

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

**For The Year Ended
June 30, 2018**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable John A. Osborne, Former Lawrence County Judge/Executive

The Honorable Phillip L. Carter, Lawrence County Judge/Executive

Members of the Lawrence 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 Lawrence County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Lawrence 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 Lawrence 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 Lawrence County Fiscal Court as of June 30, 2018, 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 Lawrence County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2019, on our consideration of the Lawrence 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 Lawrence 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:

- 2018-001 The Fiscal Court Did Not Pay Invoices Within Thirty Days
- 2018-002 Disbursements Exceeded Approved Budget Appropriations For The Road Fund
- 2018-003 The Lawrence County Fiscal Court's Capital Asset Schedule Was Inaccurate
- 2018-004 The Fiscal Court Does Not Have Adequate Controls Over Payroll

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 16, 2019

LAWRENCE COUNTY OFFICIALS**For The Year Ended June 30, 2018****Fiscal Court Members:**

John A. Osborne	County Judge/Executive
William M. Howard	Magistrate
John J. Lemaster	Magistrate
Earl Boggs, Jr.	Magistrate
Rick Blackburn	Magistrate

Other Elected Officials:

Michael T. Hogan	County Attorney
Roger L. Jordan	Jailer
Christopher Jobe	County Clerk
Jodi Parsley	Circuit Court Clerk
Garrett Roberts, Jr.	Sheriff
Christopher Rose	Property Valuation Administrator
Lawrence M. Wilson	Coroner

Appointed Personnel:

Sabrina Cantrell	County Treasurer
Michelle Miller	Chief Financial Officer

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,343,322	\$	\$
In Lieu Tax Payments	231,849		
Excess Fees	142,005		
Licenses and Permits	31,336		
Intergovernmental	317,940	1,991,222	88,305
Charges for Services	675	28,341	
Miscellaneous	456,842	166,330	16,576
Interest	91	244	32
Total Receipts	<u>2,524,060</u>	<u>2,186,137</u>	<u>104,913</u>
DISBURSEMENTS			
General Government	1,150,130	8,648	
Protection to Persons and Property	113,566		461,699
General Health and Sanitation	81,997		
Social Services	18,596		
Recreation and Culture	214,385		
Transportation Facility and Services	15,525		
Roads		1,993,178	
Debt Service	72,159	141,419	
Capital Projects	53,045		
Administration	682,517	276,961	39,562
Total Disbursements	<u>2,401,920</u>	<u>2,420,206</u>	<u>501,261</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>122,140</u>	<u>(234,069)</u>	<u>(396,348)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds		141,922	
Payroll Revolving Account	12,124		
Transfers From Other Funds	415,000	360,000	395,984
Transfers To Other Funds	(505,364)	(330,000)	
Total Other Adjustments to Cash (Uses)	<u>(78,240)</u>	<u>171,922</u>	<u>395,984</u>
Net Change in Fund Balance	43,900	(62,147)	(364)
Fund Balance - Beginning (Restated)	148,163	87,009	1,769
Fund Balance - Ending	<u>\$ 192,063</u>	<u>\$ 24,862</u>	<u>\$ 1,405</u>
Composition of Fund Balance			
Bank Balance	\$ 214,787	\$ 49,019	\$ 3,894
Payroll Revolving Account Reconciled Balance	12,124		
Add: Deposits In Transit	609		
Less: Outstanding Checks	(35,457)	(24,157)	(2,489)
Fund Balance - Ending	<u>\$ 192,063</u>	<u>\$ 24,862</u>	<u>\$ 1,405</u>

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

LAWRENCE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Budgeted Funds				Unbudgeted Fund	
Local Government Economic Assistance Fund	Forestry Fund	Sewer Fee Fund	E-911 Fund	Public Properties Corporation Fund	Total Funds
\$	\$ 5,281	\$	\$ 109,214	\$	\$ 1,457,817
					231,849
					142,005
					31,336
619,829	1,698	52,533	175,852	1,367,129	4,614,508
		14,421			43,437
		1,165			640,913
95	69	4	9	6,278	6,822
<u>619,924</u>	<u>7,048</u>	<u>68,123</u>	<u>285,075</u>	<u>1,373,407</u>	<u>7,168,687</u>
25,110					1,183,888
17,319	4,296		220,221		817,101
3,000					84,997
1,000					19,596
					214,385
					15,525
222,006					2,215,184
		52,533		1,366,929	1,633,040
6,820		13,656			73,521
19,547			67,926	200	1,086,713
<u>294,802</u>	<u>4,296</u>	<u>66,189</u>	<u>288,147</u>	<u>1,367,129</u>	<u>7,343,950</u>
325,122	2,752	1,934	(3,072)	6,278	(175,263)
					141,922
					12,124
155,000			15,000		1,340,984
(485,620)		(5,000)	(15,000)		(1,340,984)
<u>(330,620)</u>		<u>(5,000)</u>			<u>154,046</u>
(5,498)	2,752	(3,066)	(3,072)	6,278	(21,217)
22,426	53,952	6,788	14,012	547,012	881,131
<u>\$ 16,928</u>	<u>\$ 56,704</u>	<u>\$ 3,722</u>	<u>\$ 10,940</u>	<u>\$ 553,290</u>	<u>\$ 859,914</u>
\$ 40,895	\$ 56,704	\$ 3,722	\$ 10,940	\$ 553,290	\$ 933,251
					12,124
					609
(23,967)					(86,070)
<u>\$ 16,928</u>	<u>\$ 56,704</u>	<u>\$ 3,722</u>	<u>\$ 10,940</u>	<u>\$ 553,290</u>	<u>\$ 859,914</u>

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

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**LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(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.

Forestry Fund - The primary purpose of this fund is to account for collections and disbursements of taxes relating to fire protection.

Sewer Fee Fund - The primary purpose of this fund is to account for sewer fee collections. The primary use of these funds is for capital projects and debt service payments.

E-911 Fund - The primary purpose of this fund is to account for emergency service expenses for residents of the county. The primary source of receipts is taxes on telephone services.

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

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

D. Budgetary Information

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

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

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

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

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Lawrence County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Lawrence 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 Lawrence County Fiscal Court.

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

Note 2. Deposits

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

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, 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 2018.

	General Fund	Road Fund	LGEA Fund	Sewer Fee Fund	E-911 Fund	Total Transfers In
General Fund	\$	\$ 300,000	\$ 110,000	\$ 5,000	\$	\$ 415,000
Road Fund	330,000		\$ 30,000			360,000
Jail Fund	65,364		330,620			395,984
LGEA Fund	110,000	30,000			15,000	155,000
E-911 Fund			15,000			15,000
Total Transfers Out	<u>\$ 505,364</u>	<u>\$ 330,000</u>	<u>\$ 485,620</u>	<u>\$ 5,000</u>	<u>\$ 15,000</u>	<u>\$ 1,340,984</u>

Reason for transfers:

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

Note 4. Long-term Debt

A. Revenue Bonds, Series 2011

On June 9, 2011, the Lawrence County Public Properties Corporation issued \$18,135,000 in bonds to build a new Justice Center. The Public Properties Corporation and the Administrative Office of the Courts (AOC) entered into a lease agreement for the purpose of obtaining office rental space for AOC.

The premises leased by AOC will provide revenues to pay the bond principal and interest. Under the terms of the lease, AOC has agreed to pay use allowance payments, equal to the amount of principal and interest due, directly to the paying agents' bank. The lease agreement is renewable each year. The fiscal court and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service requirements of the bonds.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 4. Long-term Debt (Continued)

A. Revenue Bonds, Series 2011 (Continued)

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 May 1, 2030, but the lease does not legally obligate AOC to do so. As of June 30, 2018, the principal balance remaining was \$12,685,000. Future bond payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 845,000	\$ 522,329
2020	875,000	488,529
2021	910,000	453,529
2022	950,000	417,129
2023	985,000	379,128
2024-2028	5,555,000	1,269,534
2029-2030	2,565,000	169,531
Totals	<u>\$ 12,685,000</u>	<u>\$ 3,699,709</u>

B. Financing Obligation - Sewer Lines

On November 1, 1998, the Lawrence County Fiscal Court entered into an assistance agreement in the amount of \$868,219 with the Kentucky Infrastructure Authority for the construction of sewer lines. Terms of the agreement require principal and interest payments on June 1 and December 1 of each year. Principal and interest payments began December 1, 2001, one year from the completion date of the original sewer project, and continue through June 1, 2021. During fiscal year 2002, the county received an extension on the project and secured an additional \$157,367 in funds. The amount of each payment changed to accommodate additional principal and interest due. The principal outstanding as of June 30, 2018, was \$151,657. Future payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 49,649	\$ 2,785
2020	50,547	1,789
2021	51,461	773
Totals	<u>\$ 151,657</u>	<u>\$ 5,347</u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 4. Long-term Debt (Continued)

C. Financing Obligation - Community Center

On August 28, 2013, the Lawrence County Fiscal Court entered into a financing agreement that refinanced the Kentucky Area Development District Lease, dated December 5, 2002, used to construct a community center. The principal amount of the agreement was \$621,123. The agreement requires payments on December 1 and June 1 of each year, starting December 1, 2013, to be paid in full December 1, 2022. The principal outstanding as of June 30, 2018, was \$325,625. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 61,120	\$ 8,114
2020	64,726	6,384
2021	63,235	4,624
2022	66,646	2,839
2023	69,898	961
Totals	<u>\$ 325,625</u>	<u>\$ 22,922</u>

D. Financing Obligation - Mack Truck

On May 23, 2017, the Lawrence County Fiscal Court entered into a lease agreement in the amount of \$136,402 with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of a Mack truck. The lease agreement requires monthly interest payments and one principal payment on November 20, 2018. On March 30, 2018, the lease agreement was paid in full.

E. Financing Obligation - Mack Truck

On April 18, 2018, the Lawrence County Fiscal Court entered into a lease agreement in the amount of \$141,922 with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of a Mack truck. The lease agreement requires monthly interest payments and one principal payment on September 20, 2018. The principal balance outstanding as of June 30, 2018, was \$141,922.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$	\$ 5,506
2020	141,922	1,377
Totals	<u>\$ 141,922</u>	<u>\$ 6,883</u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 4. Long-term Debt (Continued)

F. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 13,505,000	\$	\$ 820,000	\$ 12,685,000	\$ 845,000
Financing Obligations	724,799	141,922	247,517	619,204	110,769
Total Long-term Debt	<u>\$ 14,229,799</u>	<u>\$ 141,922</u>	<u>\$ 1,067,517</u>	<u>\$ 13,304,204</u>	<u>\$ 955,769</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 2016 was \$397,192, FY 2017 was \$389,395, and FY 2018 was \$398,562.

Nonhazardous

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.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Employee Retirement System (Continued)

Nonhazardous (Continued)

The county's contribution rate for nonhazardous employees was 19.18 percent.

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, 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%. 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% 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.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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%. 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.

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. Deferred Compensation

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

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2018, the Lawrence 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. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2018, in the amount of \$12,124, was added to the general fund cash balance for financial reporting purposes.

Note 9. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to various entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Lawrence County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2018, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 10. Prior Period Adjustment

The general fund beginning balance was restated in and increased by \$100 due to a prior year voided check.

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

For The Year Ended June 30, 2018

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LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,328,277	\$ 1,471,120	\$ 1,343,322	\$ (127,798)
In Lieu Tax Payments	229,686	229,686	231,849	2,163
Excess Fees	38,647	142,005	142,005	
Licenses and Permits	30,814	31,314	31,336	22
Intergovernmental	420,480	453,584	317,940	(135,644)
Charges for Services	4,000	4,000	675	(3,325)
Miscellaneous	343,856	369,649	456,842	87,193
Interest	235	235	91	(144)
Total Receipts	<u>2,395,995</u>	<u>2,701,593</u>	<u>2,524,060</u>	<u>(177,533)</u>
DISBURSEMENTS				
General Government	1,102,267	1,223,424	1,150,130	73,294
Protection to Persons and Property	106,755	121,975	113,566	8,409
General Health and Sanitation	82,617	85,543	81,997	3,546
Social Services	16,500	20,315	18,596	1,719
Recreation and Culture	209,245	230,186	214,385	15,801
Transportation Facilities and Services	11,000	16,000	15,525	475
Debt Service	72,160	72,160	72,159	1
Capital Projects	99,000	106,705	53,045	53,660
Administration	750,207	877,204	682,517	194,687
Total Disbursements	<u>2,449,751</u>	<u>2,753,512</u>	<u>2,401,920</u>	<u>351,592</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(53,756)</u>	<u>(51,919)</u>	<u>122,140</u>	<u>174,059</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		5,000	415,000	410,000
Transfers To Other Funds	(41,244)	(101,244)	(505,364)	(404,120)
Total Other Adjustments to Cash (Uses)	<u>(41,244)</u>	<u>(96,244)</u>	<u>(90,364)</u>	<u>5,880</u>
Net Change in Fund Balance	(95,000)	(148,163)	31,776	179,939
Fund Balance - Beginning (Restated)	<u>95,000</u>	<u>148,163</u>	<u>148,163</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 179,939</u>	<u>\$ 179,939</u>

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROAD FUND			
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,689,643	\$ 2,049,339	\$ 1,991,222	\$ (58,117)
Charges for Services	24,000	26,271	28,341	2,070
Miscellaneous	19,633	165,384	166,330	946
Interest	600	600	244	(356)
Total Receipts	<u>1,733,876</u>	<u>2,241,594</u>	<u>2,186,137</u>	<u>(55,457)</u>
DISBURSEMENTS				
General Government	12,685	12,685	8,648	4,037
Roads	1,466,849	1,893,233	1,993,178	(99,945)
Debt Service		141,586	141,419	167
Administration	284,342	311,099	276,961	34,138
Total Disbursements	<u>1,763,876</u>	<u>2,358,603</u>	<u>2,420,206</u>	<u>(61,603)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(30,000)</u>	<u>(117,009)</u>	<u>(234,069)</u>	<u>(117,060)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			141,922	141,922
Transfers From Other Funds		30,000	360,000	330,000
Transfers To Other Funds			(330,000)	(330,000)
Total Other Adjustments to Cash (Uses)		<u>30,000</u>	<u>171,922</u>	<u>141,922</u>
Net Change in Fund Balance	(30,000)	(87,009)	(62,147)	24,862
Fund Balance - Beginning	<u>30,000</u>	<u>87,009</u>	<u>87,009</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,862</u>	<u>\$ 24,862</u>

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 87,700	\$ 88,662	\$ 88,305	\$ (357)
Miscellaneous	13,306	17,823	16,576	(1,247)
Interest	19	28	32	4
Total Receipts	<u>101,025</u>	<u>106,513</u>	<u>104,913</u>	<u>(1,600)</u>
DISBURSEMENTS				
Protection to Persons and Property	434,378	469,417	461,699	7,718
Administration	39,711	40,729	39,562	1,167
Total Disbursements	<u>474,089</u>	<u>510,146</u>	<u>501,261</u>	<u>8,885</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(373,064)</u>	<u>(403,633)</u>	<u>(396,348)</u>	<u>7,285</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	371,864	401,864	395,984	(5,880)
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)	<u>371,864</u>	<u>401,864</u>	<u>395,984</u>	<u>(5,880)</u>
Net Change in Fund Balance	(1,200)	(1,769)	(364)	1,405
Fund Balance - Beginning	<u>1,200</u>	<u>1,769</u>	<u>1,769</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,405</u>	<u>\$ 1,405</u>

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 570,000	\$ 696,848	\$ 619,829	\$ (77,019)
Interest	73	81	95	14
Total Receipts	<u>570,073</u>	<u>696,929</u>	<u>619,924</u>	<u>(77,005)</u>
DISBURSEMENTS				
General Government	45,428	45,428	25,110	20,318
Protection to Persons and Property	34,000	21,630	17,319	4,311
General Health and Sanitation	9,000	12,000	3,000	9,000
Social Services	1,000	1,000	1,000	
Recreation and Culture	1,000	1,000		1,000
Roads	140,000	223,748	222,006	1,742
Capital Projects	30,981	7,821	6,820	1,001
Administration	18,197	93,835	19,547	74,288
Total Disbursements	<u>279,606</u>	<u>406,462</u>	<u>294,802</u>	<u>111,660</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>290,467</u>	<u>290,467</u>	<u>325,122</u>	<u>34,655</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			155,000	155,000
Transfers To Other Funds	(330,620)	(330,620)	(485,620)	(155,000)
Total Other Adjustments to Cash (Uses)	<u>(330,620)</u>	<u>(330,620)</u>	<u>(330,620)</u>	
Net Change in Fund Balance	(40,153)	(40,153)	(5,498)	34,655
Fund Balance - Beginning	<u>40,153</u>	<u>40,153</u>	<u>22,426</u>	<u>(17,727)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,928</u>	<u>\$ 16,928</u>

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	FORESTRY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 5,100	\$ 5,281	\$ 5,281	\$
Intergovernmental	291	1,698	1,698	
Interest	225	225	69	(156)
Total Receipts	<u>5,616</u>	<u>7,204</u>	<u>7,048</u>	<u>(156)</u>
DISBURSEMENTS				
Protection to Persons and Property	59,616	61,204	4,296	56,908
Total Disbursements	<u>59,616</u>	<u>61,204</u>	<u>4,296</u>	<u>56,908</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(54,000)</u>	<u>(54,000)</u>	<u>2,752</u>	<u>56,752</u>
Net Change in Fund Balance	(54,000)	(54,000)	2,752	56,752
Fund Balance - Beginning	<u>54,000</u>	<u>54,000</u>	<u>53,952</u>	<u>(48)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 56,704</u>	<u>\$ 56,704</u>

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	SEWER FEE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$		\$ 52,533	\$ 52,533
Charges for Services		65,500	65,500	14,421
Miscellaneous			1,165	1,165
Interest		20	20	4
Total Receipts		<u>65,520</u>	<u>119,218</u>	<u>68,123</u>
DISBURSEMENTS				
Debt Service		52,533	105,066	52,533
Capital Projects		13,487	14,852	13,656
Administration			1,088	1,088
Total Disbursements		<u>66,020</u>	<u>121,006</u>	<u>66,189</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(500)</u>	<u>(1,788)</u>	<u>1,934</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(5,000)	(5,000)
Total Other Adjustments to Cash (Uses)			<u>(5,000)</u>	<u>(5,000)</u>
Net Change in Fund Balance		(500)	(6,788)	(3,066)
Fund Balance - Beginning		500	6,788	6,788
Fund Balance - Ending	\$	<u>0</u>	\$ <u>0</u>	\$ <u>3,722</u>
		<u>0</u>	<u>0</u>	<u>3,722</u>

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	E911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 118,400	\$ 118,400	\$ 109,214	\$ (9,186)
Intergovernmental	136,000	173,959	175,852	1,893
Interest	22	22	9	(13)
Total Receipts	<u>254,422</u>	<u>292,381</u>	<u>285,075</u>	<u>(7,306)</u>
DISBURSEMENTS				
Protection to Persons and Property	209,367	229,680	220,221	9,459
Administration	50,055	76,713	67,926	8,787
Total Disbursements	<u>259,422</u>	<u>306,393</u>	<u>288,147</u>	<u>18,246</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(5,000)</u>	<u>(14,012)</u>	<u>(3,072)</u>	<u>10,940</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			15,000	15,000
Transfers To Other Funds			<u>(15,000)</u>	<u>(15,000)</u>
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance	(5,000)	(14,012)	(3,072)	10,940
Fund Balance - Beginning	<u>5,000</u>	<u>14,012</u>	<u>14,012</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,940</u>	<u>\$ 10,940</u>

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

June 30, 2018

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

Road fund roads disbursements exceeded budgeted appropriations by \$99,945 and the overall budget by \$61,603.

Note 3. Reconciliation of General Fund

Reconciliation of the General Fund

Other Adjustments to Cash (Uses)-Budgetary Basis	\$ (90,364)
To adjust for Payroll Revolving Account	<u>12,124</u>
Total Other Adjustments to Cash (Uses-Regulatory Basis)	<u><u>\$ (78,240)</u></u>
Fund Balance - Ending-Budgetary Basis	\$ 179,939
To adjust for Payroll Revolving Account	<u>12,124</u>
Total Fund Balance - Ending-Regulatory Basis	<u><u>\$ 192,063</u></u>

**LAWRENCE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2018

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LAWRENCE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (* Restated)	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements *	\$ 2,729,000	\$	\$	\$ 2,729,000
Construction In Progress	16,539,485		16,539,485	
Buildings *	6,383,024	16,539,485		22,922,509
Vehicles and Equipment *	2,377,315	203,417	145,387	2,435,345
Other Equipment	160,759			160,759
Infrastructure *	<u>23,958,653</u>	<u>617,181</u>		<u>24,575,834</u>
 Total Capital Assets	 <u>\$ 52,148,236</u>	 <u>\$ 17,360,083</u>	 <u>\$ 16,684,872</u>	 <u>\$ 52,823,447</u>

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

June 30, 2018

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	10-50

Note 2. Prior Period Adjustments

The beginning balance of the capital assets was restated as follows:

- The beginning balance of land has been restated and decreased by \$10,000 due to removing an item that did not meet the capitalization threshold.
- The beginning balance of buildings has been restated and decreased by \$10,000 due to removing an item that did not meet the capitalization threshold.
- The beginning balance for vehicles has been restated and increased by \$145,387 due to the omission of vehicles in prior years on the capital asset listing.
- The beginning balance for infrastructure has been restated and decreased by \$393,781 due to removing items that did not meet the capitalization threshold.

**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 A. Osborne, Former Lawrence County Judge/Executive
The Honorable Phillip L. Carter, Lawrence County Judge/Executive
Members of the Lawrence 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 Lawrence County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Lawrence County Fiscal Court's financial statement and have issued our report thereon dated May 16, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Lawrence 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 Lawrence County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lawrence 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 in the accompanying Schedule of Findings and Responses as item 2018-004 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 Lawrence County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, and 2018-004.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 16, 2019

**LAWRENCE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**LAWRENCE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Fiscal Court Did Not Pay Invoices Within Thirty Days

Four invoices totaling \$153,413 from the jail fund were not paid within 30 days. These invoices were for housing inmates. The fiscal court did not have procedures in place to ensure invoices are paid within 30 days. As a result, the fiscal court was not in compliance with KRS 65.140. KRS 65.140(2) states, “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.” KRS 65.140(3) states, “[a]n interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor’s invoice by the purchaser.” We recommend the fiscal court comply with KRS 65.140 by paying invoices within thirty working days.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The county was waiting on LGEA funds to pay for jail bills due to rising costs.

2018-002 Disbursements Exceeded Approved Budget Appropriations For The Road Fund

Disbursements exceeded approved budget appropriations for the road fund. Budget amendments or appropriation transfers were not made to ensure the budget was not overspent. This was due to an oversight by management. Road fund roads exceeded budgeted appropriations by \$99,945. KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim.” We recommend the fiscal court and the county treasurer monitor the budget more closely and amend the county’s budget or transfer necessary appropriations in order to prevent the county from exceeding the budget.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: This was caused by the county’s Mack truck leasing. These leases will be taken into account for future budgets.

2018-003 The Lawrence County Fiscal Court’s Capital Asset Schedule Was Inaccurate

The county did not maintain a complete and accurate capital asset schedule. While the county did maintain a capital asset schedule, we noted land and land improvements, buildings, vehicles and equipment, and infrastructure were included that did not meet the capitalization threshold. The fiscal court did not adequately monitor or track capital assets as required by the Department for Local Government (DLG) or the fiscal court’s capitalization policy. By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset schedule. Under the authority of KRS 68.210, the state local finance officer has established a system of uniform accounts for all counties and county officials. This system of accounts is set forth in DLG’s *County Budget Preparation and State Local Finance Officer Policy Manual*, which states, “[f]or purposes of internal control, an asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount, and have a useful life of greater than one year.”

**LAWRENCE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Lawrence County Fiscal Court's Capital Asset Schedule Was Inaccurate (Continued)

We recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with the Department for Local Government requirements and the county's capitalization policy.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This issue has been taken care of.

2018-004 The Fiscal Court Does Not Have Adequate Controls Over Payroll

The Lawrence County Fiscal Court does not have proper internal controls and lacks oversight over the payroll process. The following findings were noted:

- Eighteen vacation and sick leave days for one employee were not deducted from the ledger maintained to track the balance of remaining vacation and sick leave for employees.
- A part-time employee was overpaid \$596 due to overtime not being calculated correctly.
- Overtime was paid at time and one half regardless of whether leave time was taken during the week.
- During one pay period, seven payroll checks were written in advance of the pay date and cleared the bank as much as 11 days early. These payroll checks included advance overtime pay totaling \$1,070.
- Two employees tested did not prepare or submit timesheets.

Weak internal controls over payroll and lack of adequate management oversight have allowed these issues to go undetected. Pay checks are issued on the same day the pay period ends which allows for no time to make changes and properly account for overtime worked or leave time taken.

As a result, employees may be paid for vacation and sick days they have not earned/accrued. Employees are not paid correctly when the overtime pay rate is miscalculated. Improper maintenance and approval of timesheets could lead to incorrect payments to employees. Advancing pay checks may result in employees receiving compensation for services not performed. Finally, by not maintaining timesheets, there is no record of leave time used and no verification that employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

Strong internal controls over payroll are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them. Furthermore, internal control procedures that are properly designed and implemented allow employees to detect misstatements in a timely manner while preventing misappropriation of assets or inaccurate financial reporting.

Timesheets should be kept for payroll verification, as a record of leave time use, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. An individual who is independent of the recording and disbursement process should approve employee timesheets. KRS 337.320 requires that "[e]very employer shall maintain a record of: (a) The amount paid each pay period to each employee; [and] (b) The hours worked each day and each week by each employee[.]" All county employees, with the exception of elected officials, should submit timesheets to document their time worked and leave time used. According to OAG 79-448, "Section 3 of the [Kentucky] Constitution is unequivocal on the point that public emolument to any person must be based on the consideration of public services. By the strongest implication this means 'public services actually rendered.'"

**LAWRENCE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Fiscal Court Does Not Have Adequate Controls Over Payroll (Continued)

Without timesheets, it cannot be determined if services were actually rendered. It is not a good practice to advance payroll to employees, especially advancing overtime pay to employees. The pay period has not concluded, and employees could take leave time before end of the pay period and therefore not be entitled to overtime.

Maintaining sick and vacation leave balances is vital to ensure employees are receiving the time they are due and that they are using leave time earned in accordance with county and office policies.

Employees who work over 40 hours per week are entitled to payment of overtime wages in the amount of one and one half times the hourly rate. However, hourly employees who work more hours than the prescribed work week, but less than 40 hours, are entitled to payment of wages on an hour-for-hour basis.

We recommend the fiscal court strengthen its internal control system over payroll and reduce the risk of payroll errors by first segregating incompatible duties, such as timekeeping and check writing, then implementing compensating controls over payroll processing such as management oversight or independent reviews over payroll processing. Further, we recommend:

- Vacation and sick leave balance ledger should be updated after each pay period.
- Ensuring that overtime is calculated correctly, using either the regular hourly rate or overtime hourly rate as determined by actual hours worked.
- The fiscal court discontinue advancing payroll checks to employees.
- The fiscal court consider holding back pay checks at least a week after the pay period ends to allow time to make changes or corrections prior to payment rather than attempting to make prior pay period corrections on a subsequent pay period.
- All employees submit timesheets and ensure supervisors sign timesheets.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This issue has been corrected and should not pose a problem concerning future payroll.

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

LAWRENCE COUNTY FISCAL COURT

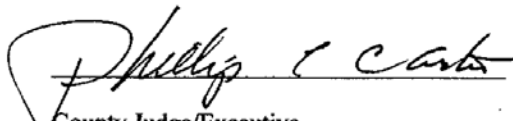
For The Year Ended June 30, 2018

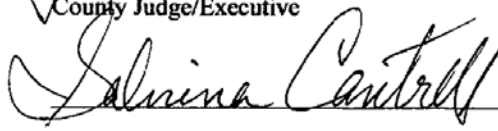
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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
LAWRENCE COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Lawrence 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