

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

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



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

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable John W. Johnson, Clay County Judge/Executive
Members of the Clay County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

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

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary and Other Information

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

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

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

To the People of Kentucky
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2020, on our consideration of the Clay County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Clay County Fiscal Court's internal control over financial reporting and compliance.

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

- 2019-001 The Kentucky Infrastructure Authority Debt Payments Were Not Paid As Required By The Debt Agreement
- 2019-002 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Occupational Tax Receipts

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

March 12, 2020

CLAY COUNTY OFFICIALS
For The Year Ended June 30, 2019

Fiscal Court Members:

John W. Johnson	County Judge/Executive
Price C. Hoskins	Magistrate
Ray Brown	Magistrate
Harrison Pennington (July 1, 2018 through December 31, 2018)	Magistrate
Russell Smith (January 1, 2019 through June 30, 2019)	Magistrate
Sonny Gay (July 1, 2018 through December 31, 2018)	Magistrate
Randall Wagers (July 1, 2018 through December 31, 2018)	Magistrate
Allan Robinson (July 1, 2018 through December 31, 2018)	Magistrate
Hugh Lunsford, Jr. (January 1, 2019 through June 30, 2019)	Magistrate
Christopher Smith (January 1, 2019 through June 30, 2019)	Magistrate
William Warren (January 1, 2019 through June 30, 2019)	Magistrate

Other Elected Officials:

Clay M. Bishop, Jr. (July 1, 2018 through December 31, 2018)	County Attorney
Joseph C. White (January 1, 2019 through June 30, 2019)	County Attorney
Linda Smallwood	Jailer
Michael Baker	County Clerk
Leslie Phillips	Circuit Court Clerk
Angela Johnson (July 1, 2018 through December 31, 2018)	Sheriff
Patrick Robinson (January 1, 2019 through June 30, 2019)	Sheriff
Phillip Mobley	Property Valuation Administrator
Danny Finley (July 1, 2018 through December 31, 2018)	Coroner
Jarrold Becknell (January 1, 2019 through June 30, 2019)	Coroner

Appointed Personnel:

Debra Parks	County Treasurer
Ted Woods	Occupational Tax Collector
Diana Roberts	Finance Officer

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 617,564	\$	\$
In Lieu Tax Payments	134,044	120,316	
Excess Fees	238,939		
Licenses and Permits	22,523		
Intergovernmental	431,421	2,297,011	2,663,464
Charges for Services	1,423,691		35,227
Miscellaneous	132,165	6,232	176,508
Interest	556	2,476	661
Total Receipts	<u>3,000,903</u>	<u>2,426,035</u>	<u>2,875,860</u>
DISBURSEMENTS			
General Government	1,230,231	21,600	
Protection to Persons and Property	133,236		2,055,901
General Health and Sanitation			
Social Services			
Recreation and Culture	146,325		
Roads		1,636,757	
Debt Service			546,325
Administration	1,360,169	368,966	705,255
Total Disbursements	<u>2,869,961</u>	<u>2,027,323</u>	<u>3,307,481</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>130,942</u>	<u>398,712</u>	<u>(431,621)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	230,000	30,000	300,000
Transfers To Other Funds	(392,594)	(230,000)	
Total Other Adjustments to Cash (Uses)	<u>(162,594)</u>	<u>(200,000)</u>	<u>300,000</u>
Net Change in Fund Balance	(31,652)	198,712	(131,621)
Fund Balance - Beginning (Restated)	<u>342,606</u>	<u>921,698</u>	<u>304,142</u>
Fund Balance - Ending	<u>\$ 310,954</u>	<u>\$ 1,120,410</u>	<u>\$ 172,521</u>
Composition of Fund Balance			
Bank Balance	\$ 344,577	\$ 1,131,986	\$ 196,762
Less: Outstanding Checks	(33,623)	(11,576)	(24,241)
Certificates of Deposit			
Fund Balance - Ending	<u>\$ 310,954</u>	<u>\$ 1,120,410</u>	<u>\$ 172,521</u>

The accompanying notes are an integral part of the financial statement

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

Budgeted Funds					
Local Government Economic Assistance Fund	Forest Fire Fund	Occupational Tax Fund	Special Water Line Extension Fund	Special Reserve Fund	Debt Service Fund
\$	\$ 6,063	\$ 1,594,054	\$	\$	\$
100 427,534					53,000
		934	1		
410		227		5,857	
<u>428,044</u>	<u>6,063</u>	<u>1,595,215</u>	<u>1</u>	<u>5,857</u>	<u>53,000</u>
34,216	5,416	1,229,383			
		146,090			
		8,000			
117,331					53,000
		500,177			
<u>151,547</u>	<u>5,416</u>	<u>1,883,650</u>			<u>53,000</u>
276,497	647	(288,435)	1	5,857	
		274,094			
(211,500)					
<u>(211,500)</u>		<u>274,094</u>			
64,997	647	(14,341)	1	5,857	
126,041	404	33,175	17,594	508,768	
<u>\$ 191,038</u>	<u>\$ 1,051</u>	<u>\$ 18,834</u>	<u>\$ 17,595</u>	<u>\$ 514,625</u>	<u>\$ 0</u>
\$ 191,038	\$ 1,051	\$ 36,585	\$ 17,595	\$	\$
		(17,751)			
				514,625	
<u>\$ 191,038</u>	<u>\$ 1,051</u>	<u>\$ 18,834</u>	<u>\$ 17,595</u>	<u>\$ 514,625</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statement

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

	<u>Unbudgeted Funds</u>		
	<u>Justice Center Corporation Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 2,217,681
In Lieu Tax Payments			254,360
Excess Fees			238,939
Licenses and Permits			22,623
Intergovernmental	582,763		6,402,193
Charges for Services			1,511,918
Miscellaneous		600,800	916,640
Interest	1,385	435	12,007
Total Receipts	<u>584,148</u>	<u>601,235</u>	<u>11,576,361</u>
DISBURSEMENTS			
General Government			1,251,831
Protection to Persons and Property			3,458,152
General Health and Sanitation			146,090
Social Services			8,000
Recreation and Culture		671,987	818,312
Roads			1,754,088
Debt Service	580,663		1,179,988
Administration	2,000		2,936,567
Total Disbursements	<u>582,663</u>	<u>671,987</u>	<u>11,553,028</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,485</u>	<u>(70,752)</u>	<u>23,333</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			834,094
Transfers To Other Funds			(834,094)
Total Other Adjustments to Cash (Uses)			<u> </u>
Net Change in Fund Balance	1,485	(70,752)	23,333
Fund Balance - Beginning (Restated)	72,479	559,089	2,885,996
Fund Balance - Ending	<u>\$ 73,964</u>	<u>\$ 488,337</u>	<u>\$ 2,909,329</u>
Composition of Fund Balance			
Bank Balance	\$ 73,964	\$ 493,060	\$ 2,486,618
Less: Outstanding Checks		(4,723)	(91,914)
Certificates of Deposit			514,625
Fund Balance - Ending	<u>\$ 73,964</u>	<u>\$ 488,337</u>	<u>\$ 2,909,329</u>

The accompanying notes are an integral part of the financial statement

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TO THE FINANCIAL STATEMENT**

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CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

Forest Fire Fund - The primary purpose of this fund is to account for funds received and expended for the prevention of forest fires.

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

Special Water Line Extension Fund - The primary purpose of this fund is to account for grant revenues and disbursements related to the construction of water lines in conjunction with the city of Manchester, Kentucky.

Special Reserve Fund - The primary purpose of this fund is to account for investment earnings on a certificate of deposit.

Debt Service Fund - The primary purpose of this fund is to account for debt payments to the Kentucky Infrastructure Authority. The primary source of receipts for this fund are payments from the North Manchester Water Association.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

D. Budgetary Information

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

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

E. Clay County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

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

Note 3. Transfers

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

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 230,000	\$	\$ 230,000
Road Fund	30,000			30,000
Jail Fund	100,000		200,000	300,000
Occupational Tax Fund	262,594		11,500	274,094
Total Transfers Out	\$ 392,594	\$ 230,000	\$ 211,500	\$ 834,094

Reason for transfers:

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

Note 4. Long-term Debt

A. Direct Borrowing

1. Kentucky Infrastructure Authority (KIA) Loan

In 1996, the Clay County Fiscal Court obtained a water resource loan from the Kentucky Infrastructure Authority (KIA) on behalf of the North Manchester Water Association. As part of the KIA loan agreement, the Clay County Fiscal Court executed a lease agreement with the North Manchester Water Association over the same 30 year term as the loan agreement.

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

Note 4. Long-term Debt (Continued)

A. Direct Borrowing (Continued)

1. Kentucky Infrastructure Authority (KIA) Loan (Continued)

The North Manchester Water Association remitted total payments of \$53,000 to fiscal court to pay towards the KIA loan. The payment schedule required 12 monthly payments of \$12,582 to be made the first of each month.

At the end of the term of the lease, the county will convey title of the assets to North Manchester Water Association. As of June 30, 2019, the principal balance is \$1,117,685. Future lease principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018/2019 Loan Default	\$ 163,851	\$
2020	124,518	28,258
2021	128,242	24,282
2022	132,076	20,187
2023	136,026	15,970
2024	140,093	11,627
2025-2026	292,879	9,700
Totals	<u>\$ 1,117,685</u>	<u>\$ 110,024</u>

B. Other Debt

2. Justice Center Refunding Bonds Series 2012

On November 1, 2012, the Clay County Justice Center consolidated an advance refunded Justice Center Bonds 2003 and KADD Leases - Justice Center. The principal amounts at the time of refunding were \$4,860,000 and \$450,000 respectively. The original debt was issued in order to construct the Clay County Justice Center. Total bond proceeds were \$5,415,000 with \$114,597 in reoffering premium, and \$3,148 of accrued interest. Distribution of funds was \$5,413,708 paid in advance escrow, \$115,889 in bond issuance cost, and \$3,148 accrued interest deposited to the sinking fund.

On the same day of the original bond issue, the Clay County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Clay County Justice Center. The financing plan for the project is below.

The Clay County Fiscal Court (the county) and the Clay County Justice Center Corporation are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Clay County Justice Center. The Clay County Justice Center Corporation and the county expect annual rentals for the use of the building to be in the amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, AOC has agreed to pay directly to paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable on July 1 of each year for another biennial period of two years. The county and the Clay County Justice Center are dependent upon the use allowance payment in order to meet the debt service for the bonds.

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

Note 4. Long-term Debt (Continued)

B. Other Debt (Continued)

2. Justice Center Refunding Bonds Series 2012 (Continued)

The use allowance payment commenced with occupancy of the Justice Center Building by AOC. AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until November 1, 2023, but the lease does not legally obligate AOC to do so. As of June 30, 2019, after the advance refunding the principal balance remaining was \$2,775,000. Future bond payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 530,000	\$ 55,213
2021	545,000	44,463
2022	550,000	33,168
2023	570,000	20,913
2024	580,000	7,250
Totals	<u>\$ 2,775,000</u>	<u>\$ 161,007</u>

3. Detention Center Bonds, Series 2006 General Obligation Public Project Refunding Bonds, Series 2006, Refinanced With Kentucky Association of Counties Finance Corporation (KACO), Financing Program Revenue Bonds, 2017 First Series A

During January 2006, the Clay County Fiscal Court issued Public Project Refunding Bonds totaling \$5,575,000 to advance certain bonded lease obligations totaling \$4,840,000 which were used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are called. The advance refunding met the requirements of an in-substance defeasance and the refunded bonds were removed from the county's long-term debt obligation. The advance refunding was undertaken to reduce total debt service payments to \$383,942 and to obtain an economic gain of \$138,154.

On May 09, 2017, the Clay County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Finance Corporation (KACo), using Financing Program Revenue Bonds, 2017 First Series A, to refund the outstanding County of Clay, Kentucky, General Obligation Public Project Refunding Bonds, Series 2006, dated January 12, 2006. The refunding bonds were paid in full in June 2017. As of June 30, 2019, the principal balance of the lease agreement is \$1,565,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 510,000	\$ 40,162
2021	520,000	28,671
2022	535,000	14,271
Totals	<u>\$ 1,565,000</u>	<u>\$ 83,104</u>

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

Note 4 Long-term Debt (Continued)

C. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 3,290,000	\$	\$ 515,000	\$ 2,775,000	\$ 530,000
Financing Obligations	3,184,072		501,387	2,682,685	798,369
Total Long-term Debt	<u>\$ 6,474,072</u>	<u>\$ 0</u>	<u>\$ 1,016,387</u>	<u>\$ 5,457,685</u>	<u>\$ 1,328,369</u>

Note 5. Employee Retirement System

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

The county's contribution for FY 2017 was \$687,611, FY 2018 was \$755,024, and FY 2019 was \$835,847.

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

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

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

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

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

Note 5. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

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

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

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

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

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

C. Cost of Living Adjustments - Tier 1

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

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

Note 5. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 6. Health Reimbursement Account

The Clay County Fiscal Court established a health reimbursement account to provide employees an additional health benefit. The county has a contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$2,000 each year to pay for qualified medical expenses. The balance in the health reimbursement account as of June 30, 2019, was \$8,565.

Note 7. Insurance

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

Note 8. Related Party Transactions

The Clay County Fiscal Court paid \$800 per month to the former Clay County Attorney for office space rent. The amount paid during fiscal year 2019 was \$4,800.

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

Note 9. Prior Period Adjustments

The county treasurer voided prior year outstanding checks for being outstanding for more than one year. This resulted in an increase to the beginning balance of the general fund \$140.

Note 10. Commitments and Contingencies

The county is involved in multiple lawsuits. While individually they may not be significant, in the aggregate they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

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CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

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CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 579,000	\$ 632,185	\$ 617,564	\$ (14,621)
In Lieu Tax Payments	1,230	1,230	134,044	132,814
Excess Fees	111,516	238,939	238,939	
Licenses and Permits	20,100	20,633	22,523	1,890
Intergovernmental	364,300	556,071	431,421	(124,650)
Charges for Services	1,605,100	1,605,100	1,423,691	(181,409)
Miscellaneous	95,850	124,213	132,165	7,952
Interest	500	500	556	56
Total Receipts	<u>2,777,596</u>	<u>3,178,871</u>	<u>3,000,903</u>	<u>(177,968)</u>
DISBURSEMENTS				
General Government	1,334,920	1,375,545	1,230,231	145,314
Protection to Persons and Property	3,600	136,650	133,236	3,414
Recreation and Culture	28,500	147,830	146,325	1,505
Administration	1,416,482	1,683,836	1,360,169	323,667
Total Disbursements	<u>2,783,502</u>	<u>3,343,861</u>	<u>2,869,961</u>	<u>473,900</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(5,906)</u>	<u>(164,990)</u>	<u>130,942</u>	<u>295,932</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	200,000	200,000	230,000	30,000
Transfers To Other Funds	<u>(362,594)</u>	<u>(362,594)</u>	<u>(392,594)</u>	<u>(30,000)</u>
Total Other Adjustments to Cash (Uses)	<u>(162,594)</u>	<u>(162,594)</u>	<u>(162,594)</u>	
Net Change in Fund Balance	(168,500)	(327,584)	(31,652)	295,932
Fund Balance - Beginning (Restated)	<u>168,500</u>	<u>342,606</u>	<u>342,606</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 15,022</u>	<u>\$ 310,954</u>	<u>\$ 295,932</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 50,000	\$ 113,263	\$ 120,316	\$ 7,053
Intergovernmental	2,367,312	2,634,778	2,297,011	(337,767)
Miscellaneous	100	5,000	6,232	1,232
Interest	1,000	2,064	2,476	412
Total Receipts	<u>2,418,412</u>	<u>2,755,105</u>	<u>2,426,035</u>	<u>(329,070)</u>
DISBURSEMENTS				
General Government	21,600	22,600	21,600	1,000
Roads	1,980,500	2,239,697	1,636,757	602,940
Administration	316,312	1,214,506	368,966	845,540
Total Disbursements	<u>2,318,412</u>	<u>3,476,803</u>	<u>2,027,323</u>	<u>1,449,480</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>100,000</u>	<u>(721,698)</u>	<u>398,712</u>	<u>1,120,410</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			30,000	30,000
Transfers To Other Funds	(200,000)	(200,000)	(230,000)	(30,000)
Total Other Adjustments to Cash (Uses)	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	
Net Change in Fund Balance	(100,000)	(921,698)	198,712	1,120,410
Fund Balance - Beginning	<u>100,000</u>	<u>921,698</u>	<u>921,698</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,120,410</u>	<u>\$ 1,120,410</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,682,800	\$ 2,713,227	\$ 2,663,464	\$ (49,763)
Charges for Services	32,000	32,000	35,227	3,227
Miscellaneous	130,000	176,146	176,508	362
Interest	300	593	661	68
Total Receipts	<u>2,845,100</u>	<u>2,921,966</u>	<u>2,875,860</u>	<u>(46,106)</u>
DISBURSEMENTS				
Protection to Persons and Property	1,913,636	2,124,424	2,055,901	68,523
Debt Service	546,325	546,325	546,325	
Administration	828,733	933,453	705,255	228,198
Total Disbursements	<u>3,288,694</u>	<u>3,604,202</u>	<u>3,307,481</u>	<u>296,721</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(443,594)</u>	<u>(682,236)</u>	<u>(431,621)</u>	<u>250,615</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>378,094</u>	<u>378,094</u>	<u>300,000</u>	<u>(78,094)</u>
Total Other Adjustments to Cash (Uses)	<u>378,094</u>	<u>378,094</u>	<u>300,000</u>	<u>(78,094)</u>
Net Change in Fund Balance	(65,500)	(304,142)	(131,621)	172,521
Fund Balance - Beginning	<u>65,500</u>	<u>304,142</u>	<u>304,142</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 172,521</u>	<u>\$ 172,521</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 100	\$ 100	\$ 100	\$
Intergovernmental	280,000	428,199	427,534	(665)
Interest	200	332	410	78
Total Receipts	<u>280,300</u>	<u>428,631</u>	<u>428,044</u>	<u>(587)</u>
DISBURSEMENTS				
Protection to Persons and Property	38,500	38,500	34,216	4,284
Roads	130,000	142,500	117,331	25,169
Administration	300	162,172		162,172
Total Disbursements	<u>168,800</u>	<u>343,172</u>	<u>151,547</u>	<u>191,625</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>111,500</u>	<u>85,459</u>	<u>276,497</u>	<u>191,038</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(211,500)</u>	<u>(211,500)</u>	<u>(211,500)</u>	
Total Other Adjustments to Cash (Uses)	<u>(211,500)</u>	<u>(211,500)</u>	<u>(211,500)</u>	
Net Change in Fund Balance	(100,000)	(126,041)	64,997	191,038
Fund Balance - Beginning	<u>100,000</u>	<u>126,041</u>	<u>126,041</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 191,038</u>	<u>\$ 191,038</u>

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

	FOREST FIRE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 5,000	\$ 5,994	\$ 6,063	\$ 69
Total Receipts	<u>5,000</u>	<u>5,994</u>	<u>6,063</u>	<u>69</u>
DISBURSEMENTS				
Protection to Persons and Property	5,000	5,424	5,416	8
Administration		996		996
Total Disbursements	<u>5,000</u>	<u>6,420</u>	<u>5,416</u>	<u>1,004</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(426)</u>	<u>647</u>	<u>1,073</u>
Net Change in Fund Balance		(426)	647	1,073
Fund Balance - Beginning		<u>404</u>	<u>404</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (22)</u>	<u>\$ 1,051</u>	<u>\$ 1,073</u>

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

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,739,500	\$ 1,739,500	\$ 1,594,054	\$ (145,446)
Miscellaneous	200	200	934	734
Interest	300	300	227	(73)
Total Receipts	<u>1,740,000</u>	<u>1,740,000</u>	<u>1,595,215</u>	<u>(144,785)</u>
DISBURSEMENTS				
General Government	2,500	2,500		2,500
Protection to Persons and Property	1,247,400	1,298,150	1,229,383	68,767
General Health and Sanitation	138,700	164,532	146,090	18,442
Social Services	8,000	8,000	8,000	
Administration	541,700	510,993	500,177	10,816
Total Disbursements	<u>1,938,300</u>	<u>1,984,175</u>	<u>1,883,650</u>	<u>100,525</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(198,300)</u>	<u>(244,175)</u>	<u>(288,435)</u>	<u>(44,260)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>196,000</u>	<u>196,000</u>	<u>274,094</u>	<u>78,094</u>
Total Other Adjustments to Cash (Uses)	<u>196,000</u>	<u>196,000</u>	<u>274,094</u>	<u>78,094</u>
Net Change in Fund Balance	(2,300)	(48,175)	(14,341)	33,834
Fund Balance - Beginning	<u>2,300</u>	<u>33,175</u>	<u>33,175</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (15,000)</u>	<u>\$ 18,834</u>	<u>\$ 33,834</u>

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

SPECIAL WATER LINE EXTENSION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	1	\$ 1	\$
Total Receipts		1	1	
DISBURSEMENTS				
General Health and Sanitation	17,594	17,595		17,595
Total Disbursements	17,594	17,595		17,595
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(17,594)	(17,594)	1	17,595
Net Change in Fund Balance	(17,594)	(17,594)	1	17,595
Fund Balance - Beginning	17,594	17,594	17,594	
Fund Balance - Ending	\$ 0	\$ 0	\$ 17,595	\$ 17,595

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

	SPECIAL RESERVE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 1,200	\$ 4,239	\$ 5,857	\$ 1,618
Total Receipts	<u>1,200</u>	<u>4,239</u>	<u>5,857</u>	<u>1,618</u>
DISBURSEMENTS				
Administration	509,675	513,007		513,007
Total Disbursements	<u>509,675</u>	<u>513,007</u>		<u>513,007</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(508,475)</u>	<u>(508,768)</u>	5,857	514,625
Net Change in Fund Balance	(508,475)	(508,768)	5,857	514,625
Fund Balance - Beginning	<u>508,475</u>	<u>508,768</u>	<u>508,768</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 514,625</u>	<u>\$ 514,625</u>

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

DEBT SERVICE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$	\$ 53,000	\$ 53,000	\$
Total Receipts		53,000	53,000	
DISBURSEMENTS				
Debt Service		53,000	53,000	
Total Disbursements		53,000	53,000	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

CLAY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2019

Note 1. Budgetary Information

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

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

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

CLAY COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

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CLAY COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,041,727	\$	\$	\$ 1,041,727
Buildings	18,732,377			18,732,377
Vehicles and Equipment *	4,569,528	407,399	115,990	4,860,937
Infrastructure *	9,592,631	237,599		9,830,230
 Total Capital Assets	 \$ 33,936,263	 \$ 644,998	 \$ 115,990	 \$ 34,465,271

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

June 30, 2019

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 50,000	10-20 years
Buildings and Building Improvements	\$ 50,000	25-40 years
Equipment	\$ 5,000	5-20 years
Vehicles	\$ 5,000	5-10 years
Infrastructure	\$ 50,000	5-50 years

Note 2. Prior Period Adjustment

The beginning balances for vehicles and equipment and infrastructure were restated by \$203,910 and (\$23,567) respectively from the prior year due to prior year errors.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John W. Johnson, Clay County Judge/Executive
Members of the Clay County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clay County Fiscal Court for the fiscal year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Clay County Fiscal Court's financial statement and have issued our report thereon dated March 12, 2020.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-002 to be a material weakness.



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

Compliance And Other Matters

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

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

March 12, 2020

**CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

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CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended June 30, 2019

STATE LAWS AND REGULATIONS:

2019-001 The Kentucky Infrastructure Authority Debt Payments Were Not Paid As Required By The Debt Agreement

This is a repeat finding and was included in the prior year audit report as finding 2018-001. The Kentucky Infrastructure Authority (KIA) debt payments were not made in accordance with the debt schedule as required by the agreement with KIA. The schedule requires 12 monthly payments of \$12,582 plus varying monthly servicing fees to be made the first of each month; however, payments were not made in accordance with the amortization schedule during the fiscal year. Total payments of \$53,000, comprised of principal payments of \$6,387 and interest payments of \$46,613 were made during the fiscal year. The amortization schedule required total payments of \$150,984, comprised of principal payments of \$120,904 and interest payments of \$30,080. In addition, servicing fees of \$2,039 were required to be paid. The total past due principal balance is \$163,851 as of June 30, 2019, based upon county records.

The Clay County Fiscal Court entered into the debt with KIA in order to obtain funding for waterlines on behalf of North Manchester Water Association. The fiscal court further entered into a lease agreement with North Manchester Water Association where they would make lease payments equaling the debt service payments directly to KIA. North Manchester made payments up through January 2018, but then failed to make the required monthly payments. The Clay County Fiscal Court now requires North Manchester Water Association to pay payments to the fiscal court and they in turn make the payments to KIA. However, the county is not receiving the payments from North Manchester in accordance with the amortization schedule; therefore, the proper payment amount is not being submitted to KIA by the fiscal court.

The county is in default on the debt agreement with KIA by not ensuring proper debt payments were made in accordance with their agreement. The loan agreement the county entered into with KIA requires monthly loan payments to be made the first of each month in accordance with the debt amortization schedule.

We recommend the Clay County Fiscal Court comply with the terms of the KIA agreement by making all required debt payments in the future. We further recommend the fiscal court contact KIA in order to become in compliance with the terms of the agreement regarding unpaid principal and interest payments. If the original agreement is amended, a new written agreement should be entered into outlining the responsibilities and required payments of all parties. The county should consult with the county attorney for legal guidance on this issue.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The North Manchester Water Association is currently issuing a check for \$7,000.00, toward their payment per month. This is being paid toward their interest and the remainder toward the principal. At this time KIA is accepting this payment.

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

INTERNAL CONTROL - MATERIAL WEAKNESS:

2019-002 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Occupational Tax Receipts

This is a repeat finding and was included in the prior year audit report as finding 2018-003. The Clay County Fiscal Court does not have adequate segregation of duties over occupational tax receipts. The occupational tax clerk sends out occupational tax bills, opens mail, matches the checks to the occupational tax bills, prepares a list of receipts, prepares deposits, posts receipt to the tax manager program, and compares the deposits to the receipt list and the report produced by the tax manager program. The deposit is taken to the bank by the occupational tax clerk or the tax administrator. The original deposit slip is provided to the county treasurer who compares the deposit slip to the bank statement and prepares bank reconciliations. No documented review of the receipt process was noted.

The county has two employees working in the occupational tax office. Occupational tax information is restricted and can only be accessed by authorized personal. In addition, a limited budget places restrictions on the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been implemented to offset the lack of segregation of duties.

A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

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

To adequately protect against undetected misappropriation of assets and inaccurate financial reporting, we recommend the fiscal court separate the duties involving mailing of the bills, opening of mail, preparing the receipt list, collecting and depositing of receipts, and preparation of the deposit. If this is not feasible due to a limited budget, strong oversight over these areas could occur and involve an employee that isn't currently performing any of those functions.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This is due to a limited budget and a low office staff of the Clay Co. Tax Administrators Office. The privacy issue also effects this office, since private incomes are exposed to the Tax Administrators Office and his staff.

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

CLAY COUNTY FISCAL COURT

For The Year Ended June 30, 2019

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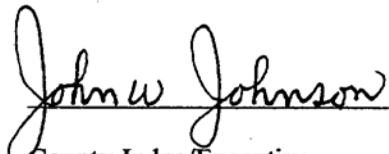
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE

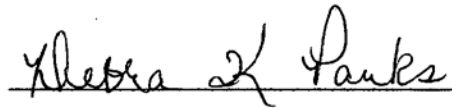
COUNTY FISCAL COURT

For The Year Ended June 30, 2019

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



County Judge/Executive



County Treasurer