

County of McKean, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2017



BAKER TILLY

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County of McKean, Pennsylvania

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Independent Auditors' Report

Board of Commissioners
County of McKean, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of McKean, Pennsylvania (the "County"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of McKean, Pennsylvania, as of December 31, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund, Children and Youth Services Fund and Mental Health/Intellectual Disabilities Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4 through 11, the schedule of changes in net pension liability and related ratios on page 54, the schedule of employer contributions on page 55 and the schedule of investment return on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards on pages 57 to 58, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), the schedule of selected Commonwealth of Pennsylvania, Department of Human Services assistance on page 59, as required by the Commonwealth of Pennsylvania, Department of Human Services ("DHS") *Single Audit Supplement*, and the combining non-major governmental fund financial statements on pages 61 through 64 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and schedule of selected Commonwealth of Pennsylvania, Department of Human Services assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of selected Commonwealth of Pennsylvania, Department of Human Services assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The combining non-major governmental fund financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018, on our consideration of the County'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 solely 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 effectiveness of the County's 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 County's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Williamsport, Pennsylvania
September 24, 2018

County of McKean, Pennsylvania

Management's Discussion and Analysis
December 31, 2017
(Unaudited)

As management of McKean County, Pennsylvania, (the "County") we offer the readers of these financial statements this narrative and overview of the financial activities of the County for the fiscal year ended December 31, 2017. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- Assets and deferred outflows of resources of the County exceed liabilities and deferred inflows of resources at December 31, 2017 by \$7,083,132 (net position). Unrestricted net position is a deficit of \$731,364.
- The government's total net position increased by \$303,442.
- The government's total operating grants and contributions income increased by \$1,149,346 in comparison with the prior year.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balance of \$5,177,884, an increase of \$914,653 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the County's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between these items reported as "*net position*". Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements report functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the County include general government, courts and related offices, corrections and human services.

The government-wide financial statements can be found on pages 12-13.

County of McKean, Pennsylvania

Management's Discussion and Analysis
December 31, 2017
(Unaudited)

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental financial statements focus on *near-term inflows and outflows* of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide reconciliations to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General Fund, Children and Youth Services Fund, Mental Health/Intellectual Disabilities Fund and the Capital Projects Fund, all of which are considered major funds. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for all major governmental funds except the Capital Projects Fund. A budgetary comparison statement or schedule for each individual major governmental fund has been provided to demonstrate compliance with this budget. Budgetary control for the activities of the Capital Projects Fund is achieved through general obligation bond indenture provisions, contractual agreements and restrictive terms of the grants received.

The basic governmental fund financial statements can be found on pages 14-20.

County of McKean, Pennsylvania

Management's Discussion and Analysis
December 31, 2017
(Unaudited)

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide statement because the resources of those funds are *not* available to support the County's own programs. Fiduciary funds are accounted for on the accrual basis of accounting. Page 21 of this report includes the *statement of fiduciary net position*, which reports the assets and liabilities of the County's retirement trust fund and combined agency funds. Page 22 of this report includes the *statement of change in fiduciary net position*, which reports the additions to and deductions from the County's retirement trust fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-53 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's Pension Trust Fund.

Required supplementary information can be found on pages 54-56 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining individual fund statements and schedules can be found on pages 61-64.

Government-Wide Financial Statements

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$7,083,132 at December 31, 2017. The majority of this balance is composed of the County's net investment in capital assets. The County's unrestricted net position was a deficit of \$731,364 at December 31, 2017.

The County's investment in capital assets (e.g., land, buildings, furniture and equipment) is \$13,557,787. Related debt used to acquire those assets is \$7,047,662. The County uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

County of McKean, Pennsylvania

Management's Discussion and Analysis

December 31, 2017

(Unaudited)

Condensed Statement of Net Position

	Governmental Activities	
	2017	2016
Current and other assets	\$ 12,493,703	\$ 11,500,254
Total non-current assets	<u>13,557,787</u>	<u>13,899,660</u>
Total assets	26,051,490	25,399,914
Deferred outflows of resources - pension	<u>2,538,151</u>	<u>2,868,464</u>
Total assets and deferred outflows of resources	<u>28,589,641</u>	<u>28,268,378</u>
Long-term liabilities, outstanding	13,124,837	14,836,810
Other liabilities	<u>6,210,340</u>	<u>6,304,618</u>
Total liabilities	<u>19,335,177</u>	<u>21,141,428</u>
Deferred inflows of resources - pension	<u>2,171,332</u>	<u>347,260</u>
Total liabilities and deferred inflows of resources	<u>21,506,509</u>	<u>21,488,688</u>
Net position		
Net investment in capital assets	6,510,125	5,933,310
Restricted	1,304,371	1,230,000
Unrestricted (deficit)	<u>(731,364)</u>	<u>(383,620)</u>
Total net position	<u>\$ 7,083,132</u>	<u>\$ 6,779,690</u>

County of McKean, Pennsylvania

Management's Discussion and Analysis

December 31, 2017

(Unaudited)

Governmental activities

Governmental activities increased the County's net position by \$303,442. Key elements of this increase are as follows:

Condensed Statement of Activities

	Governmental Activities	
	2017	2016
Revenues		
Program revenues:		
Charges for service	\$ 3,586,343	\$ 3,519,982
Operating grants and contributions	16,894,598	15,745,252
Property and other taxes	13,249,064	11,764,120
Interest income	70,886	44,988
Other income	325,418	329,948
Total revenue	<u>34,126,309</u>	<u>31,404,290</u>
Expenses		
General government	6,439,450	6,255,590
Court and related offices	4,751,312	4,651,577
Corrections	4,491,944	4,117,688
Human services	17,951,797	17,560,358
Interest of long-term debt	188,364	207,598
Total expenses	<u>33,822,867</u>	<u>32,792,811</u>
Increase (decrease) in net position	303,442	(1,388,521)
Net position, beginning of year, as previously reported	6,779,690	9,288,328
Restatement	-	(1,120,117)
As restated	<u>6,779,690</u>	<u>8,168,211</u>
Net position, end of year	<u>\$ 7,083,132</u>	<u>\$ 6,779,690</u>

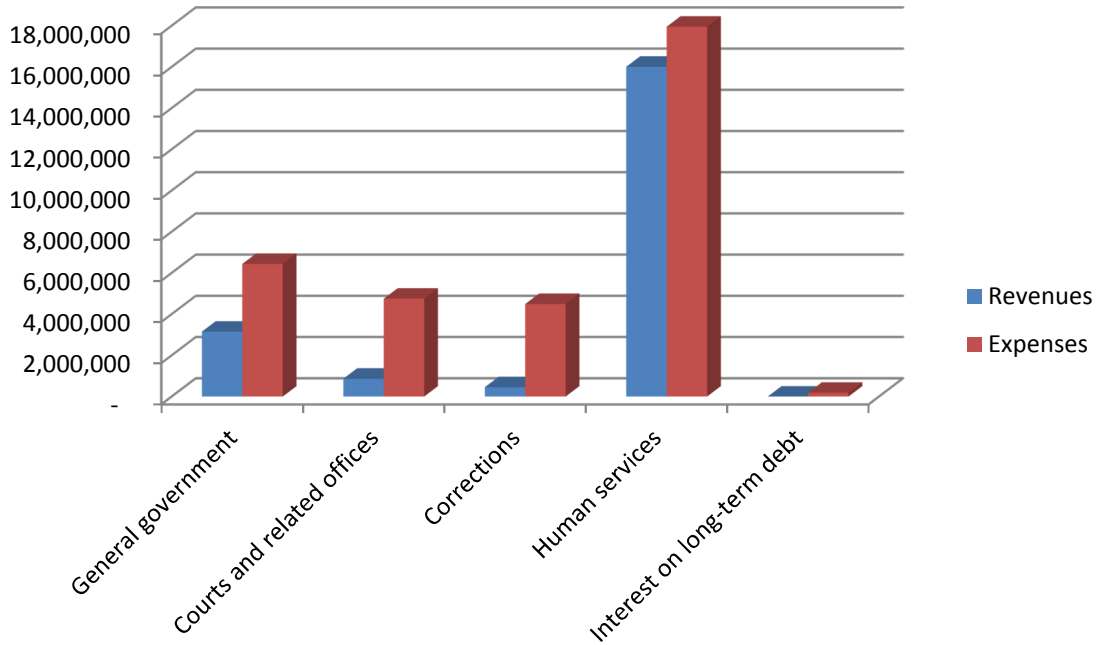
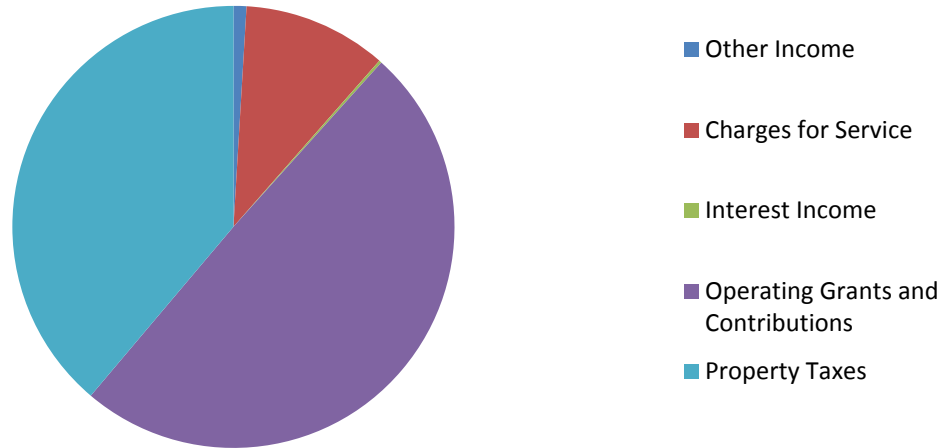
County of McKean, Pennsylvania

Management's Discussion and Analysis

December 31, 2017

(Unaudited)

2017 Revenue by Source - Governmental Activities



County of McKean, Pennsylvania

Management's Discussion and Analysis
December 31, 2017
(Unaudited)

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current year, the County's governmental funds reported combined fund balances of \$5,177,884, an increase of \$914,653, in comparison with the prior year. The County reported a deficit \$519,466 *unassigned fund balance*, all of which exists in the County's General Fund. The remainder of the fund balance is nonspendable, restricted, or committed.

The fund balance of the County's Children & Youth Fund increased by \$3,383 during the current fiscal year. The key factor in this change is higher revenues offset by higher program expenses.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget for General Fund revenues and expenditures.

General Fund expenses were over budgeted amounts by \$1,171,605, primarily due to higher than budgeted amounts for courts and related offices, human services and capital outlay. These budgetary overruns were funded in part by increased intergovernmental revenues (i.e., federal and state funding).

Capital Assets

The County's capital assets for its governmental activities as of December 31, 2017 amount to \$13,557,787 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, furniture and fixtures.

County of McKean, Pennsylvania

Management's Discussion and Analysis
December 31, 2017
(Unaudited)

Capital Assets (Net of Depreciation)

	Government Activities	
	2017	2016
Land	\$ 327,241	\$ 327,241
Building and improvements	12,458,818	12,866,769
Furniture and equipment	527,148	497,269
Vehicles	244,580	208,381
Total	<u>\$ 13,557,787</u>	<u>\$ 13,899,660</u>

Additional information on the County's capital assets can be found in Note 6 of this report.

Long-Term Debt

At the end of 2017, the County had total long-term debt outstanding of \$7,047,662, including the current portion, all of which comprises the debt backed by the full faith and credit of the government. Additional information on the County's debt can be found in Note 7, on page 41, of this report.

The County also had a Net Pension Liability of \$6,418,740 at December 31, 2017 pursuant to GASB Statement No. 68. See additional information on this liability at Note 9.

Economic Factors and Next Year's Budgets and Rates

The County provided an average wage increase of 2.25% for all bargaining unit and non-bargaining unit employees for 2018.

Request for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the McKean County Controller, McKean County Court House, Smethport, PA 16749.

County of McKean, Pennsylvania

Statement of Net Position

December 31, 2017

	Primary Government	Component Unit
	Governmental Activities	Airport Authority
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 5,817,274	\$ 344,535
Investments	1,471,027	-
Taxes receivable, net	2,486,270	-
Due from other governments	2,162,452	3,041
Due to fiduciary funds, net	41,440	-
Other receivables	11,024	42,777
Inventory	-	43,999
Prepaid items	504,216	3,484
Total current assets	<u>12,493,703</u>	<u>437,836</u>
Capital Assets		
Land	327,241	198,456
Construction in progress	-	372,988
Land improvements	-	5,123,546
Runways and other	-	10,941,376
Buildings and improvements	21,264,830	4,505,880
Furniture and equipment	5,274,165	2,103,679
Less: accumulated depreciation	<u>(13,308,449)</u>	<u>(11,981,567)</u>
Total capital assets	<u>13,557,787</u>	<u>11,264,358</u>
Net Pension Asset	<u>-</u>	<u>105,845</u>
Total assets	26,051,490	11,808,039
Deferred Outflows of Resources - Pension	<u>2,538,151</u>	<u>66,595</u>
Total assets and deferred outflows of resources	<u>\$ 28,589,641</u>	<u>\$ 11,874,634</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 2,046,304	\$ 45,505
Unearned revenue	2,130,927	-
Accrued interest payable	31,301	-
Accrued liabilities	1,064,146	7,857
Current portion of bonds and notes payable	<u>937,662</u>	<u>47,237</u>
Total current liabilities	<u>6,210,340</u>	<u>100,599</u>
Noncurrent liabilities		
Net pension liability	6,418,740	-
Compensated absences	596,097	-
Bonds and notes payable	<u>6,110,000</u>	<u>277,205</u>
Total noncurrent liabilities	<u>13,124,837</u>	<u>277,205</u>
Total liabilities	<u>19,335,177</u>	<u>377,804</u>
Deferred Inflows of Resources - Pension	<u>2,171,332</u>	<u>38,486</u>
Net Position		
Net investment in capital assets	6,510,125	10,939,916
Restricted	1,304,371	50,098
Unrestricted (deficit)	<u>(731,364)</u>	<u>468,330</u>
Total net position	<u>7,083,132</u>	<u>11,458,344</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 28,589,641</u>	<u>\$ 11,874,634</u>

See notes to financial statements

County of McKean, Pennsylvania

Statement of Activities

Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	Component Unit Airport Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary Government						
Governmental activities:						
General government	\$ 6,439,450	\$ 1,531,090	\$ 1,621,580	\$ -	\$ (3,286,780)	
Courts and related offices	4,751,312	467,113	400,257	-	(3,883,942)	
Corrections	4,491,944	249,596	204,039	-	(4,038,309)	
Human services	17,951,797	1,338,544	14,668,722	-	(1,944,531)	
Interest on long-term debt	188,364	-	-	-	(188,364)	
Total primary government	<u>\$ 33,822,867</u>	<u>\$ 3,586,343</u>	<u>\$ 16,894,598</u>	<u>\$ -</u>	<u>(13,341,926)</u>	
Component Unit						
Airport Authority	<u>\$ 1,212,887</u>	<u>\$ 463,925</u>	<u>\$ 265,497</u>	<u>\$ 138,649</u>		<u>\$ (344,816)</u>

General Revenues

Property taxes	13,151,525	-
Per capita taxes	97,539	
Interest/investment income	70,886	1,160
Other income	325,418	17,136
Total general revenues	<u>13,645,368</u>	<u>18,296</u>
Change in net position	303,442	(326,520)
Net position, beginning	<u>6,779,690</u>	<u>11,784,864</u>
Net position, ending	<u>\$ 7,083,132</u>	<u>\$ 11,458,344</u>

See notes to financial statements

County of McKean, Pennsylvania

Balance Sheet
 Governmental Funds
 December 31, 2017

	<u>General Fund</u>	<u>Children & Youth Services</u>	<u>Mental Health/ Intellectual Disabilities</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Funds</u>
Assets						
Cash and cash equivalents	\$ 2,848,030	\$ 44,948	\$ 678,274	\$ 1,713	\$ 2,244,309	\$ 5,817,274
Investments	-	-	-	1,471,027	-	1,471,027
Taxes receivable, net	2,486,270	-	-	-	-	2,486,270
Due from other funds	288,947	948,721	34,145	2,000,000	139,905	3,411,718
Due from other governments	380,233	792,958	15,891	-	973,370	2,162,452
Other receivables	11,024	-	-	-	-	11,024
Prepaid expenses	504,216	-	-	-	-	504,216
	<u>504,216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>504,216</u>
Total assets	<u>\$ 6,518,720</u>	<u>\$ 1,786,627</u>	<u>\$ 728,310</u>	<u>\$ 3,472,740</u>	<u>\$ 3,357,584</u>	<u>\$ 15,863,981</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities:						
Accounts payable	\$ 311,793	\$ 412,629	\$ 436,825	\$ -	\$ 885,057	\$ 2,046,304
Due to other funds	3,253,372	52,182	13,510	-	51,214	3,370,278
Unearned revenue	-	1,200,560	264,913	-	665,454	2,130,927
Accrued vacation	285,156	103,348	13,062	-	53,373	454,939
Accrued liabilities	609,207	-	-	-	-	609,207
	<u>609,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>609,207</u>
Total liabilities	<u>4,459,528</u>	<u>1,768,719</u>	<u>728,310</u>	<u>-</u>	<u>1,655,098</u>	<u>8,611,655</u>
Deferred inflows of resources, Unearned revenue - taxes	<u>2,074,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,074,442</u>
Fund balances:						
Nonspendable	504,216	-	-	-	-	504,216
Restricted	-	17,908	-	-	1,286,463	1,304,371
Committed	-	-	-	3,472,740	-	3,472,740
Assigned	-	-	-	-	416,023	416,023
Unassigned (deficit)	(519,466)	-	-	-	-	(519,466)
	<u>(519,466)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(519,466)</u>
Total fund balances	<u>(15,250)</u>	<u>17,908</u>	<u>-</u>	<u>3,472,740</u>	<u>1,702,486</u>	<u>5,177,884</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,518,720</u>	<u>\$ 1,786,627</u>	<u>\$ 728,310</u>	<u>\$ 3,472,740</u>	<u>\$ 3,357,584</u>	<u>\$ 15,863,981</u>

See notes to financial statements

County of McKean, Pennsylvania

Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Position
December 31, 2017

Total Fund Balances, Governmental Funds \$ 5,177,884

**Amounts Reported for Governmental Activities in the
Statement of Net Position are Different Because:**

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net position. The cost of assets is \$26,866,236 and the accumulated depreciation is \$13,308,449. 13,557,787

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as a deferred inflow of resources in the funds. 2,074,442

Deferred outflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net position. 2,538,151

Deferred inflows related to net pension liability are not reported in the governmental funds, however are reported in the statement of net position. (2,171,332)

Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Net Pension Liability	(6,418,740)
Compensated absences	(596,097)
Bonds and Notes Payable	(7,047,662)
Accrued Interest Payable	(31,301)

(14,093,800)

Net Position of Governmental Activities in the Statement of Net Position \$ 7,083,132

County of McKean, Pennsylvania

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended December 31, 2017

	General Fund	Children & Youth Services	Mental Health/ Intellectual Disabilities	Capital Projects	Other Governmental Funds	Total
Revenues						
Real estate taxes	\$ 12,965,232	\$ -	\$ -	\$ -	\$ -	\$ 12,965,232
Per capita taxes	97,539	-	-	-	-	97,539
Intergovernmental revenue	2,653,899	5,915,951	4,138,937	-	3,700,083	16,408,870
Charges for services	2,501,945	-	-	-	1,376,745	3,878,690
Interest and investment income	23,433	131	4,809	34,066	8,450	70,889
Other income	239,226	245,521	30	-	34,027	518,804
Total revenues	18,481,274	6,161,603	4,143,776	34,066	5,119,305	33,940,024
Expenditures						
Current:						
General government	4,728,539	-	-	-	4,463	4,733,002
Courts and related offices	4,281,553	-	-	-	561,115	4,842,668
Corrections	4,262,476	-	-	-	-	4,262,476
Human Services	1,636,209	7,705,042	4,143,776	-	4,335,972	17,820,999
Capital outlay	213,989	-	-	8,295	31,176	253,460
Debt service:						
Principal	-	-	-	-	918,688	918,688
Interest	-	-	-	-	194,078	194,078
Total expenditures	15,122,766	7,705,042	4,143,776	8,295	6,045,492	33,025,371
Excess of revenues over (under) expenditures	3,358,508	(1,543,439)	-	25,771	(926,187)	914,653
Other Financing Sources (Uses)						
Operating transfers in	111,738	1,546,822	-	-	1,240,266	2,898,826
Operating transfers out	(2,787,088)	-	-	-	(111,738)	(2,898,826)
Total other financing sources (uses), net	(2,675,350)	1,546,822	-	-	1,128,528	-
Net Change in Fund Balances	683,158	3,383	-	25,771	202,341	914,653
Fund Balances (Deficit), Beginning	(698,408)	14,525	-	3,446,969	1,500,145	4,263,231
Fund Balances, Ending	\$ (15,250)	\$ 17,908	\$ -	\$ 3,472,740	\$ 1,702,486	\$ 5,177,884

See notes to financial statements

County of McKean, Pennsylvania

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended December 31, 2017

Net Change in Fund Balances, Total Governmental Funds \$ 914,653

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation, \$720,733, exceeded capital outlays, \$378,860, in the current period. (341,873)

Under the modified accrual basis of accounting used in governmental funds, revenues are unearned until they become available. In the statement of activities, however, revenues are recorded regardless of when financial resources are available. This is the change in unearned real estate tax revenue from 2016 to 2017. 186,292

Certain compensated absences payable are considered long-term in nature, are not reported as liabilities within the funds. Such liabilities are, however, reported within the statement of net position, and changes in these liabilities are reflected within the statement of activities. This amount represents the change in long-term compensated absences payable for the year ended December 31, 2017. (10,658)

Net pension liability is considered long-term in nature, and is not reported as a liability within the funds. Such liability is, however, reported within the statement of net position, and changes in the liability are reflected within the statement of activities. This represents the change in pension liability and the deferred outflows and inflows related to the net pension liability. (1,369,373)

The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the government-wide net position. During the year ended December 31, 2017, this amount represents the County's repayment of principal on long-term debt. 918,688

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional amount due over the interest accrued in the statement of activities is shown here. 5,713

Change in Net Position of Governmental Activities \$ 303,442

County of McKean, Pennsylvania

Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2017

	Original and Final Budget	Actual	Variances Favorable (Unfavorable)
Revenues			
Real estate taxes	\$ 12,478,556	\$ 12,965,232	\$ 486,676
Per capita taxes	123,517	97,539	(25,978)
Intergovernmental revenues	1,730,993	2,653,899	922,906
Charges for services	2,181,309	2,501,945	320,636
Interest income	16,062	23,433	7,371
Other income	131,692	239,226	107,534
	<u>16,662,129</u>	<u>18,481,274</u>	<u>1,819,145</u>
Expenditures			
Current:			
General government	4,583,032	4,728,539	(145,507)
Courts and related offices	3,989,033	4,281,553	(292,520)
Corrections	4,195,862	4,262,476	(66,614)
Human services	1,170,352	1,636,209	(465,857)
Capital outlay	12,882	213,989	(201,107)
	<u>13,951,161</u>	<u>15,122,766</u>	<u>(1,171,605)</u>
Excess of Revenues Over Expenditures			
	<u>2,710,968</u>	<u>3,358,508</u>	<u>647,540</u>
Other Financing Sources (Uses)			
Operating transfers in	151,745	111,738	(40,007)
Operating transfers out	<u>(2,862,713)</u>	<u>(2,787,088)</u>	<u>75,625</u>
	<u>(2,710,968)</u>	<u>(2,675,350)</u>	<u>35,618</u>
Net Changes in Fund Balance			
	-	683,158	683,158
Fund Balances (Deficit), Beginning of Year			
	-	<u>(698,408)</u>	<u>(698,408)</u>
Fund Balances (Deficit), End of Year			
	<u>\$ -</u>	<u>\$ (15,250)</u>	<u>\$ (15,250)</u>

See notes to financial statements

County of McKean, Pennsylvania

Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual - Children & Youth Services
Year Ended December 31, 2017

	Original and Final Budget	Actual	Variances Favorable (Unfavorable)
Revenues			
Intergovernmental revenues	\$ 6,232,628	\$ 5,915,951	\$ (316,677)
Interest income	25	131	106
Other income	125,846	245,521	119,675
Total revenues	<u>6,358,499</u>	<u>6,161,603</u>	<u>(196,896)</u>
Expenditures			
Current:			
Human services	<u>7,763,355</u>	<u>7,705,042</u>	<u>58,313</u>
Deficiency of Revenues Over Expenditures	(1,404,856)	(1,543,439)	(138,583)
Other Financing Sources			
Operating transfers in	<u>1,404,856</u>	<u>1,546,822</u>	<u>141,966</u>
Net Changes in Fund Balance	-	3,383	3,383
Fund Balances, Beginning of Year	<u>-</u>	<u>14,525</u>	<u>14,525</u>
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ 17,908</u>	<u>\$ 17,908</u>

See notes to financial statements

County of McKean, Pennsylvania

Statement of Revenues, Expenditures, and Changes

in Fund Balance - Budget and Actual - Mental Health/Intellectual Disabilities

Year Ended December 31, 2017

	Original and Final Budget	Actual	Variances Favorable (Unfavorable)
Revenues			
Intergovernmental revenues	\$ 3,897,275	\$ 4,138,937	\$ 241,662
Interest income	3,439	4,809	1,370
Other income	-	30	30
Total revenues	<u>3,900,714</u>	<u>4,143,776</u>	<u>243,062</u>
Expenditures			
Current, Human services	<u>4,126,242</u>	<u>4,143,776</u>	<u>(17,534)</u>
Deficiency of Revenues Over Expenditures	<u>(225,528)</u>	<u>-</u>	<u>225,528</u>
Other Financing Sources			
Operating transfers in	<u>225,528</u>	<u>-</u>	<u>(225,528)</u>
Net Changes in Fund Balance	-	-	-
Fund Balances, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements

County of McKean, Pennsylvania

Statement of Fiduciary Net Position

Year Ended December 31, 2017

	Employee Retirement Plan	Agency Funds
Assets		
Cash and cash equivalents	\$ 249,480	\$ 1,065,164
Investments	31,765,791	-
Due from other funds	45,697	10,558
Property taxes receivable	-	3,249,655
Court costs and fines receivable	-	4,720,559
Interest and other receivables	-	11,937
	<hr/>	<hr/>
Total assets	32,060,968	\$ 9,057,873
Liabilities		
Accounts payable and other liabilities	-	\$ 937,774
Escrow payable	-	4,772,749
Due to other governmental units	-	3,249,655
Due to other funds	-	97,695
	<hr/>	<hr/>
Total liabilities	-	\$ 9,057,873
Net Position		
Restricted for pension benefits	\$ 32,060,968	
	<hr/>	

See notes to financial statements

County of McKean, Pennsylvania

Statement of Change in Fiduciary Net Position
Year Ended December 31, 2017

	Employee Retirement Plan
Additions	
Contributions:	
County	\$ 250,000
Plan members	898,080
	<hr/>
Total contributions	1,148,080
	<hr/>
Investment income:	
Net change in fair value of investments	2,683,016
Gain on sale of assets	1,437,226
Interest and dividends	447,066
Less investment expense	(130,010)
	<hr/>
Net investment gain	4,437,298
	<hr/>
Total additions	5,585,378
	<hr/>
Deductions	
Benefit payments, including refunds of member contributions	2,457,751
Administrative expenses	180
	<hr/>
Total deductions	2,457,931
	<hr/>
Change in Net Position	3,127,447
	<hr/>
Plan Net Position, Beginning of Year	28,933,521
	<hr/>
Plan Net Position, End of Year	\$ 32,060,968
	<hr/> <hr/>

See notes to financial statements

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

1. Summary of Significant Accounting Policies

The accounting methods and procedures adopted by the County of McKean, Pennsylvania (the "County") conform to accounting principles generally accepted in the United States of America ("GAAP"). GAAP includes all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The following notes to the financial statements are an integral part of the County's financial statements:

Financial Reporting Entity

McKean County, Pennsylvania (the "County") operates under the Commonwealth of Pennsylvania Title 16 County Code. The County operates under an elected board of three Commissioners and, as authorized by the Code, provides the following services:

- Courts and elections - Operates as agents of the Commonwealth of Pennsylvania in the administration of justice, maintenance of public records and elections.
- Social services - Promotes the dignity of the County indigent senior citizens.
- Human Services - Administers state and federal grants for programs designed to:
 - Protect the welfare of displaced and abused children.
 - Assist handicapped, homeless and other disadvantaged citizens to have full and responsible participation in society.
 - Provide transportation services for eligible citizens.
- Planning - Assists townships, cities and boroughs in planning economic development and providing municipal services.
- Emergency 911 - County-wide 9-1-1 emergency telecommunications system.
- General and administrative services.

As required under GAAP, the financial statements of the reporting entity include those of the County (the primary government) and its component units. The component units, discussed in Note 2, are included in the County's financial reporting entity because of the significance of their operational or financial relationship with the County.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the County as a whole. They include all funds of the County except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements of the County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary (the County has no proprietary funds). An emphasis is placed on major funds within the governmental and proprietary categories.

The funds of the County are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the County and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the County.

Children and Youth Services Fund (Major Fund)

The Children and Youth Services Fund accounts for child protective services and court ordered dependent and delinquent children in protective or correctional institutions.

Mental Health/Intellectual Disabilities (Major Fund)

The Mental Health/Intellectual Disabilities Fund receives federal and state funding and uses the funds to provide services to eligible individuals.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

The County includes the following Special Revenue Funds, reported as non-major funds:

Fund	Accounts for Funds Legally Restricted for
Allegheny National Forrest	Human services
Domestic Relations	Courts and related offices
Food Appropriations	Human services
Liquid Fuels	Human services
HSDF Block Grant	Human services
McKean County Conservation District	Human services
Farmland Program	Human services
McKean County 911 Center	Human services
Grants Public Welfare	Human services
County Clerk of Orphans	Courts and related offices
Influenced Offenders Account	Human services
Coroner Special Revenue	Human services

Capital Projects Fund (Major Fund)

The Capital Projects Fund receives proceeds from debt issued by the County and from the sale of county assets and uses the funds to purchase or improve buildings and equipment. A budget is not adopted for this fund.

Debt Service Fund

The Debt Service Fund accounts for resources accumulated for the purpose of funding general long-term debt obligations. The Debt Service Fund is reported as a non-major fund.

Fiduciary Funds

Pension Trust Fund (Employee Retirement Plan)

Pension trust funds are used to report the resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans. The County maintains one single-employer governmental defined benefit pension trust fund, the McKean County Employees' Retirement System.

Agency Funds

Agency funds are used to report resources held by the County in a purely custodial capacity (i.e., assets = liabilities.) Agency funds reported by the County in the accompanying financial statements include cash held by the following County Row Offices/Departments: Prothonotary, Sheriff, Adult Probation, District Attorney, Jail-Inmate Commissary, Juvenile Probation, Recorder of Deeds, Tax Claims, Revenue, Register of Wills, and District Justices.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expense/expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than an expense/expenditure.

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 365 days of the end of the current fiscal period with the exception of property taxes, which must be received within 60 days of year-end to be deemed available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Licenses, operating and capital grants, and interest associated with the current fiscal period are considered to be susceptible to accrual and as such, have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when the County receives the cash.

Under the current financial resources measurement focus, only current financial assets and liabilities are generally included on their balance sheets. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during the period.

Amounts expended to acquire capital assets are recorded as expenditures in the year the resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as another financing source rather than a fund liability. However, debt service expenditures are recorded only when payment is due.

Amounts reported as program revenues include charges to citizens, customers or applicants for goods, services, or privileges provided and operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control for the General Fund and certain Special Revenue Funds. Most County funds adopt an annual operating budget. All budgets are adopted on a basis consistent with GAAP. The appropriated budget is prepared by fund, function, and department. Expenditures cannot legally exceed budgeted appropriations at the fund level. Additionally, management cannot revise the total budget obligation at the fund level without the approval of the Board of Commissioners. The County's department heads may make transfers of appropriations within their departments. All annual appropriations lapse at fiscal year-end. At December 31, 2017, the County has presented budgetary comparison information within the accompanying financial statements for its General Fund, Children and Youth Services Fund, and Mental Health/Intellectual Disabilities Fund.

The Commissioners may, at any time by resolution, make supplemental appropriations for any lawful purpose from any funds on hand or estimated to be received within the year and not otherwise appropriated, including the proceeds of any borrowing authorized by law. The Commissioners may authorize the transfer of any unencumbered balance of any appropriation item or any portion thereof. There were no supplemental appropriations (budget revisions) enacted in 2017.

The County follows these procedures in establishing the budgetary data reported in the financial statements:

- During August and September, the department heads use current financial status reports to develop financial projections for their programs for the ensuing year.
- Departments are to submit budget estimates to the Director of Finance by October 1st.
- Prior to December 1st, the final budget is presented to the Commissioners. Pursuant to budgetary requirements set forth in the County Code, public notice is given that the final budget is available for inspection for a period of 20 days.
- After the 20-day inspection period, but before December 31, the County Commissioners adopt the final budget by enacting an appropriate resolution.
- As required by the Commonwealth of Pennsylvania County Code, the proposed budget is then made available for public inspection for at least 20 days prior to the date of adoption (adoption is required by December 31). Subsequent to the budget approval, the County Commissioners place the budget in effect and fix the rate of taxation. Within 15 days subsequent to the legal adoption of the budget, the County Commissioners file a copy of the budget with the Commonwealth of Pennsylvania, Department of Community and Economic Development.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

Encumbrances

Encumbrance accounting, under which purchase orders and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is not employed by the County.

Cash Equivalents

The County considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents.

Investments

Investments of the Employee Retirement Trust Fund are stated at fair value for both reporting and actuarial purposes. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are generally reported at cost which is not expected to be materially different from fair value.

The County's investments in its Capital Projects Fund and Employee Retirement Trust Fund are comprised of a variety of financial instruments and are managed by an external investment advisor. The fair values reported in the financial statements are exposed to various risks, including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Taxes Receivable

Taxes receivable are reported at net realizable value. Amounts are written off when they are determined to be uncollectible based upon management's assessment of individual amounts. The allowance for doubtful accounts is estimated based upon a combination of the County's historical losses and a percentage of aged receivables. The allowance for uncollectible real estate taxes as of December 31, 2017 amounted to \$118,467.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

Deferred Outflows/Inflows of Resources

In addition to assets, the County reports a separate section for deferred outflows (inflows) of resources. This separate financial statement element represents a consumption (acquisition) of net position that applies to a future period and so will not be recognized as an outflow (inflow) of resources until that time.

Capital Assets

Capital assets include buildings, improvements, furniture, and equipment which are reported in the governmental activities column of the government-wide financial statements. Capital assets with initial, individual costs that equal or exceed \$5,000 and estimated useful lives in excess of one year are recorded as capital assets. Capital assets are recorded at historical costs or estimated costs if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Compensated Absences

All full-time employees accumulate one and one-fourth days of sick leave for each month of service. Sick leave may accumulate up to 130 days. Upon resignation or retirement, any outstanding sick leave is paid at 50% for employees attaining 20 years of service or age 60. For other employees, unused sick leave is lost.

All full-time employees are credited for vacation time starting from their date of hire. Any employee who is laid off, discharged, retired or otherwise separated from employment is compensated in cash for any unused vacation days up to a maximum of the number of days earned in a two-year period plus unused comp time, which is earned for each hour worked over 40 hours per week and which accumulates indefinitely.

All sick leave is accrued in the government-wide financial statements. A liability for accrued vacation is reported in governmental funds.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Position, as described above. Infrastructure assets acquired since January 1, 2003 are recorded at cost.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Estimated useful lives for each capital asset category of the County's capital assets are as follows:

	<u>Years</u>
Buildings	40 to 50
Equipment	5 to 10
Improvements	10 to 25

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Unearned Revenues

Unearned revenues reported in government-wide financial statements will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Unearned revenues reported in governmental fund financial statements represent revenues, which are measurable but not available and in accordance with the modified accrual basis of accounting are reported as unearned revenues.

Interfund Transactions

As a result of its operations, the County affects a variety of transactions between funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2017, appropriate interfund receivables or payables have been established. To the extent practical, the effect of interfund activity has been eliminated from the government-wide financial statements.

County of McKean, Pennsylvania

Notes to Financial Statements
December 31, 2017

Equity Classification

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consist of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances on any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net position - Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or; (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the County's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

Governmental Fund Balance Classification/Policies and Procedures

The County classifies its governmental fund balances as follows:

- *Non-spendable* - includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints, such as inventory or prepaid expenses
- *Restricted* - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation
- *Committed* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County through formal action of the County's "highest level of decision-making authority"
 - The Board of Commissioners of the County is its highest level of decision-making authority, and
 - The Board of Commissioners commits funds through ordinances.
- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County
 - The Board of Commissioners authorized the County Controller to assign funds to specific purposes.

County of McKean, Pennsylvania

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- *Unassigned* - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the County's policy is generally to first apply the expenditure toward restricted resources and then to unrestricted resources.

When an expenditure is incurred that can be paid using either committed, assigned, or unassigned amounts, the County's policy is generally to apply the expenditure to committed resources, and then to unassigned resources.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Principles

The County adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, for the year ended December 31, 2017. Statement No. 80 amends the blending requirements related to not-for-profit corporations for which the primary government is the sole corporate member. This implementation did not materially change the County's accounting and reporting policies.

The County adopted GASB Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*, for the year ended December 31, 2017. This statement addresses certain implementation issues related to (1) the presentation of payroll-related measures in required supplementary information; (2) selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and, (3) the classification of payments made by employers to satisfy employee contribution requirements. This implementation did not materially change the County's accounting and reporting policies.

County of McKean, Pennsylvania

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2. Reporting Entity

In accordance with GASB Statement Nos. 14, 39, 61 and 80, the County has evaluated all related entities (authorities, commissions and affiliates) for possible inclusion in the financial reporting entity.

The component units discussed below are included in the County's reporting entity because of the significance of financial and operational relationships with the County. These component units have been included in the financial reporting entity as follows:

Discretely Presented Component Unit

Discretely presented component units are separate legal entities that meet the component unit criteria, but do not meet the criteria for blending (a blended component unit's governing body is the same or substantially the same as the primary government, or provides services entirely to the primary government).

The component unit that is discretely presented in the County's report is presented below:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>
Bradford Regional Airport Authority	Operates the Bradford Regional Airport. County Commissioners appoint all board members and the County has guaranteed Airport Authority debt.

Separately issued financial statements are available through the Chief Clerk for the Bradford Regional Airport Authority for its year ended December 31, 2017.

Blended Component Unit

The component unit that is blended in the County's report as a non-major governmental fund is presented below:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>
McKean County Conservation District	Promotes protection, conservation and sustainable use of natural resources. County Commissioners appoint a voting majority of Conservation District board members, the Conservation District is fiscally dependent upon the County, and management of the Conservation District are County employees.

Separately issued financial statements are available through the Chief Clerk for the McKean County Conservation District for its year ended December 31, 2017.

County of McKean, Pennsylvania

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Related Organizations

The following organizations are considered to be related organizations of the County because of their relationship and mutual interest. Although the County appoints a voting majority of the organizations' governing boards in most instances, the County does not impose its will or have significant financial accountability for these organizations. The related organizations are as follows:

- McKean County Industrial Development Authority
- McKean County Housing Authority
- McKean County Planning Commission
- McKean County Redevelopment Authority
- McKean County Hospital Authority

3. Cash and Cash Equivalents and Investments

Under Section 1706 of the County Code of the Commonwealth of Pennsylvania, the County is authorized to invest in the following:

- A. United States Treasury bills.
- B. Short-term obligations of the United States government or its agencies or instrumentalities.
- C. Savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania ("Commonwealth") and insured by the Federal Deposit Insurance Corporation ("FDIC").
- D. Obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States, the Commonwealth, or of any agencies or instrumentalities backed by the full faith and credit of the Commonwealth or of any political subdivision of the Commonwealth or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision. The County may also invest in shares of a registered investment company under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933.
- E. Certificates of deposit purchased from institutions having their principal place of business in or outside the Commonwealth, which are insured by federal agencies. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets pursuant to Act No. 72 of the General Assembly. Certificates of deposit may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets net of its liabilities.
- F. "Commercial paper" and "prime commercial paper" meeting certain requirements.

County of McKean, Pennsylvania

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Pension or retirement funds may be invested by the County according to the "Prudent Man Rule" as defined by the Decedents, Estates, and Fiduciaries Act, 20 PA C.S.CH.73, which is referred to in the County Code.

The deposit and investment policy of the County adheres to state statutes. Deposits of the governmental funds are generally maintained in savings or demand deposit accounts. The deposits and investments of the capital projects and pension trust funds are administered by trustees and are held separately from those of other County funds.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures related to the following deposit and investment risks; credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following is a description of the County's deposit and investment risks.

Deposits with Financial Institutions

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the County will not recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The County does not have a formal deposit policy for custodial credit risk. As of December 31, 2017, the aggregate bank balance of bank deposits was \$7,747,432, of which \$500,000 was covered by federal depository insurance, \$5,602,799 was collateralized with securities held by the financial institution in the County's name, and the uninsured remaining bank deposits of \$1,644,633 were covered by pledged pools of assets maintained in accordance with Act 72 of the General Assembly that requires the institution pool collateral for all governmental deposits. The carrying amount of these bank deposits was \$7,131,918 at December 31, 2017.

Investments

As of December 31, 2017, the County had the following investments in its Capital Projects and Pension Trust Funds:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Cash and cash equivalents	N/A	\$ 521,156
Accrued interest	N/A	64,906
Mutual funds	N/A	10,261,216
Equity securities	N/A	14,106,346
Corporate bonds	Average of 6 years	1,853,121
Government asset backed securities	Average of 16 years	3,590,256
U.S. Treasury securities	Average of 9 years	2,839,817
Total investments		<u>\$ 33,236,818</u>

County of McKean, Pennsylvania

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Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2017, all of the County's investments were held by Northwest Savings Bank, and were insured by SIPC up to \$500,000.

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a credit rating by a nationally recognized rating organization. The County does not have a policy that would protect against credit risk by limiting investments to specific credit ratings.

As of December 31, 2017 the County's credit quality distribution of securities as a percentage of total investments is as follows:

Security Type	Credit Rating	% of Portfolio
Cash and cash equivalents	NR	1.6 %
Accrued interest	NR	0.2
Mutual funds	NR	30.9
Equity securities	NR	42.4
Corporate bonds	AAA to BBB	10.8
Government asset backed securities	AAA	5.6
US Treasury securities	AAA	8.5

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. The County's investment policy limits investments in any one issuer (excluding direct or indirect obligations of the U.S. Government) to 10% of total plan assets.

Interest Rate Risk - Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk - Foreign currency risk is the risk that changes in the foreign exchange rate will adversely affect the fair value of an investment. There are currently no investments in securities exchanged in foreign denominations. The County does not have a formal policy for foreign currency risk.

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Fair Value Measurements

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The County has the following recurring fair value measurements as of December 31, 2017:

	December 31, 2017			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by fair value level				
Debt securities:				
U.S. Treasury securities	\$ 2,839,817	\$ -	\$ 2,839,817	\$ -
Government asset backed securities	3,590,256	-	3,590,256	-
Corporate bonds	1,853,121	-	1,853,121	-
Common stocks:				
Consumer discretionary	1,143,845	1,143,845	-	-
Consumer staples	1,420,164	1,420,164	-	-
Energy	570,425	570,425	-	-
Financials	192,641	192,641	-	-
Health care	3,758,859	3,758,859	-	-
Industrials	1,155,249	1,155,249	-	-
Information technology	4,498,964	4,498,964	-	-
Materials	893,175	893,175	-	-
Real estate	207,329	207,329	-	-
Telecommunications	265,696	265,696	-	-
Mutual funds:				
International	1,846,671	1,846,671	-	-
Corporate bond funds	7,769,799	7,769,799	-	-
Real estate	644,745	644,745	-	-
Total fair value	32,650,756	<u>\$ 24,367,562</u>	<u>\$ 8,283,194</u>	<u>\$ -</u>
Cash and cash equivalents	521,156			
Accrued interest income	64,906			
Total investments	<u>\$ 33,236,818</u>			

The valuation methods for recurring fair value measurements are as follows:

- Equity securities (common stocks) and mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.
- Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

County of McKean, Pennsylvania

Notes to Financial Statements

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4. Due from Other Governments

The amounts reported in the County's various governmental funds at December 31, 2017 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund	\$ 293,313	\$ 86,920	\$ 380,233
Children & Youth Services	451,624	341,334	792,958
Mental Health/Mental Retardation	4,791	11,100	15,891
Non-Major Funds	<u>614,556</u>	<u>358,814</u>	<u>973,370</u>
Total	<u>\$ 1,364,284</u>	<u>\$ 798,168</u>	<u>\$ 2,162,452</u>

5. Real Estate Taxes

Real estate taxes are levied on February 1 and are payable on the following terms: 2% discount February 1 through March 31; face amount April 1 through May 31; and 10% penalty after May 31. The County bills these taxes, which are collected by elected tax collectors, and revenues are recognized in the period in which they are collected (pursuant to the modified cash basis of accounting). The County collects delinquent real estate taxes for itself and for other taxing authorities.

The County is permitted by the County Code to levy real estate taxes up to 25 mills on every dollar of adjusted valuation for general County purposes, exclusive of the requirements for the payment of interest and principal on funded debt. The County levy for 2017 was 11.25 mills.

Tax Abatement Programs

The County provides property tax abatements under four programs: the Keystone Opportunity Zone Program, the Local Economic Revitalization Tax Assistance Program, the Clean and Green Program and a Tax Increment Financing Program.

The Keystone Opportunity Zone Program ("KOZ") provides property tax abatements to encourage businesses and residents to locate in designated zones in the County. The KOZ Program is established by a Pennsylvania state statute and is administered by the Pennsylvania Department of Community and Economic Development. The abatements equal 100% of the property tax, are administered as a reduction in the tax bill, and last for varying periods through 2024.

The Local Economic Revitalization Tax Assistance Program ("LERTA") provides property tax abatements to provide a tax break to new commercial properties in certain sections of the County for five years as a way to stimulate business and economic growth. The abatements apply to the assessed value of improvements to a property. For the first year, 100% of the improvements are abated, subsequent years are reduced by 20% each year in the five year period.

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The Clean and Green Program is a preferential tax assessment program that bases property taxes on use values rather than fair market values. This ordinarily results in a tax savings for landowners. The Pennsylvania General Assembly enacted the program in 1974 as a tool to encourage protection of the Commonwealth's valuable farmland, forestland and open spaces. A property must be ten acres in size and in Agricultural Use, Agricultural Reserve, or Forest Reserve. Agricultural Use applications may be less than 10 acres in size if the property is capable of generating at least \$2,000 annually in farm income.

The Tax Increment Financing Program ("TIF") provides property tax abatements under Pennsylvania Act 113 of 1990, titled the Pennsylvania Tax Increment Financing Act. This Act provides authority for local taxing bodies to cooperate in providing financing for redevelopment and development of blighted areas and for payment of debt service used to develop and redevelop blighted areas and for the payment of debt service used to develop and redevelop blighted areas in their jurisdictions which will generate new development and increase taxes.

Information relevant to the disclosure of these programs for the calendar year ended December 31, 2017, is:

<u>Tax Abatement Program</u>	<u>Amount of Taxes Abated during 2017</u>
KOZ Program	\$ 33,526
LERTA Program	2,359
Clean and Green Program	1,102,373
TIF Program	<u>17,848</u>
Total	<u>\$ 1,156,106</u>

County of McKean, Pennsylvania

Notes to Financial Statements
December 31, 2017

6. Capital Assets

Primary Government

A summary of changes in capital assets is as follows:

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>December 31, 2017</u>
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 327,241	\$ -	\$ -	\$ -	\$ 327,241
Capital assets being depreciated:					
Buildings and improvements	21,186,341	78,489	-	-	21,264,830
Furniture and equipment	4,426,677	174,992	-	-	4,601,669
Vehicles	547,117	125,379	-	-	672,496
Total capital assets being depreciated	<u>26,160,135</u>	<u>378,860</u>	<u>-</u>	<u>-</u>	<u>26,538,995</u>
Less accumulated depreciation for:					
Buildings and improvements	8,319,572	486,440	-	-	8,806,012
Furniture and equipment	3,929,408	145,113	-	-	4,074,521
Vehicles	338,736	89,180	-	-	427,916
Total accumulated depreciation	<u>12,587,716</u>	<u>720,733</u>	<u>-</u>	<u>-</u>	<u>13,308,449</u>
Total capital assets being depreciated, net	<u>13,572,419</u>	<u>(341,873)</u>	<u>-</u>	<u>-</u>	<u>13,230,546</u>
Governmental activity capital assets, net	<u>\$ 13,899,660</u>	<u>\$ (341,873)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,557,787</u>

Depreciation expense was charged to functions/programs of governmental activities as follows:

General government	\$ 309,915
Corrections	209,013
Human services	<u>201,805</u>
	<u>\$ 720,733</u>

County of McKean, Pennsylvania

Notes to Financial Statements
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Component Unit - Airport Authority

	Balance January 1, 2017	Additions	Transfers/ Dispositions	Balance December 31, 2017
Capital assets, not being depreciated:				
Land	\$ 198,456	\$ -	\$ -	\$ 198,456
Construction in progress	233,893	139,094	-	372,987
Total capital assets, not being depreciated	<u>432,349</u>	<u>139,094</u>	<u>-</u>	<u>571,443</u>
Capital assets, being depreciated:				
Buildings	4,505,880	-	-	4,505,880
Improvements	5,123,545	-	-	5,123,545
Machinery and equipment	2,101,678	2,000	-	2,103,678
Runway projects and improvements	10,941,378	-	-	10,941,378
Total capital assets, being depreciated	<u>22,672,481</u>	<u>2,000</u>	<u>-</u>	<u>22,674,481</u>
Less accumulated depreciation	<u>11,497,632</u>	<u>483,934</u>	<u>-</u>	<u>11,981,566</u>
Total	<u>\$ 11,607,198</u>	<u>\$ (342,840)</u>	<u>\$ -</u>	<u>\$ 11,264,358</u>

7. Long-term Debt

As of December 31, 2017, the County's long-term debt consisted of the following:

Description	Interest Rate	Balance at 1/1/17	Additions	Retirements	Balance at 12/31/17	Current Portion
2007 General						
Obligation Note	2.75%	\$ 291,350	\$ -	\$ 143,688	\$ 147,662	\$ 147,662
2011 General						
Obligation Bond	2.375- 3.65%	1,720,000	-	265,000	1,455,000	275,000
2012 General						
Obligation Bond	2.00-2.75%	1,975,000	-	315,000	1,660,000	315,000
2013 General						
Obligation Bond	2.00- 2.375%	3,980,000	-	195,000	3,785,000	200,000
Total		<u>\$ 7,966,350</u>	<u>\$ -</u>	<u>\$ 918,688</u>	<u>\$ 7,047,662</u>	<u>\$ 937,662</u>

Specific information on each debt instrument is as follows:

In 2007, the County issued its \$1,310,000 General Obligation Note, Series of 2007, due in annual installments of \$151,745, including interest at 2.75% through 2018. This Note was in the form of a Pennsylvania Infrastructure Bank ("PIB") Loan through the Commonwealth of Pennsylvania, Department of Transportation. The proceeds of the Note were used to construct a replacement bridge on Boyer Crossing Road.

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In 2011, the County issued its \$3,145,000 General Obligation Bonds, Series of 2011, due in varying annual installments including interest at rates ranging from 2.375% to 3.65% through 2022. The proceeds of the bonds were used to advance refund the County's General Obligation Bonds, Series of 2006, and to pay the costs of issuing and insuring the Bonds.

In 2012, the County issued its \$3,590,000 General Obligation Bonds, Series of 2012, due in varying annual installments including interest at rates ranging from 2.00% to 2.75% through 2022. The proceeds of the bonds were used to currently refund the County's General Obligation Bonds, Series A of 2007, to currently refund the County's General Obligation Bonds, Series B of 2007, to currently refund the County's General Obligation Bonds, Series C of 2007 and to pay the costs of issuing the Bonds.

In 2013, the County issued its \$4,365,000 General Obligation Bonds, Series of 2013, due in varying annual installments including interest at rates ranging from 2.00% to 2.375% through 2025. The proceeds of the bonds were used to advance refund the County's General Obligation Bonds, Series of 2009, and to pay the costs of issuing and insuring the Bonds.

Interest paid on these bonds and notes during the year ended December 31, 2017 amounted to \$194,078.

Annual debt service requirements with respect to these issues are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 937,662	\$ 173,589	\$ 1,111,251
2019	810,000	151,803	961,803
2020	825,000	132,347	957,347
2021	845,000	111,403	956,403
2022	870,000	88,678	958,678
2023-2025	<u>2,760,000</u>	<u>128,625</u>	<u>2,888,625</u>
Total	<u>\$ 7,047,662</u>	<u>\$ 786,445</u>	<u>\$ 7,834,107</u>

8. Compensated Absences

The liability for compensated absences recorded in the governmental activities column on the statement of net position, was \$596,097 at December 31, 2017. The changes in the County's compensated absences in 2017 are summarized as follows:

	<u>Governmental Activities</u>
Balance January 1, 2017	\$ 585,439
Increase, net	<u>10,658</u>
Balance December 31, 2017	<u>\$ 596,097</u>

County of McKean, Pennsylvania

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9. Employee Retirement Plan

Plan Description

The County of McKean Employee Retirement Plan (the "Plan") is a contributory defined benefit governmental single employer retirement plan covering all full-time and part-time employees who work more than 1,000 hours per year. The Plan provides retirement, disability and death benefits to Plan members and their beneficiaries. Cost of living adjustments ("COLA") are provided at the discretion of the County Retirement Board. The Board is required to review COLA at least once every three years. The Plan is included in the accompanying financial statements of the County as a pension trust fund. The Plan does not issue a stand-alone financial report.

The Retirement Board consists of five members: three County Commissioners, the County Treasurer and the County Controller. The authority to establish and amend the benefit provisions of the Plan rests with the Retirement Board as designated in the County Code and Act 96 of 1971, the County Pension Law.

The financial statements of the Retirement Trust Fund are prepared on the accrual basis of accounting. Plan members and employer contributions to the Plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

At January 1, 2017, the date of the latest valuation, members of the plan were as follows:

Inactive plan members currently receiving benefits	216
Inactive plan members entitled to benefits but not yet receiving them	22
Current employees	<u>234</u>
Total membership	<u><u>472</u></u>
Number of participating employers	<u><u>1</u></u>

Benefits Provided

The pension plan provides pension benefits for normal retirement at age 60 (or 55 with 20 years of service) based on a formula including final average salary and years of credited service, in addition to the member's accumulated contribution to the Plan. Early retirement is available upon 20 years of service or after 8 years, if involuntary termination occurs. Members become vested after 8 years of service. County employees who terminate prior to entitlement to plan benefits will receive their accumulated contributions with interest. The Plan also provides for death and disability benefits.

Funding Policy and Contributions

Employees are required to contribute a portion of their salaries (7% of earnings in 2017) to the Plan and employees can elect to contribute up to 17% of their salaries. Per Act 96 of 1971, contribution requirements of the plan members and the County may be amended by the General Assembly of the Commonwealth of Pennsylvania. Interest is credited each year in an amount allowed by the County Retirement Board to each member's account. Administrative costs of the Plan are financed through investment earnings.

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The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the entry age normal actuarial cost funding method.

The annual required contribution was determined based on the most recent annual actuarial valuation dated January 1, 2017. The entry age normal actuarial cost method of funding was used in the valuation, which does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.50% per year compounded annually; (b) projected salary increases of 3.50% compounded annually; and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 3.00%. The method used to determine the actuarial value of assets is as described by Pennsylvania State Law, Act 44, the greater of the market value of assets as of the valuation date or the actuarial value of assets as of the prior valuation date, plus contributions and other deposits, except investment income, minus benefit payments and administrative expenses or other payments, plus credited interest at 1%, less than the plans' assumed rate to the valuation date. The actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the market value of assets as of the valuation date.

The actuarially determined contribution for 2017 of \$850,279 was determined based on the most recent annual actuarial valuation dated January 1, 2017. Actual County contributions were \$250,000 for the year ended December 31, 2017.

Deposits and Investments

The Plan allows funds to be invested pursuant to a strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of asset classes, as approved by the Retirement Board, and established the following target allocation across asset categories:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20-70 %	1.3-3.3 %
Domestic equities	30-80	5.4-6.4
International equities	0-30	5.5-6.5
Cash and cash equivalents	0-10	0.0-1.0
Total portfolio	<u>100.0 %</u>	

The long-term expected rate of return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Plan's target asset allocation for the 2017 measurement period are listed in the table above.

County of McKean, Pennsylvania

Notes to Financial Statements

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Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of Plan investment expense, was 15.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The County's net pension liability was measured at January 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The components of the net pension liability of the Plan as of December 31, 2017 were as follows:

Total pension liability	\$ 38,479,708
Plan fiduciary net position	<u>32,060,968</u>
Plan net pension liability	<u>\$ 6,418,740</u>
Plan fiduciary net position as a percentage of total pension liability	<u>83.32%</u>

Changes in the Net Pension Liability

The changes in the County's net pension liability during the year ended December 31, 2017 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2017	\$ 36,137,273	\$ 28,933,521	\$ 7,203,752
Changes for the year:			
Service cost	1,297,609	-	1,297,609
Interest cost	2,738,405	-	2,738,405
Changes for experience	718,943	-	718,943
Changes of benefit terms	45,229	-	45,229
Contributions, employer	-	250,000	(250,000)
Contributions, employee	-	898,080	(898,080)
Net investment income	-	4,567,308	(4,567,308)
Administration	-	(130,010)	130,010
Benefit payments, including refunds	(2,457,751)	(2,457,751)	-
Other Changes	-	(180)	180
Net changes	<u>2,342,435</u>	<u>3,127,447</u>	<u>(785,012)</u>
Balances at December 31, 2017	<u>\$ 38,479,708</u>	<u>\$ 32,060,968</u>	<u>\$ 6,418,740</u>

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

The schedule of changes in the employer's net pension liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information related to the funded status of the Plan.

Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of January 1, 2017 using the following actuarial methods and assumptions:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry-age normal
Actuarial assumptions:	
Projected salary increases	3.5%
Inflation	3.0%
Interest rate	7.5%
Cost-of-living adjustments	N/A
Asset valuation method	Market value

Mortality rates were based on the RP-2013 Annuitant and Non-annuitant Mortality Tables for Males and Females, with no projected improvements. The actuarial assumptions used in the January 1, 2017 valuation were based on past experience under the Plan and reasonable future expectations which represent a best estimate of anticipated experience under the Plan.

Discount Rate

The discount rate used to measure the total pension liability for the Plan was 7.5%, the same as the prior valuation. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Discount Rate Sensitivity

The following presents the County's net pension liability, calculated using the discount rate of 7.5%, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
County's net pension liability	\$ 10,114,498	\$ 6,418,740	\$ 3,294,473

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended December 31, 2017, the County recognized pension expense of \$1,739,709. At December 31, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 1,789,067	\$ 1,932,591
Differences between expected and actual experience	<u>749,084</u>	<u>238,741</u>
Total	<u>\$ 2,538,151</u>	<u>\$ 2,171,332</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:	
2018	\$ 457,589
2019	457,590
2020	(115,372)
2021	<u>(432,988)</u>
Total	<u>\$ 366,819</u>

10. Commitments and Contingencies

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

Litigation

The County is involved in several lawsuits arising in the normal course of business. It is the County's opinion that the aggregate amount of potential claims not covered by insurance resulting from claims against the County would not materially affect the financial position of the County at December 31, 2017.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

Other Commitments

The County has agreed to guarantee a Bradford Regional Airport Authority loan in the amount of \$293,514 at December 31, 2017. The loan was used to plan the development of a multi-tenant center located at the airport. The County has guaranteed this loan in full, until maturity. The County has not been required to make any payments prior to or for the year ending December 31, 2017, related to this guarantee.

11. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of, assets; errors and omissions; injuries to employees; and natural disasters.

Public Entity Risk Pools

The County participates in the Pennsylvania Counties Risk Pool ("PCoRP"), a public entity risk pool program of the County Commissioners Association of Pennsylvania ("CCAP"). The County pays an annual premium to PCoRP for its general insurance coverage. The agreement for the formation of PCoRP provides that the pool will be self-sustaining through member premiums and will reinsure through commercial insurance for claims in excess of \$250,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining; however, this has not yet been necessary. PCoRP has published its own financial report for the year ended December 31, 2017, which can be obtained through its offices, P.O. Box 60769, Harrisburg, PA, 17106-0769 (Attn: John Sallade, Managing Director).

Commercial Insurance

The County has elected to self-insure its employee medical insurance plan. The County has limited this self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the County for any medical costs over \$50,000 per covered individual per year. The County believes that it has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. The County's liability for all asserted and estimated unasserted claims was \$95,552 at December 31, 2017. The cost of medical coverage for employees was approximately \$3,000,000 in 2017.

The County carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

12. Interfund Balances and Transfers

Balances Due To/From Other Funds

Individual fund receivable and payable amounts at December 31, 2017 were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental Funds:		
General Fund	\$ 288,947	\$ 3,253,372
Children & Youth Services	948,721	52,182
Mental Health/Mental Retardation	34,145	13,510
Capital Projects	2,000,000	-
Special Revenue/Non-major Funds	139,905	51,214
	<u>3,411,718</u>	<u>3,370,278</u>
Total Governmental Funds		
Fiduciary Funds:		
Retirement Fund	45,697	-
Agency Funds	10,558	97,695
	<u>148,255</u>	<u>97,695</u>
Total		
	<u>\$ 3,467,973</u>	<u>\$ 3,467,973</u>

At December 31, 2017, the General Fund had outstanding balances due from other funds in the amount of \$288,947, including various amounts due from special revenue and agency funds primarily representing payroll and benefit reimbursements as well as operating cost advances. General Fund balances due to other Funds includes a \$2,000,000 amount due to Capital Projects representing an interfund borrowing and amounts payable to the Children & Youth Services Fund and Domestic Relations funds representing amounts deposited in the General Fund for these funds which had not been transferred as of year-end.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

Transfers To/From Other Funds

	<u>Transfer In</u>	<u>Transfers Out</u>
General Fund:		
Non-major funds:		
Liquid Fuels	\$ 111,738	\$ -
Domestic Relations	-	75,000
McKean County Conservation District	-	52,500
Debt Service	-	1,112,766
Children & Youth	-	1,546,822
	<hr/>	<hr/>
Total General Fund	111,738	2,787,088
	<hr/>	<hr/>
Children & Youth, General Fund	1,546,822	-
	<hr/>	<hr/>
Non-major funds:		
General Fund:		
Liquid Fuels	-	111,738
Domestic Relations	75,000	-
McKean County Conservation District	52,500	-
Debt Service	1,112,766	-
	<hr/>	<hr/>
Total non-major funds	1,240,266	111,738
	<hr/>	<hr/>
Total	<u>\$ 2,898,826</u>	<u>\$ 2,898,826</u>

General Fund transfers in are executed as a result of the General Fund being reimbursed for expenditures it paid that are the responsibility of another fund. General Fund transfers out represent annual County support for various special revenue funds as well as transfers made to debt service to fund required debt service payments.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

13. Operating Leases

The government leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases were \$110,559 for the year ended December 31, 2017. The future minimum lease payments for these leases are as follows:

Years ending December 31:	
2018	\$ 104,979
2019	64,977
2020	14,989
2021	6,361
2022	3,239
Thereafter	<u>125</u>
	<u>\$ 194,670</u>

14. Fund Balance Classifications

The County presents its governmental fund balances by level of constraint in the aggregate on its balance sheet - governmental funds. The individual specific purposes of each constraint are presented below:

	<u>General Fund</u>	<u>Children & Youth</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total</u>
Non-spendable for,					
Prepaid expenses	<u>\$ 504,216</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 504,216</u>
Restricted for:					
Children & Youth Services	\$ -	\$ 17,908	\$ -	\$ -	\$ 17,908
Domestic Relations	-	-	-	646,802	646,802
Liquid fuels tax purposes	-	-	-	212,122	212,122
Conservation	-	-	-	213,464	213,464
Other program purposes	-	-	-	214,075	214,075
Total restricted	<u>\$ -</u>	<u>\$ 17,908</u>	<u>\$ -</u>	<u>\$ 1,286,463</u>	<u>\$ 1,304,371</u>
Committed for,					
Facilities, acquisition and improvement	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,472,740</u>	<u>\$ -</u>	<u>\$ 3,472,740</u>
Assigned for,					
9-1-1 Center Operations,					
Food appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,023</u>	<u>\$ 416,023</u>

15. Pending Changes in Accounting Principles

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance related to the identification of fiduciary activities for accounting and financial reporting purposes. This Standard establishes criteria for identifying fiduciary activities of all state and local governments, with the focus being on whether a government controls the assets of the fiduciary activity and the beneficiaries of the assets. In addition, for all fiduciary activities, both a statement of net position and statement of changes in net position will now be required. The County is required to adopt Statement No. 84 for its calendar 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). To the extent applicable, the County is required to adopt Statement No. 85 for its calendar 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. To the extent applicable, the County is required to adopt Statement No. 86 for its calendar 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. The primary objective of this Statement is to enhance the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases. This Statement establishes a single model for lease accounting based on the foundational principle that all long-term leases (those with lease terms greater than 12 months) are financings of the right to use an underlying assets. The County is required to adopt Statement No. 87 for its calendar year 2020 financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The County is required to adopt Statement No. 88 for its calendar year 2019 financial statements.

County of McKean, Pennsylvania

Notes to Financial Statements

December 31, 2017

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The County is required to adopt Statement No. 89 for its calendar year 2020 financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The County is required to adopt Statement No. 90 for its calendar year 2019 financial statements.

County management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the financial reporting process.

16. Subsequent Event

In January 2018, the County borrowed \$3,500,000 on a Tax Revenue Anticipation Note, bearing interest at a rate of 1.89%. This note was subsequently repaid in full in April 2018.

County of McKean, Pennsylvania

Required Supplementary Information
 Schedule of Changes in Net Pension Liability and Related Ratios
 Year Ended December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u> <u>(As Restated)</u>	<u>2014</u> <u>(As Restated)</u>
Total Pension Liability				
Service cost	\$ 1,297,609	\$ 1,220,799	\$ 1,219,928	\$ 1,148,220
Interest	2,738,405	2,546,012	2,446,634	2,265,123
Changes of benefit terms	45,229	228,227	160,337	228,460
Differences between expected and actual experience	718,943	(455,779)	434,139	246,467
Changes of assumptions	-	-	-	352,654
Benefit payments, including refunds of member contributions	<u>(2,457,751)</u>	<u>(2,015,602)</u>	<u>(2,077,229)</u>	<u>(2,028,066)</u>
Net change in total pension liability	2,342,435	1,523,657	2,183,809	2,212,858
Total Pension Liability - Beginning	<u>36,137,273</u>	<u>34,613,616</u>	<u>32,429,807</u>	<u>30,216,949</u>
Total Pension Liability - Ending (a)	<u>\$ 38,479,708</u>	<u>\$ 36,137,273</u>	<u>\$ 34,613,616</u>	<u>\$ 32,429,807</u>
Plan Fiduciary Net Position				
Employer contributions	\$ 250,000	\$ 327,787	\$ 200,000	\$ 300,000
Employee contributions	898,080	868,756	871,167	829,208
Net investment income (loss)	4,567,308	1,069,535	(814,483)	1,861,775
Benefit payments, including refunds of member contributions	(2,457,751)	(2,015,602)	(2,077,229)	(2,028,066)
Administration	(130,010)	(127,913)	(137,274)	(149,147)
Other	<u>(180)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	3,127,447	122,563	(1,957,819)	813,770
Plan Fiduciary Net Position - Beginning	<u>28,933,521</u>	<u>28,810,958</u>	<u>30,768,777</u>	<u>29,955,007</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 32,060,968</u>	<u>\$ 28,933,521</u>	<u>\$ 28,810,958</u>	<u>\$ 30,768,777</u>
County's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 6,418,740</u>	<u>\$ 7,203,752</u>	<u>\$ 5,802,658</u>	<u>\$ 1,661,030</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>83.32%</u>	<u>80.07%</u>	<u>83.24%</u>	<u>94.88%</u>
Covered-employee Payroll	<u>\$ 9,731,794</u>	<u>\$ 9,318,531</u>	<u>\$ 9,344,121</u>	<u>\$ 8,856,410</u>
County's Net Pension Liability (Asset) as a Percentage of Covered - Employee Payroll	<u>65.96%</u>	<u>77.31%</u>	<u>62.10%</u>	<u>18.76%</u>

Notes to Schedule:

Benefit Changes: No changes in benefits.

Changes of Assumptions: No changes in assumptions.

The County implemented GASB Statement No. 67 in calendar year 2014. Information prior to calendar year 2014 is not available.

Restatement:

The County restated its net pension liability for 2015 and prior years due to actuarial revisions associated with member reserve accounts.

County of McKean, Pennsylvania

Required Supplementary Information
 Schedule of Employer Contributions
 Year Ended December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 850,279	\$ 800,835	\$ 682,016	\$ 555,172	\$ 576,561	\$ 500,402	\$ 482,085	\$ 525,128	\$ 457,618	\$ -
Contributions in relation to the actuarially determined contribution	<u>250,000</u>	<u>327,787</u>	<u>200,000</u>	<u>300,000</u>	<u>480,000</u>	<u>501,000</u>	<u>482,085</u>	<u>524,768</u>	<u>492,000</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ 600,279</u>	<u>\$ 473,048</u>	<u>\$ 482,016</u>	<u>\$ 255,172</u>	<u>\$ 96,561</u>	<u>\$ (598)</u>	<u>\$ -</u>	<u>\$ 360</u>	<u>\$ (34,382)</u>	<u>\$ -</u>
Covered-employee payroll	\$ 9,731,794	\$ 9,318,531	\$ 9,344,121	\$ 8,856,410	\$ 8,696,524	\$ 8,328,550	\$ 7,769,910	\$ 7,359,990	\$ 7,007,939	\$ 6,297,182
Contributions as a percentage of covered-employee payroll	2.57%	3.52%	2.14%	3.39%	5.52%	6.02%	6.20%	7.13%	7.02%	0.00%

Notes to Schedule:

Valuation date: Actuarially determined contributions are calculated as of January 1 of the current calendar year

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar
Remaining amortization period	23 years
Asset valuation method	The method that is prescribed by Pennsylvania State Law, Act 44
Inflation	3.0%
Salary increases	3.5% average, including inflation
Investment rate of return	7.5% net of pension plan investment expense, including inflation
Retirement age	Age 60 or 55 with 20 years service
Mortality	2013 RP Annuitant and Non-Annuitant Mortality Tables for males and females with no projected improvement

County of McKean, Pennsylvania

Required Supplementary Information
Schedule of Investment Return
Year Ended December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	<u>15.82%</u>	<u>4.40%</u>	<u>-2.69%</u>	<u>6.24%</u>

Notes to Schedule:

The County implemented GASB Statement No. 67 in calendar year 2014. Information prior to calendar year 2014 is not available.

County of McKean, Pennsylvania

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Received for the Year	Accrued (Deferred) Revenue at January 1, 2017	Revenue Recognized	Total Federal Expenditures	Accrued (Deferred) Revenue at December 31, 2017	Passed Through to Subrecipients
U.S. Department of Agriculture								
Passed through PA Dept. of Conservation and Natural Resources								
Secure Payments for States and Counties Containing Federal Lands / Forest Service Schools and Roads Cluster	10.665	N/A	\$ 447,709	\$ 447,709	\$ 468,331	\$ 468,331	\$ 468,331	\$ 468,331
Passed through PA Dept. of Agriculture								
Food Distribution Cluster								
Emergency Food Assistance	10.568	4100035786	9,570	6,924	5,124	5,124	2,478	-
Donated Food	10.569	8-01-42-110	30,235	-	30,235	30,235	-	-
Total Food Distribution Cluster			39,805	6,924	35,359	35,359	2,478	-
Cooperative Forestry Assistance	10.664	N/A	29,990	-	29,990	29,990	-	-
Total U.S. Department of Agriculture			517,504	454,633	533,680	533,680	470,809	468,331
U.S. Department of Defense								
Passed through PA Department of Environmental Protection								
Payments to States in Lieu of Real Estate Taxes	12.112	N/A	241,079	-	241,079	241,079	-	-
Total U.S. Department of Defense			241,079	-	241,079	241,079	-	-
U.S. Department of Housing & Urban Development								
Passed through PA Dept. of Community and Economic Development								
Community Development Block Grant - 2014	14.228	C000061154	89,435	46,347	43,143	43,143	55	43,143
Community Development Block Grant - 2015	14.228	C000063291	216,341	-	222,485	222,485	6,144	222,485
Community Development Block Grant - 2016	14.228	C000066484	11,261	-	11,436	11,436	175	11,436
Total CDBG Program			317,037	46,347	277,064	277,064	6,374	277,064
Emergency Solutions Grant	14.231	C000053459	71,605	23,352	57,474	57,474	9,221	-
HOME Investment Partnerships Program - 2013	14.239	C000061507	243,796	16,719	227,781	227,781	704	227,781
Total U.S. Department of Housing & Urban Development			632,438	86,418	562,319	562,319	16,299	504,845
U.S. Department of Interior								
Payments to States in Lieu of Real Estate Taxes	15.226	N/A	241,079	-	241,079	241,079	-	-
Passed through PA Department of Environmental Protection								
National Forest Acquired Lands	15.438	4904600000	275	-	275	275	-	-
Total U.S. Department of Interior			241,354	-	241,354	241,354	-	-
U.S. Department of Transportation								
Passed through PA Dept. of Transportation								
Highway Planning and Construction Cluster	20.205	R16020002	118,177	-	401,935	401,935	283,758	-
Total U.S. Department of Transportation			118,177	-	401,935	401,935	283,758	-
U.S. Department of Education								
Passed through PA Dept. of Human Services								
Special Education -- Grants for Infants and Families with Disabilities	84.181	N/A	52,908	-	52,908	52,908	-	-
Total U.S. Department of Education			52,908	-	52,908	52,908	-	-

See notes to schedule of expenditures of federal awards

County of McKean, Pennsylvania

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Received for the Year	Accrued (Deferred) Revenue at January 1, 2017	Revenue Recognized	Total Federal Expenditures	Accrued (Deferred) Revenue at December 31, 2017	Passed Through to Subrecipients
U.S. Department of Health and Human Services								
Passed through the PA Department of Human Services								
Title IV-D	93.563	N/A	\$ 442,950	\$ 82,995	\$ 435,547	\$ 435,547	\$ 75,592	\$ -
Title IV-D Incentives	93.563	N/A	75,756	27,154	76,487	76,487	27,885	-
Total IV-D			518,706	110,149	512,034	512,034	103,477	-
Guardianship Assistance Program	93.090	N/A	6,499	1,825	9,795	9,795	5,121	-
Promoting Safe and Stable Families	93.556	4100057304	383,699	68,347	315,352	315,352	-	315,352
Promoting Safe and Stable Families - Visitation Grant	93.556	N/A	3,256	-	3,256	3,256	-	-
Total Promoting Safe and Stable Families			386,955	68,347	318,608	318,608	-	315,352
Temporary Assistance for Needy Families / TANF Cluster	93.558	N/A	19,844	19,844	24,460	24,460	24,460	-
Community-Based Child Abuse Prevention Grants	93.590	N/A	2,577	-	2,577	2,577	-	-
Title IV-B	93.645	N/A	28,406	-	28,406	28,406	-	-
Title IV-B Match	93.645	N/A	7,576	-	7,576	7,576	-	-
Total IV-B			35,982	-	35,982	35,982	-	-
Title IV-E-Foster Care	93.658	N/A	425,154	167,530	472,892	472,892	215,268	-
Information Technology Grant	93.658	N/A	4,545	-	7,155	7,155	2,610	-
Total IV-E			429,699	167,530	480,047	480,047	217,878	-
Title IV-E - Adoption Assistance	93.659	N/A	251,729	77,783	353,432	353,432	179,486	-
Social Services Block Grant - Title XX	93.667	N/A	44,351	-	44,351	44,351	-	44,351
Social Services Block Grant - MH	93.667	N/A	43,414	-	43,414	43,414	-	-
Social Services Block Grant - MR	93.667	N/A	47,672	-	47,672	47,672	-	-
Total Social Services Block Grant			135,437	-	135,437	135,437	-	44,351
SIL Program	93.674	N/A	40,265	-	62,710	62,710	22,445	-
CMHSBG-MH	93.958	N/A	58,235	-	58,235	58,235	-	58,235
Medicaid Cluster								
Medical Assistance Transportation Program	93.778	7-1900-90012-631	424,629	93,783	364,371	364,371	33,525	-
Medical Assistance Waiver	93.778	N/A	126,093	-	126,093	126,093	-	-
MR Targeted Services Management	93.778	N/A	5,010	1,825	4,865	4,865	1,680	-
Title IV-E-Medicaid	93.778	N/A	2,920	1,266	3,889	3,889	2,235	-
MH Administration	93.778	N/A	12,644	2,607	13,148	13,148	3,111	-
Total Medicaid Cluster			571,296	99,481	512,366	512,366	40,551	-
Passed through the PA Department of Drug and Alcohol Programs								
Substance Abuse Block Grant	93.959	4100070690	455,933	-	455,933	455,933	-	455,933
Total U.S. Department of Health & Human Services			2,913,157	544,959	2,961,616	2,961,616	593,418	873,871
U.S. Department of Homeland Security								
Passed through PA Emergency Management Agency								
Emergency Management Performance Grant	97.042	4100064925	67,417	-	67,417	67,417	-	-
Homeland Security Grant Program	97.067	N/A	1,250	-	1,250	1,250	-	-
Total U.S. Department of Homeland Security			68,667	-	68,667	68,667	-	-
Total Federal Financial Assistance Programs			\$ 4,785,284	\$ 1,086,010	\$ 5,063,558	\$ 5,063,558	\$ 1,364,284	\$ 1,847,047

Footnotes:

N/A - Pass-through grantor number not provided.

County of McKean, Pennsylvania

Schedule of Selected Commonwealth of
Pennsylvania Department of Human Services Assistance
Year Ended December 31, 2017

<u>Grantor/Program Title</u>	<u>Combined Federal and State Expenditures</u>
Pennsylvania Department of Human Services	
Children & Youth Services	\$ 5,750,326
Mental Health/Intellectual Disabilities	4,138,937
Child Support Enforcement	512,034
Medical Assistance Transportation	728,742
Human Services Development Fund	54,135
Combined Homeless Assistance Programs	<u>36,192</u>
Total selected Pennsylvania Department of Human Services Assistance	<u><u>\$ 11,220,366</u></u>

Notes: This schedule includes selected Pennsylvania Department of Human Services (DHS) Assistance received by the County of McKean Pennsylvania and is presented using the accrual basis of accounting. Amounts reported in this schedule agree with the amounts included in the County's basic financial statements.

County of McKean, Pennsylvania

Notes to Schedule of Expenditures of Federal Awards
December 31, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the County of McKean, Pennsylvania (the "County") under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position/fund balance, or cash flows of the County.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Uniform Guidance (depending on the date of the federal awards involved), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The County has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

County of McKean, Pennsylvania

Combining Balance Sheet
 Non-major Governmental Funds
 December 31, 2017

	Allegheny National Forest	Domestic Relations	Food Appropriations Fund	Liquid Fuels Fund	HSDF Block Grant Fund	McKean County Conservation District	Farmland Program	McKean County 911 Center Fund
Assets								
Cash and cash equivalents	\$ 10,481	\$ 446,316	\$ 26,426	\$ 212,122	\$ 81,523	\$ 882,070	\$ 18,017	\$ 80,033
Due from other governments	468,331	103,477	-	-	-	-	-	325,292
Due from other funds	-	115,273	-	-	-	-	-	24,632
Total assets	\$ 478,812	\$ 665,066	\$ 26,426	\$ 212,122	\$ 81,523	\$ 882,070	\$ 18,017	\$ 429,957
Liabilities and Fund Balances								
Accounts payable	\$ 468,331	\$ -	\$ -	\$ -	\$ 956	\$ -	\$ -	\$ -
Due to other funds	-	-	63	-	42,786	3,152	-	5,188
Unearned revenue	-	-	-	-	-	665,454	-	-
Accrued vacation	-	18,264	-	-	-	-	-	35,109
Total liabilities	468,331	18,264	63	-	43,742	668,606	-	40,297
Fund Balances								
Restricted	10,481	646,802	-	212,122	37,781	213,464	18,017	-
Assigned	-	-	26,363	-	-	-	-	389,660
Total fund balances	10,481	646,802	26,363	212,122	37,781	213,464	18,017	389,660
Total liabilities and fund balances	\$ 478,812	\$ 665,066	\$ 26,426	\$ 212,122	\$ 81,523	\$ 882,070	\$ 18,017	\$ 429,957

County of McKean, Pennsylvania

Combining Balance Sheet
 Non-major Governmental Funds
 December 31, 2017

	Grants Public Welfare Fund	County Clerk of Orphans	Influenced Offenders Account	Coroner Special Revenue	Total Special Revenue Funds	Debt Service Fund	Total Non-major Governmental Funds
Assets							
Cash and cash equivalents	\$ 368,990	\$ 18,149	\$ 45,824	\$ 54,358	\$ 2,244,309	\$ -	\$ 2,244,309
Due from other governments	76,270	-	-	-	973,370	-	973,370
Due from other funds	-	-	-	-	139,905	-	139,905
Total assets	\$ 445,260	\$ 18,149	\$ 45,824	\$ 54,358	\$ 3,357,584	\$ -	\$ 3,357,584
Liabilities and Fund Balances							
Accounts payable	\$ 415,770	\$ -	\$ -	\$ -	\$ 885,057	\$ -	\$ 885,057
Due to other funds	-	-	-	25	51,214	-	51,214
Unearned revenue	-	-	-	-	665,454	-	665,454
Accrued vacation	-	-	-	-	53,373	-	53,373
Total liabilities	415,770	-	-	25	1,655,098	-	1,655,098
Fund Balances							
Restricted	29,490	18,149	45,824	54,333	1,286,463	-	1,286,463
Assigned	-	-	-	-	416,023	-	416,023
Total fund balances	29,490	18,149	45,824	54,333	1,702,486	-	1,702,486
Total liabilities and fund balances	\$ 445,260	\$ 18,149	\$ 45,824	\$ 54,358	\$ 3,357,584	\$ -	\$ 3,357,584

County of McKean, Pennsylvania

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Non-major Governmental Funds

Year Ended December 31, 2017

	<u>Allegheny National Forest</u>	<u>Domestic Relations</u>	<u>Food Appropriations Fund</u>	<u>Liquid Fuels Fund</u>	<u>HSDf Block Grant Fund</u>	<u>McKean County Conservation District</u>	<u>Farmland Program</u>	<u>McKean County 911 Center Fund</u>
Revenues								
Intergovernmental revenue	\$ 468,331	\$ 512,034	\$ 72,439	\$ 272,134	\$ 54,135	\$ 570,748	\$ 1,000	\$ -
Charges for services	-	-	-	-	-	62,760	-	1,253,969
Interest Income and investment income	204	2,021	12	508	9	3,270	8	309
Other Income	-	9,716	-	-	-	23,084	-	1,227
Total revenues	<u>468,535</u>	<u>523,771</u>	<u>72,451</u>	<u>272,642</u>	<u>54,144</u>	<u>659,862</u>	<u>1,008</u>	<u>1,255,505</u>
Expenditures								
Current:								
General government	-	-	-	-	-	-	-	-
Courts and related offices	-	561,115	-	-	-	-	-	-
Human services	479,990	-	46,747	132,688	41,761	709,813	-	1,118,678
Capital outlay	-	-	-	-	-	-	-	31,176
Debt Service:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Total expenditures	<u>479,990</u>	<u>561,115</u>	<u>46,747</u>	<u>132,688</u>	<u>41,761</u>	<u>709,813</u>	<u>-</u>	<u>1,149,854</u>
Excess of Revenue Over (Under) Expenditures	<u>(11,455)</u>	<u>(37,344)</u>	<u>25,704</u>	<u>139,954</u>	<u>12,383</u>	<u>(49,951)</u>	<u>1,008</u>	<u>105,651</u>
Other Financing Sources (Uses)								
Operating transfers in	-	75,000	-	-	-	52,500	-	-
Operating transfers out	-	-	-	(111,738)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>(111,738)</u>	<u>-</u>	<u>52,500</u>	<u>-</u>	<u>-</u>
Net Changes in Fund Balances	<u>(11,455)</u>	<u>37,656</u>	<u>25,704</u>	<u>28,216</u>	<u>12,383</u>	<u>2,549</u>	<u>1,008</u>	<u>105,651</u>
Fund Balances, Beginning	<u>21,936</u>	<u>609,146</u>	<u>659</u>	<u>183,906</u>	<u>25,398</u>	<u>210,915</u>	<u>17,009</u>	<u>284,009</u>
Fund Balances, Ending	<u>\$ 10,481</u>	<u>\$ 646,802</u>	<u>\$ 26,363</u>	<u>\$ 212,122</u>	<u>\$ 37,781</u>	<u>\$ 213,464</u>	<u>\$ 18,017</u>	<u>\$ 389,660</u>

County of McKean, Pennsylvania

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Non-major Governmental Funds
 Year Ended December 31, 2017

	Grants Public Welfare Fund	County Clerk of Orphans	Influenced Offenders Account	Coroner Special Revenue	Total Special Revenue Funds	Debt Service Fund	Total Non-major Governmental Funds
Revenues							
Intergovernmental revenue	\$ 1,748,587	\$ 675	\$ -	\$ -	\$ 3,700,083	\$ -	\$ 3,700,083
Charges for services	-	-	55,939	4,077	1,376,745	-	1,376,745
Interest income and investment income	794	27	-	77	7,239	1,211	8,450
Other income	-	-	-	-	34,027	-	34,027
Total revenues	1,749,381	702	55,939	4,154	5,118,094	1,211	5,119,305
Expenditures							
Current:							
General government	-	-	-	-	-	4,463	4,463
Courts and related offices	-	-	-	-	561,115	-	561,115
Human services	1,754,755	-	51,540	-	4,335,972	-	4,335,972
Capital outlay	-	-	-	-	31,176	-	31,176
Debt Service:							
Principal	-	-	-	-	-	918,688	918,688
Interest	-	-	-	-	-	194,078	194,078
Total expenditures	1,754,755	-	51,540	-	4,928,263	1,117,229	6,045,492
Excess of Revenue Over (Under) Expenditures	(5,374)	702	4,399	4,154	189,831	(1,116,018)	(926,187)
Other Financing Sources (Uses)							
Operating transfers in	-	-	-	-	127,500	1,112,766	1,240,266
Operating transfers out	-	-	-	-	(111,738)	-	(111,738)
Total other financing sources (uses)	-	-	-	-	15,762	1,112,766	1,128,528
Net Changes in Fund Balances	(5,374)	702	4,399	4,154	205,593	(3,252)	202,341
Fund Balances, Beginning	34,864	17,447	41,425	50,179	1,496,893	3,252	1,500,145
Fund Balances, Ending	\$ 29,490	\$ 18,149	\$ 45,824	\$ 54,333	\$ 1,702,486	\$ -	\$ 1,702,486

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

Board of Commissioners
County of McKean, Pennsylvania

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 financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of McKean, Pennsylvania (the "County") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, as described in the accompanying schedule of findings and questioned costs as items 2017-001 through 2017-005, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County's Responses to Findings

The County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Williamsport, Pennsylvania
September 24, 2018

**Independent Auditors' Report on Compliance for
Each Major Federal and DHS Program and on
Internal Control Over Compliance Required by
the Uniform Guidance and the Commonwealth of Pennsylvania,
Department of Human Services *Single Audit Supplement***

Board of Commissioners
County of McKean, Pennsylvania

Report on Compliance for Each Major Federal and DHS Program

We have audited the County of McKean, Pennsylvania's (the "County") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the Commonwealth of Pennsylvania, Department of Human Services ("DHS") *Single Audit Supplement* that could have a direct and material effect on each of the County's major federal and DHS programs for the year ended December 31, 2017. The County's major federal and DHS programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state DHS programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal and DHS programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), and; the Commonwealth of Pennsylvania, DHS *Single Audit Supplement*. Those standards, the Uniform Guidance and the DHS *Single Audit Supplement* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or DHS program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for each major federal and DHS program. However, our audit does not provide a legal determination of the County's compliance.

Basis for Qualified Opinion on National Forest and Substance Abuse Block Grant Programs

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding CFDA #10.665 - National Forest and CFDA #93.959 - Substance Abuse Block Grants as described in finding number 2017-006 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

Qualified Opinion on National Forest and Substance Abuse Block Grant Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its National Forest and Substance Abuse Block Grant Programs for the year ended December 31, 2017.

Unmodified Opinion on Each of the Other Major Federal and DHS Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal and DHS programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2017.

Other Matters

The County's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and DHS program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and DHS program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the DHS *Single Audit Supplement*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or DHS program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or DHS program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-006 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or DHS program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-007 to be a significant deficiency.

The County's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the DHS *Single Audit Supplement*. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Williamsport, Pennsylvania
September 24, 2018

County of McKean, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes No
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes No

Federal and DHS Awards

Internal control over major federal and DHS programs:

- Material weakness(es) identified? yes No
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major federal and DHS programs: Unmodified for all major federal and state DHS programs except for National Forest (10.665) and Substance Abuse Block Grant (93.959), which were qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) and/or the DHS *Single Audit Supplement*? yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.665	Forest Service Schools and Roads Cluster
20.205	Highway Planning and Construction Cluster
93.563	Child Support Enforcement Title IV-D
93.658	Foster Care Title IV-E
93.959	Substance Abuse Block Grant

Identification of major DHS programs:

<u>Name of DHS Program</u>
Children & Youth Services
Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

County of McKean, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section II - Financial Statement Findings

Finding/Noncompliance

2017-001 Internal Control over Financial Reporting - Segregation of Duties - Material Weakness

Criteria: Adequate segregation of duties between accounting functions is essential to good internal control.

Condition/Context: The responsibility for the performance of accounting duties is vested in a limited number of employees.

Effect: Without proper segregation of accounting functions, errors or fraud could occur and go undetected by management and employees in the normal course of performing their assigned functions.

Cause: The County employs a limited number of accounting personnel thereby limiting the extent of segregation of accounting responsibilities and functions amongst employees.

Recommendation: While it is advisable to have adequate segregation of duties amongst employees, the cost of such implementation must be weighed against the benefits to be derived. The cost which would result from increasing the number of employees to more fully segregate duties in your organization may exceed any internal control benefits to be derived. We feel that this internal control weakness is somewhat mitigated by the active involvement of the County Controller, Chief Clerk and the Board of Commissioners in the County's operational activities. You must, however, be aware of the possible impact of the internal control weaknesses which exist and continue to involve these individuals in financial accounting matters.

Views of Responsible Officials and Planned Corrective Actions: See corrective action plan.

County of McKean, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Finding/Noncompliance

2017-002 Internal Control over Financial Reporting - Non-attest Services - Material Weakness

Criteria: Internal control is a process which captures and records transactions, safeguards your assets and assures compliance with laws and regulations. As part of the audit, there were certain bookkeeping adjustments required, that were precipitated by the audit process. While we are pleased to provide these services, you understand that you are responsible for the County's internal control over financial reporting.

Condition/Context: In connection with our audit of your financial statements, you have also requested that we provide technical assistance with certain bookkeeping matters, subject to the County Controller's review and approval, which included:

- Proposed adjustments to real estate taxes receivable, allowance for uncollectable taxes, and unearned real estate tax revenue
- Proposed adjustments to Allegheny National Forest Fund activity
- Proposed adjustments to intergovernmental grants receivable/ unearned revenue
- Proposed adjustments to prepaid health insurance
- Proposed adjustments to Payroll Fund year-end accrual balances
- Assistance with adjusting various interfund accounts and transfers
- Assistance with recording County pass-through grants

Effect: The fact that you have requested technical assistance with the above-mentioned tasks, which are a normal and required component of internal control over financial reporting, constitutes a material weakness in internal control over financial reporting.

Cause: The County has individuals with the skills, knowledge and expertise to perform this activity in-house. However, due to the limited size of the County's accounting staff, such activity is not prioritized above its day-to-day business activities.

Recommendation: We recommend that management give consideration to performing the above tasks internally.

Views of Responsible Officials and Planned Corrective Actions: See corrective action plan.

County of McKean, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Finding/Noncompliance

2017-003

Internal Control over Financial Reporting - Controls over Cash Transactions - Material Weakness

Criteria: Internal control is a process, which captures and properly records transactions, safeguards assets, and assures compliance with laws and regulations.

Condition/Context: As part of our audit procedures designed to gain an understanding of the County's internal control system, we noted that with regard to cash transactions, the following aspects represent weaknesses in the County's internal control over financial reporting:

- Custody of checks after signature and before mailing should be handled by an employee independent of all payable, disbursing, receiving and general ledger functions;
- Reconciliation procedures for bank and other significant accounts should be reviewed and approved (by initialing and dating the reconciliation) by an individual independent of all payable, disbursing, receiving, and general ledger functions; and,
- County Row Officers maintain numerous "agency fund" cash accounts, through which a significant volume of activity passes each year, for which reconciliations are not reviewed and approved by an appropriate individual independent of all related cash receipt/disbursement functions.

Effect: Considering that transactions involving cash represent the predominant amount of activity within the County's general ledger, County management cannot be assured that misstatements are not occurring within the daily transactions and relied upon by management in its decision making processes.

Cause: There is currently no formal documentation or requirement that certain "best practices" be followed to adequately secure transactions to prevent or detect misstatements due to error or fraud.

Recommendation: We recommend that County management consider implementing steps to require appropriate review and approval of transactions and reconciliations to ensure the information used in making decisions is initiated, authorized, recorded, and processed reliably.

Views of Responsible Officials and Planned Corrective Actions: See corrective action plan.

County of McKean, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Finding/Noncompliance

2017-004 **Internal Control over Financial Reporting -
Continuing Disclosure Compliance - Material Weakness**

Criteria: Pursuant to the provisions of Securities and Exchange Commission ("SEC") Rule 15c2-12, Municipal Securities Disclosure, and the provisions of the County's General Obligation Bonds, the County is required to provide to the Municipal Securities Rulemaking Board ("MRSB") a copy of its annual audited financial statements within the term stated in the final official statement of its bonds (typically 6 to 9 months from end of year). (Effective July 1, 2009, the SEC began allowing issuers and their dissemination agents to utilize the Electronic Municipal Market Access system ("EMMA") to meet the filing requirements of SEC Rule 15c2-12.)

Condition/Context: As part of our audit of the County's financial statements, we noted that the County does not appear to be current with its Municipal Securities Disclosure requirements relative to its outstanding General Obligation Bonds, Series of 2011; the County's continuing disclosure requirement is due to be filed by June 30 of each year for the fiscal year ended the previous December 31.

Effect: Because the County has not kept its required SEC Rule 15c2-12 filings current for the 2011 bonds, it is not in compliance with the requirements of SEC Rule 15c2-12.

Cause: County management has not updated its required filings prior to the required filing date.

Recommendation: We recommend that the County update its SEC Rule 15c2-12 filings and create an annual reminder system to update its filing(s) on a timely basis.

Views of Responsible Officials and Planned Corrective Actions: See corrective action plan.

County of McKean, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Finding/Noncompliance

2017-005

Internal Control over Financial Reporting - General Fund Budgeting - Material Weakness

Criteria: The County is required to prepare and adopt an annual budget; budgeted expenditures cannot legally exceed appropriations. The preparation and monitoring of an accurate budget is a vital element of the County's internal control over financial reporting.

Condition/Context: The County incurred significant unfavorable budget variances in the following General Fund categories during 2017:

- Intergovernmental revenues/human services expenditures
- Courts and related offices expenditures
- Capital outlay expenditures

The variances occurred within the intergovernmental revenues/human services expenditures due to the County's practice of not budgeting for such activity. While such items typically have no "bottom line" effect, such practices understate the activity within these categories. Courts and related offices expenditures were approximately \$293,000 over-budget in 2017 due to higher than budgeted payroll and benefit and insurance costs. Finally, capital outlay expenditures were approximately \$201,000 over-budget in 2017 due primarily to several vehicle purchases that were not included in the 2017 budget.

Effect: The County experienced a \$1,172,000 unfavorable budget variance in 2017 within its General Fund expenditures (it should be noted that revenues also exceeded budgeted amounts for 2017, by approximately \$1,800,000).

Cause: The 2017 General Fund budget under-estimated the above mentioned expenditures and capital outlays.

Recommendation: We recommend that the County review these areas of the budget to ensure that accurate amounts are being appropriated in the budget. Furthermore, we recommend that the County consider adopting budget amendments when material variations between actual and budgeted amounts are identified.

Views of Responsible Officials and Planned Corrective Actions: See corrective action plan.

County of McKean, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section III - Federal Award Findings and Questioned Costs

Finding/Noncompliance

**2017-006 (Prior
year finding
number 2016-008)**

CFDA #10.665 - National Forest; U.S. Dept. of Agriculture; Passed through the PA Dept. of Conservation of Natural Resources; Pass-Through Entity Identifying Number: Not Available
CFDA #93.959 - Substance Abuse Block Grant; U.S. Dept. of Health and Human Services; Passed through the PA Dept. of Drug and Alcohol Programs; Pass-Through Entity Identifying Number: 4100070690

Criteria: The requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), §200.331 "Requirements for pass-through entities", requires that entities that pass federal funding through to subrecipients evaluate each subrecipients risk of non-compliance. §200.331 also prescribes a number of elements which are to be included in subaward contracts.

Condition: As part of our audit of the County's National Forest and Substance Abuse Block Grant Programs it was noted that the County did not evaluate each subrecipients risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subawards for purposes of determining the appropriate subrecipient monitoring activities. Additionally, it was noted that the required elements were not included in subaward contracts.

Questioned costs: N/A

Context: While the County did perform various subrecipient monitoring activities related to these programs including direct correspondence with subrecipients and obtaining of audit reports and follow up on findings, as applicable, no formal risk assessments of subrecipients were performed. Furthermore, while subaward contracts were in place, the required elements were not present in these contracts.

Effect: The County is not in compliance with the Uniform Guidance, §200.331.

Cause: County management failed to perform the required risk assessments of subrecipients and subaward contracts were not updated appropriately to adhere to the Uniform Guidance.

Recommendation: We recommend that the County update all subaward contracts to include all elements required by the Uniform Guidance and maintain documentation to support the County's assessment of each of its subrecipient's risk of non-compliance.

Views of Responsible Officials and Planned Corrective Actions: See corrective action plan.

County of McKean, Pennsylvania

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Finding/Noncompliance

**2017-007 (Prior
year audit finding
number 2016-009)**

CFDA #10.665 - National Forest; U.S. Dept. of Agriculture; Passed through the PA Dept. of Conservation of Natural Resources; Pass-Through Entity Identifying Number: Not Available

CFDA #20.205 – Highway Planning and Construction Cluster; U.S. Dept. of Transportation; Passed through the PA Dept. of Transportation; Pass-Through Entity Identifying Number: R16020002

CFDA #93.658 - Foster Care Title IV-E; U.S. Dept. of Health and Human Services; Passed through the PA Dept. of Human Services; Pass-Through Entity Identifying Number: N/A

CFDA #93.959 - Substance Abuse Block Grant; U.S. Dept. of Health and Human Services; Passed through the PA Dept. of Drug and Alcohol Programs; Pass-Through Entity Identifying Number: 4100070690

CFDA #93.563 - Child Support Enforcement Title IV-D; U.S. Dept. of Health and Human Services; Passed through the PA Dept. of Human Services; Pass-Through Entity Identifying Number: N/A

Criteria: The Uniform Guidance requires written policies/procedures in order to comply with certain requirements. These areas include allowability of costs, cash management, procurement, subrecipient monitoring and conflicts of interest.

Condition: As part of our audit of the County's National Forest, Highway Planning and Construction Cluster, Foster Care Title IV-E, Substance Abuse Block Grant, and Child Support Enforcement Title IV-D Programs it was noted that the County did not adopt written policies/procedures surrounding allowability of costs, procurement, cash management or subrecipient monitoring to comply with the requirements of the Uniform Guidance.

Questioned costs: N/A

Context: The County does have in place a number of written policies/procedures surrounding their administration of federal awards. It is further noted that a portion of the County's federal expenditures during calendar year 2017 were from grants with federal award dates prior to December 26, 2014.

Effect: The County is not in compliance with the written policy/procedure requirements of the Uniform Guidance.

Cause: County management failed to adopt the required written policies/procedures.

Recommendation: We recommend that the County draft and adopt all of the written policies/procedures required by the Uniform Guidance.

Views of Responsible Officials and Planned Corrective Actions: See corrective action plan.

County of McKean, Pennsylvania

Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2017

Finding/Noncompliance

2016-001 **Internal Control over Financial Reporting -
Segregation of Duties - Material Weakness**

Condition: The responsibility for the performance of accounting duties is vested in a limited number of employees.

Recommendation: While it is advisable to have adequate segregation of duties amongst employees, the cost of such implementation must be weighed against the benefits to be derived. The cost which would result from increasing the number of employees to more fully segregate duties in your organization may exceed any internal control benefits to be derived. We feel that this internal control weakness is somewhat mitigated by the active involvement of the County Controller, Chief Clerk and the Board of Commissioners in the County's operational activities. You must, however, be aware of the possible impact of the internal control weaknesses which exist and continue to involve these individuals in financial accounting matters.

Resolution: See current year finding 2017-001.

2016-002 **Internal Control over Financial Reporting -
Non-attest Services - Material Weakness**

Condition: In connection with our audit of your financial statements, you have also engaged us to perform certain non-attest services, subject to the County Controller's review and approval, which included:

- Proposed adjustments to real estate taxes receivable, allowance for uncollectable taxes, and unearned real estate tax revenue
- Proposed adjustments to accrued vacation
- Proposed adjustments to Allegheny National Forest Fund activity
- Proposed adjustments to debt service fund activity
- Proposed adjustments to beginning fund balances
- Proposed adjustments to intergovernmental grants receivable/ unearned revenue
- Proposed adjustments to prepaid health insurance
- Proposed adjustments to Payroll Fund year-end accrual balances
- Assistance with adjusting various interfund accounts and transfers
- Assistance with recording County pass-through grants

Recommendation: We recommend that management give consideration to performing the above tasks internally.

Resolution: See current year finding 2017-002

County of McKean, Pennsylvania

Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2017

Finding/Noncompliance

2016-003 **Internal Control over Financial Reporting and Compliance -
Accounts Payable Listing/Reconciliation -
Material Weakness**

Condition: The County does not reconcile the accounts payable accounts on the general ledger to a listing of open accounts payable on a periodic basis.

Recommendation: We recommend that the County implement a formal process requiring that a detailed (invoice level) listing of the open accounts payable invoices be periodically reconciled to the County's accounts (warrants) payable general ledger account.

Resolution: The County implemented a process to reconcile accounts payable to the general ledger for 2017.

2016-004 **Internal Control over Financial Reporting -
Controls over Cash Transactions - Material Weakness**

Condition: As part of our audit procedures designed to gain an understanding of the County's internal control system, we noted that with regard to cash transactions, the following aspects represent weaknesses in the County's internal control over financial reporting:

- Custody of checks after signature and before mailing should be handled by an employee independent of all payable, disbursing, receiving and general ledger functions;
- Reconciliation procedures for bank and other significant accounts should be reviewed and approved (by initialing and dating the reconciliation) by an individual independent of all payable, disbursing, receiving, and general ledger functions; and,
- County Row Officers maintain numerous "agency fund" cash accounts, through which a significant volume of activity passes each year, for which reconciliations are not reviewed and approved by an appropriate individual independent of all related cash receipt/disbursement functions.

Recommendation: We recommend that County management consider implementing steps to require appropriate review and approval of transactions and reconciliations to ensure the information used in making decisions is initiated, authorized, recorded, and processed reliably.

Resolution: See current year finding 2017-003.

County of McKean, Pennsylvania

Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2017

Finding/Noncompliance

**2016-005 Internal Control over Financial Reporting -
 Continuing Disclosure Compliance - Material Weakness**

Condition: As part of our audit of the County's financial statements, we noted that the County does not appear to be current with its Municipal Securities Disclosure requirements relative to its outstanding General Obligation Bonds, Series of 2011.

Recommendation: We recommend that the County update its SEC Rule 15c2-12 filings and create an annual reminder system to update its filing(s) on a timely basis.

Resolution: See current year finding 2017-004.

**2016-006 Internal Control over Financial Reporting -
 Restatement of Beginning Net Position - Material Weakness**

Condition: The County restated its beginning, January 1, 2016, governmental activities net position to correct actuarial errors associated with its defined benefit pension plan and to conform with accounting principles generally accepted in the United States of America ("GAAP").

Recommendation: The County should maintain oversight of its supporting records and ensure that all transactions are recorded in the appropriate accounting period in accordance with GAAP.

Resolution: The County has implanted more rigorous monitoring procedures to ensure its financial reporting is in accordance with GAAP. No restatement was required for 2017.

County of McKean, Pennsylvania

Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2017

Finding/Noncompliance

2016-007 Internal Control over Financial Reporting - General Fund Budgeting - Material Weakness

Condition: The County incurred unfavorable budget variances in the following General Fund categories during 2016:

- Intergovernmental revenues/community services expenditures
- Charges for service revenue
- Capital outlay expenditures

The variances occurred within the intergovernmental revenues/community services expenditures due to the County's practice of not budgeting for such activity. While such items typically have no "bottom line" effect, such practices understate the activity within these categories. The revenue shortfall within the charges for services category is largely attributable to an over-estimate of the number of non-resident prisoners the County anticipated housing at its prison (this factor represented approximately \$535,000 of the budget variance in the charge for service category; budgeted revenues have been overstated in this category for several years). Finally, capital outlay expenditures were approximately \$375,000 over-budget in 2016 due to the County Courthouse HVAC and 9-1-1 projects that were not included in the 2016 budget.

Recommendation: We recommend that the County review these areas of the budget to ensure that accurate amounts are being appropriated in the budget. Furthermore, we recommend that the County consider adopting budget amendments when material variations between actual and budgeted amounts are identified.

Resolution: See current year finding 2017-005.

2016-008 CFDA #10.665 - National Forest CFDA #93.959 - Substance Abuse Block Grant

Condition: As part of our audit of the County's National Forest and Substance Abuse Block Grant Programs it was noted that the County did not evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subawards for purposes of determining the appropriate subrecipient monitoring activities. Additionally, it was noted that the required elements were not included in subaward contracts.

Recommendation: We recommend that the County update all subaward contracts to include all elements required by the Uniform Guidance and maintain documentation to support the County's assessment of each of its subrecipient's risk of non-compliance.

Resolution: See current year finding 2017-006.

County of McKean, Pennsylvania

Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2017

Finding/Noncompliance

2016-009

CFDA #10.665 - National Forest
CFDA #93.658 - Foster Care Title IV-E
CFDA #93.959 - Substance Abuse Block Grant
CFDA #93.563 - Child Support Enforcement Title IV-D

Condition: As part of our audit of the County's National Forest, Foster Care Title IV-E, Substance Abuse Block Grant, and Child Support Enforcement Title IV-D Programs it was noted that the County did not adopt written policies/procedures surrounding allowability of costs, procurement, cash management or subrecipient monitoring to comply with the requirements of the Uniform Guidance.

Recommendation: We recommend that the County draft and adopt all of the written policies/procedures required by the Uniform Guidance.

Resolution: See current year finding 2017-007.

Independent Accountants' Report on Applying Agreed-Upon Procedures

Board of Commissioners
County of McKean, Pennsylvania
And Commonwealth of PA Department of Human Services

We have performed the procedures enumerated below, which were agreed to by the Commonwealth of Pennsylvania, Department of Human Services ("DHS") and management of the County of McKean, Pennsylvania (the "County") on the DHS financial schedules and exhibits required by the DHS *Single Audit Supplement* of the County as of and for the year ended December 31, 2017. The County's management is responsible for the financial schedules and exhibits required by the DHS *Single Audit Supplement*. The sufficiency of these procedures is solely the responsibility of DHS and the County (the specified parties). Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

- a. We have agreed by comparison of the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to DHS for the fiscal year ended June 30, 2017 and December 31, 2017, have been accurately compiled and reflect the audited books and records of the County. We also agreed by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail and in the format required by the DHS *Single Audit Supplement* pertaining to this period.

Program Name	Page Number	Exhibit Number	Schedule/Exhibit
Title IV-D Child Support Program	86	A-1 (a)	Comparison of Single Audit Expenditures with the Reported Expenditures
Title IV-D Child Support Program	87	A-1 (b)	PACSES OSCE 157 Data Reliability Validation
Title IV-D Child Support Program	88	A-1 (c)	Comparison of Reported Incentives to Incentives on Deposit
Title IV-D Child Support Program	89	A-1 (d)	Comparison of Single Audit Title IV-D Account with Reported Title IV-D Account
Medical Assistance Transportation	90	III	Revenues and Expenditures

Program Name	Page Number	Exhibit Number	Schedule/Exhibit
Early Intervention Services	91	V (a) EI	Revenues, Expenditures, and Carryover Funds – Early Intervention
Early Intervention Program	92	V (b) EI	Report of Income and Expenditures – Early Intervention
Block Grant Summary Report	93	VI (a) BG-S	Report of Income and Expenditures
County Human Services Block Grant	94	VI (b) BG-S	Report of Income and Expenditures

- b. We inquired of management regarding adjustments to reported revenues or expenditures, which were not reflected on reports submitted to DHS for the period reported upon.
- c. With regard to the Reconciliation Supplemental Financial Schedule (Exhibit XX on Page 95) (the "Reconciliation Schedule"), we have performed the following procedures:
 1. We have agreed by comparison of amounts and classifications the expenditure amounts listed on the Reconciliation Schedule under the "Federal Expenditures per the SEFA" (Column C), which summarizes DHS federal expenditure amounts as of December 31, 2017, have been accurately compiled and reflect the audited books, records and SEFA of the County.
 2. We have agreed by comparison of amounts and classifications the program receipt amounts listed on the Reconciliation Schedule under the "Federal Awards Received per the audit confirmation reply from Pennsylvania" (Column D), which summarizes DHS federal receipt amounts as of December 31, 2017, have been accurately compiled and reflect the amounts reported on the audit confirmation reply from Pennsylvania.
 3. We have recalculated the dollar amount and percentage differences between the Federal Expenditures per the SEFA (Column C) and the Federal Awards Received per the audit confirmation reply from Pennsylvania (Column D) on the Reconciliation Schedule.
 4. We have agreed by comparison to the audited books and records that the dollar amount differences (Column E) between the expenditures (Column C) and receipts (Column D) on the Reconciliation Schedule accurately reflect the audited books and records of the County.
 5. We have agreed by comparison to the audited books and records that the explanation of differences (Column G) between the expenditures (Column C) and receipts (Column D) on the Reconciliation Schedule accurately reflect the audited books and records of the County.

The procedures detailed in paragraphs (a), (b) and (c) above disclosed no adjustments or findings for the period reported upon.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively on the financial schedules and exhibits required by the DHS *Single Audit Supplement*. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Commonwealth of Pennsylvania, Department of Human Services, the Board of Commissioners, management and others within the County of McKean, Pennsylvania and is not intended to be, and should not be, used by anyone other than those specified parties.

Baker Tilly Virchow Krause, LLP

Williamsport, Pennsylvania
September 24, 2018

County of McKean, Pennsylvania

Child Support Enforcement Program
 Comparison of Single Audit Expenditures with the Reported Expenditures
 June 30, 2017

Exhibit A-1(a)

	Single Audit Expenditures					Reported Expenditures					Single Audit Over (Under) Expenditures				
	Total	Unallowable	Incentive Paid Costs	Net	Amount Paid	Total	Unallowable	Incentive Paid Costs	Net	Amount Paid	Total	Unallowable	Incentive Paid Costs	Net	Amount Paid
Quarter ending: 9/30/16															
1. Salary/Overhead	\$ 211,578	\$ 4,441	\$ -	\$ 207,137	\$ 136,710	\$ 211,578	\$ 4,441	\$ -	\$ 207,137	\$ 136,710	\$ -	\$ -	\$ -	\$ -	\$ -
2. Fees/Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Interest/Program Income	4,642	82	-	4,560	3,010	4,642	82	-	4,560	3,010	-	-	-	-	-
4. Blood Testing Fees	176	-	-	176	116	176	-	-	176	116	-	-	-	-	-
5. Blood Testing Costs	626	-	-	626	413	626	-	-	626	413	-	-	-	-	-
6. ADP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net total	<u>\$ 207,386</u>	<u>\$ 4,359</u>	<u>\$ -</u>	<u>\$ 203,027</u>	<u>\$ 133,998</u>	<u>\$ 207,386</u>	<u>\$ 4,359</u>	<u>\$ -</u>	<u>\$ 203,027</u>	<u>\$ 133,998</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Quarter ending: 12/31/16															
1. Salary/Overhead	\$ 171,943	\$ 4,216	\$ -	\$ 167,727	\$ 110,700	\$ 171,943	\$ 4,216	\$ -	\$ 167,727	\$ 110,700	\$ -	\$ -	\$ -	\$ -	\$ -
2. Fees/Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Interest/Program Income	4,196	82	-	4,114	2,715	4,196	82	-	4,114	2,715	-	-	-	-	-
4. Blood Testing Fees	470	-	-	470	310	470	-	-	470	310	-	-	-	-	-
5. Blood Testing Costs	114	-	-	114	75	114	-	-	114	75	-	-	-	-	-
6. ADP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net total	<u>\$ 167,391</u>	<u>\$ 4,134</u>	<u>\$ -</u>	<u>\$ 163,257</u>	<u>\$ 107,750</u>	<u>\$ 167,391</u>	<u>\$ 4,134</u>	<u>\$ -</u>	<u>\$ 163,257</u>	<u>\$ 107,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Quarter ending: 3/31/17															
1. Salary/Overhead	\$ 206,799	\$ 8,954	\$ 1,257	\$ 196,588	\$ 129,748	\$ 206,799	\$ 8,954	\$ 1,257	\$ 196,588	\$ 129,748	\$ -	\$ -	\$ -	\$ -	\$ -
2. Fees/Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Interest/Program Income	4,743	103	-	4,640	3,062	4,743	103	-	4,640	3,062	-	-	-	-	-
4. Blood Testing Fees	133	-	-	133	88	133	-	-	133	88	-	-	-	-	-
5. Blood Testing Costs	398	-	-	398	263	398	-	-	398	263	-	-	-	-	-
6. ADP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net total	<u>\$ 202,321</u>	<u>\$ 8,851</u>	<u>\$ 1,257</u>	<u>\$ 192,213</u>	<u>\$ 126,861</u>	<u>\$ 202,321</u>	<u>\$ 8,851</u>	<u>\$ 1,257</u>	<u>\$ 192,213</u>	<u>\$ 126,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Quarter ending: 6/30/17															
1. Salary/Overhead	\$ 160,206	\$ 5,391	\$ -	\$ 154,815	\$ 102,178	\$ 160,206	\$ 5,391	\$ -	\$ 154,815	\$ 102,178	\$ -	\$ -	\$ -	\$ -	\$ -
2. Fees/Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Interest/Program Income	4,059	95	-	3,964	2,616	4,059	95	-	3,964	2,616	-	-	-	-	-
4. Blood Testing Fees	371	-	-	371	245	371	-	-	371	245	-	-	-	-	-
5. Blood Testing Costs	361	-	-	361	238	361	-	-	361	238	-	-	-	-	-
6. ADP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net total	<u>\$ 156,137</u>	<u>\$ 5,296</u>	<u>\$ -</u>	<u>\$ 150,841</u>	<u>\$ 99,555</u>	<u>\$ 156,137</u>	<u>\$ 5,296</u>	<u>\$ -</u>	<u>\$ 150,841</u>	<u>\$ 99,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

County of McKean, PennsylvaniaTitle IV-D Child Support Program
PACSES OSCE 157 Data Reliability Validation
Year Ended December 31, 2017

Exhibit A-1 (b)

	County	McKean, Pennsylvania	Year Ended December 31, 2017
	OCSE 157 Report Line Number	Number of Cases Reviewed	Case Problems Found
	Line #1 IV-D - Cases open at the end of the year.	5	None
	Line #2 IV-D - Cases open at the end of the fiscal year with support orders established.	5	None
	Line #5 Children in IV-D - Cases open at the end of the fiscal year that were born out of wedlock.	5	None
	Line #6 Children in IV-D - Cases open at the end of the fiscal year that were born out of wedlock with paternity resolved.	5	None
	Line #24 Total amount of current support due for the fiscal year for IV-D cases, excluding emancipated children.	5	None
	Line #25 Total amount of support disbursed as current support during the fiscal year for IV-D cases, excluding emancipated children.	5	None
	Line #28 Cases with arrears due during the fiscal year.	5	None
	Line #29 Cases with disbursements on arrears during the fiscal year.	5	None

County of McKean, Pennsylvania

Title IV-D Child Support Program

Exhibit A-1 (c)

Comparison of Reported Incentives to Incentives on Deposit

Year Ended December 31, 2017

County	McKean, Pennsylvania	Year Ended December 31, 2017	
Month	MSE Paid Cost Worksheet Ending Incentive Balance	Audited Title IV-D Account Incentive Balance	Type of Account Structure
January	\$ 360,222	\$ 360,222	
March	363,960	363,960	(X) Separate Bank Account
June	391,502	391,502	() Restricted Fund-General Ledger
September	407,867	407,867	() Other: _____
December	\$ 433,225	\$ 433,225	

NOTE: Do not include income received from interest or medical incentives.

County of McKean, Pennsylvania

Title IV-D Child Support Program

Exhibit A-1 (d)

Comparison of Single Audit Title IV-D Account with Reported Title IV-D Account

Year Ended December 31, 2017

	<u>Single Audit Title IV-D Account</u>	<u>Reported Title IV-D Account</u>	<u>Single Audit Over/(Under) Reported</u>
Balance at January 1	\$ 408,115	\$ 408,115	\$ -
Receipts:			
Reimbursements	443,681	443,681	-
Incentives	75,756	75,756	-
Title XIX Incentives	-	-	-
Interest	2,021	2,021	-
Program Income	8,610	8,610	-
Genetic Testing Costs	1,099	1,099	-
Maintenance of Effort (MOE)	-	-	-
Other: P-Card Reimbursement	7	7	-
Total Receipts	<u>\$ 531,174</u>	<u>\$ 531,174</u>	<u>\$ -</u>
Intra-fund Transfers-In	<u>96,991</u>	<u>96,991</u>	<u>-</u>
Funds Available	<u>\$ 1,036,280</u>	<u>\$ 1,036,280</u>	<u>\$ -</u>
Disbursements:			
Transfers to General Fund	21,658	21,658	-
Vendor Payments	568,306	568,306	-
Bank Charges	-	-	-
Other: _____	-	-	-
Total Disbursements	<u>\$ 589,964</u>	<u>\$ 589,964</u>	<u>\$ -</u>
Intra-fund Transfers-Out	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31	<u>\$ 446,316</u>	<u>\$ 446,316</u>	<u>\$ -</u>

The Title IV-D account consists of two accounts.

The Title IV-D account is comprised of one checking and one savings account.

County of McKean, PennsylvaniaSchedules of Revenues and Expenditures
Medical Assistance Transportation Program
Year Ended June 30, 2017

Exhibit III

	<u>Reported</u>	<u>Actual</u>	<u>Difference</u>
Service Data			
Expenditures			
Group I Clients	\$ 674,818	\$ 674,818	\$ -
Group II Clients	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$ 674,818</u>	<u>\$ 674,818</u>	<u>\$ -</u>
Allocation Data			
Revenues			
Department of Public Welfare	\$ 674,269	\$ 674,269	\$ -
Interest Income	<u>549</u>	<u>549</u>	<u>-</u>
Total Revenues	<u>674,818</u>	<u>674,818</u>	<u>-</u>
Funds Expended			
Operating Costs	498,579	498,579	-
Administrative Costs	<u>176,239</u>	<u>176,239</u>	<u>-</u>
Total Funds Expended	<u>674,818</u>	<u>674,818</u>	<u>-</u>
Excess Revenues over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

McKean County, Pennsylvania

Schedule of Revenues, Expenditures, and Carryover Funds

Exhibit V (a) EI

Early Intervention

Year Ended June 30, 2017

Source of DHS Funding	Appropriation	DHS Funds Available			Cost Eligible for DHS Participation	Balance of Funds	Grant Fund Adjustments	Total Fund Balance
		Carryover	Allotment	Total Allocation				
A. Early Intervention								
1. Early Intervention Services	10235	\$ -	\$ 563,279	\$ 563,279	\$ 563,279	\$ -	\$ -	\$ -
2. Early Intervention Training	10235	865	3,395	4,260	3,865	395	-	395
3. Early Intervention Administration	10235	4,994	32,377	37,371	37,371	-	-	-
4. Infants and Toddlers with Disabilities (Part C)	70170	-	57,442	57,442	57,442	-	-	-
5. IT&F Waiver Administration	10235/70184	3,047	7,075	10,122	8,761	1,361	-	1,361
Total Early Intervention		\$ 8,906	\$ 663,568	\$ 672,474	\$ 670,718	\$ 1,756	\$ -	\$ 1,756

McKean County, Pennsylvania

Report of Income and Expenditures
 Early Intervention Program
 Year Ended June 30, 2017

Exhibit V (b) EI

	<u>Administration Office</u>	<u>Early Intervention</u>	<u>Service Coordination</u>	<u>Total</u>
I. Total Allocation	\$ -	\$ -	\$ -	\$ 672,474
II. Total Expenditures	56,664	356,894	471,999	885,557
III. Costs Over Allocation				
A. County Funded - Eligible	-	-	20,578	20,578
B. County Funded - Ineligible	-	-	-	-
C. Other - Eligible	-	-	-	-
D. Other - Ineligible	-	-	-	-
Total Costs Over Allocation	-	-	20,578	20,578
IV. Revenues				
A. Program Service Fees	-	-	-	-
B. Private Insurance Fees	-	-	-	-
C. Medical Assistance	-	-	70,825	70,825
D. Earned Interest	599	-	-	599
E. Other	-	-	43,506	43,506
Total Revenues	599	-	114,331	114,930
V. DHS Reimbursement				
A. DHS Categorical Funding - 90%	37,371	321,205	303,381	661,957
B. DHS Categorical Funding - 100%	8,761	-	-	8,761
VI. County Match - 10%	4,152	35,689	33,709	73,550
VII. Total DHS Reimbursement and County Match	\$ 50,284	\$ 356,894	\$ 337,090	\$ 744,268
VIII. Total Carryover				\$ 1,756

See Independent Accountants' Report on Applying Agreed-Upon Procedures

McKean County, Pennsylvania

Report of Income and Expenditures
 Block Grant Summary Report
 Year Ended June 30, 2017

Exhibit VI (a) BG-S

County Match (%)	4.32%
Actual County Match (\$)	\$ 145,970
Actual County Match (%)	4.32%

Block Grant Reporting		Costs Eligible for DHS Participation								Balance of Funds	Adjustments	Total Fund Balance	
	Appropriation	DHS Allocation	Mental Health	Intellectual Disabilities	Homeless Assistance	Child Welfare	HSS	D&A	Total				
Sources of Funding:													
1	State Human Services Block Grant	Multiple	\$ 3,353,324	\$ 2,559,256	\$ 494,979	\$ 36,192	\$ -	\$ 35,324	\$ 108,814	\$ 3,234,565	\$ 118,759	\$ -	\$ 118,759
2	SSBG	Multiple	91,086	43,414	47,672	-	-	-	-	91,086	-	-	-
3	SABG	80884	-	-	-	-	-	-	-	-	-	-	-
4	CMHSBG	70167	58,235	58,235	-	-	-	-	-	58,235	-	-	-
5	MA	70175	126,093	-	103,904	-	-	-	-	103,904	22,189	-	22,189
6	Crisis Counseling	80222	-	-	-	-	-	-	-	-	-	-	-
Total for Block Grant			\$ 3,628,738	\$ 2,660,905	\$ 646,555	\$ 36,192	\$ -	\$ 35,324	\$ 108,814	\$ 3,487,790	\$ 140,948	\$ -	\$ 140,948

Retained Earnings	
I. Unexpended Allocation	\$118,759
II. Maximum Retained Earnings (3%)	\$100,600
III. Waiver Requested Money (if applicable)	\$18,159
IV. Total Requested Retained Earnings	\$118,759

Prior Year Retained Earnings	
I. FY 15-16 Retained Earnings	\$173,639
II. Total Expended Retained Earnings-3%	\$80,951
III. Total Expended Retained Earnings-Waiver of 3%	\$65,736
IV. Amount to be Returned to DHS	\$26,952

McKean County, Pennsylvania

Report of Income and Expenditures
 County Human Services Block Grant
 Year Ended June 30, 2017

Exhibit VI(b) BG-S

Sources of Funding	Appropriation	Total Carryover	Allotment	DHS Allocation	Costs Eligible for DHS Participation	Balance of Funds	Adjustments	Total Fund Balance
A. Mental Health Services								
1 State - Personal Care Homes	10252	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2 Federal - Self Directed Care - TTI	70127	-	-	-	-	-	-	-
3 Federal - Infusing Peer Specialist into Crisis Services - TTI	70127	-	-	-	-	-	-	-
4 Federal - PATH Homeless Grant	70154	-	-	-	-	-	-	-
5 Federal - Capitalization of POMS	70522	-	-	-	-	-	-	-
6 Federal - Project Launch	71021	-	-	-	-	-	-	-
7 Federal - Bio-Terrorism Hospital Preparedness	80343	-	-	-	-	-	-	-
Subtotal Mental Health Services		-	-	-	-	-	-	-
B. Intellectual Disabilities Services								
1 Temporary NBG Funds for Regional Collaboratives	10255	-	-	-	-	-	-	-
2 Elwyn	10236	-	-	-	-	-	-	-
3 Money Follows the Person	10263	-	-	-	-	-	-	-
Subtotal Intellectual Disabilities Services		-	-	-	-	-	-	-
C. Drug & Alcohol Services								
1 State-Centers of Excellence	10262	-	-	-	-	-	-	-
Subtotal Drug & Alcohol Services		-	-	-	-	-	-	-
D. Total for Non-Block Grant Reporting		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Federal Awards Passed through the Pennsylvania Department of Human Services
Expenditures per the SEFA to Revenue Received per the Pennsylvania Audit Confirmation Reply

(A)	(B)	(C)	(D)	(E)	(F)	(G)
CFDA Name	CFDA Number	Federal Expenditures per the SEFA	Federal Awards Received per the Audit Confirmation reply from Pennsylvania	Difference (C-D)	% Difference (E/D)	Detailed Explanation of the Differences
Guardianship Assistance Program	93.090	\$ 9,795	\$ 7,094	\$ 2,701	38.08%	The difference in year end Accounts Receivable accounts for \$3,296 of the difference. The timing of cash receipts versus confirm accounts for (\$595) of the difference.
Promoting Safe and Stable Families	93.556	315,352	336,076	(20,724)	-6.17%	The difference in year end Accounts Receivable accounts for (\$68,347) of the difference. The timing of cash receipts versus confirm accounts for \$47,623 of the difference.
Visitation Grant	93.556	3,256	3,256	-	0.00%	N/A
Temporary Assistance for Needy Families	93.558	24,460	28,786	(4,326)	-15.03%	The difference in year end Accounts Receivable accounts for the difference of (\$10,902) of the difference. The timing of cash receipts versus confirm accounts for \$6,576 of the difference.
Title IV-D	93.563	435,547	442,950	(7,403)	-1.67%	The difference in year end Accounts Receivable accounts for (\$7,403) of the difference.
Title IV-D Incentives	93.563	76,487	76,194	293	0.38%	The difference in year end Accounts Receivable accounts for the difference of \$730. The timing of cash receipts versus confirm accounts for (\$437) of the difference.
Community-Based Child Abuse Prevention Grants	93.590	2,577	2,577	-	0.00%	N/A
Title IV-B	93.645	28,406	28,406	-	0.00%	N/A
Title IV-B Match	93.645	7,576	7,576	-	0.00%	N/A
Title IV-E Foster Care	93.658	472,892	442,191	30,701	6.94%	The difference in year end Accounts Receivable accounts for \$51,408 of the difference. The timing of cash receipts versus confirm accounts for (\$20,707) of the difference.
Information Technology Grant	93.658	7,155	-	7,155	N/A	Amounts not reported on the confirm.
Title IV-E Adoption Assistance	93.659	353,432	251,907	101,525	40.30%	The difference in year end Accounts Receivable accounts for \$98,033 of the difference. The timing of cash receipts versus confirm accounts for \$3,492 of the difference.
Social Services Block Grant - Title XX	93.667	44,351	44,351	-	0.00%	N/A
Social Services Block Grant - MH	93.667	43,414	43,414	-	0.00%	N/A
Social Services Block Grant - MR	93.667	47,672	47,672	-	0.00%	N/A
SIL Program	93.674	62,710	53,687	9,024	16.81%	The difference in year end Accounts Receivable accounts for \$22,445 of the difference. The timing of cash receipts versus confirm accounts for (\$13,421) of the difference.
Medical Assistance Transportation Program	93.778	364,371	424,630	(60,259)	-14.19%	The difference in year end Accounts Receivable accounts for the difference of (\$60,259).
Medical Assistance Waiver	93.778	126,093	94,570	31,523	33.33%	The timing of cash receipts versus confirm accounts for the variance of \$31,523.
MR Targeted Services Management	93.778	4,865	5,010	(145)	-2.89%	The difference in year end Accounts Receivable accounts for the difference of (\$145).
Title IV-E Medicaid	93.778	3,889	-	3,889	N/A	Amounts not reported on the confirm.
MH Administration	93.778	13,148	12,644	504	3.99%	The difference in year end Accounts Receivable accounts for the difference of \$504.
CMHSBG-MH	93.958	58,235	58,235	-	0.00%	N/A
		<u>\$ 2,505,683</u>	<u>\$ 2,411,225</u>	<u>\$ 94,458</u>	<u>3.92%</u>	