACH Transactions

This is a repeat finding and was included in the prior year audit report as finding 2018-013. During our review and testing of the fuel credit card statements, we noted that 14 out of the 171 transactions were not supported by itemized invoices.

Additionally, one of the six ACH transactions tested for the fiscal year did not have documented controls in place. These transactions were for the payment of the fuel credit card statements and totaled \$33,192 for the fiscal year.

The McLean County Fiscal Court failed to implement internal controls over disbursements to ensure proper handling and compliance with applicable laws. The former finance officer was unaware that disbursements were only to be made by check.

The lack of controls increases the risk of errors or fraud going undetected. By failing to maintain adequate documentation, the fiscal court is increasing the risk of paying invoices for goods or services that were not provided to the fiscal court. In addition, a vendor was given access to the county's bank accounts without sufficient monitoring in place over these transactions.

Good internal controls dictate that adequate supporting documentation be maintained for all disbursements.

Under the authority of KRS 68.210, the Department of Local Government (DLG) issued the *County Budget Preparation and State Local Finance Officer Policy Manual*, which states, "[d]isbursements by checks only."

We recommend that the fiscal court implement internal control procedures to ensure that all disbursements are properly supported. Also, all disbursements should only be made by checks and agreed to supporting documentation prior to payment.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

Views of Responsible Official and Planned Corrective Action:

2019-011 The McLean County Fiscal Court Did Not Have Adequate Controls Over Disbursements And ACH Transactions (Continued)

County Judge/Executive's Response: The Finance Officer, Treasurer and Judge/Executive have adopted an improved policy regarding the denial of request for purchase for any item that includes state sales tax, electronic purchase methods and other deficiencies. In addition, all purchase shall be paid by check only according to state regulations. Exceptions include ACH transactions for payroll.

2019-012 The McLean County Fiscal Court Inappropriately Used Restricted Monies

Prior to November 2018, all funds were maintained in a combined bank account, which maintained a positive balance; however, this balance was a result of the road and fire department funds having large cash balances. Beginning in fiscal year 2016 through fiscal year 2019, the former county treasurer would use the balances of these funds to offset funds with negative cash balances in the combined bank account. The road and fire department funds are restricted funds and cannot be used to cover a deficit in any other fund.

The McLean County Fiscal Court failed to implement a strong internal control system or provide proper oversight to ensure restricted monies were being used for their intended purpose, and instead relied on a single person without adequate oversight. Additionally, the former county treasurer lacked sufficient understanding of all accounting concepts and responsibilities. Unallowable transfers were made from the road and fire department funds which created receivables from other funds due back to the road fund in the amount of \$861,430 and fire department fund in the amount of \$189,098.

KRS 177.320(1) states, “[t]wenty-two and two-tenths percent (22.2%) of all funds arising from the imposition of taxes provided by KRS 138.220(1) and (2), 138.660(1) and (2) and 234.320 shall be set aside for the construction, reconstruction and maintenance of secondary and rural roads and for no other purpose, and shall be expended for said purposes by the Transportation Cabinet of the Commonwealth of Kentucky according to the terms and conditions prescribed in KRS 177.330 to 177.360.”

Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them. Furthermore, fire department funds are restricted for use per the county's fire dues ordinance and the nature of other fire department fund receipts.

We recommend the McLean County Fiscal Court repay the amounts used inappropriately from restricted funds and in the future only use restricted monies for their intended purposes.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The current Judge/Executive and Fiscal Court are aware of issues related to the expenditure of restricted funds. The court has separated all checking accounts, created additional funds in the current (FY2021 Budget) and has developed enhanced procedures to guarantee that restricted funds are spent in accordance with statutes and state department of local government guidelines. The court also anticipated reimbursing misused funds to the appropriate accounts as directed by audit finds and account revisions.