

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

**For The Year Ended
June 30, 2023**



**ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
CLAY COUNTY OFFICIALS.....	5
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	8
NOTES TO FINANCIAL STATEMENT.....	12
BUDGETARY COMPARISON SCHEDULES.....	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	36
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	39
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	40
SCHEDULE OF CAPITAL ASSETS.....	43
NOTES TO OTHER INFORMATION - REGULATORY BASIS SCHEDULE OF CAPITAL ASSETS.....	44
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 <i>GOVERNMENT AUDITING STANDARDS</i>	47
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE	51
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	57
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Tommy Harmon, Clay County Judge/Executive

The Honorable Johnny W. Johnson, Former Clay County Judge/Executive

Members of the Clay County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

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, 2023, 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.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and changes in fund balances – regulatory basis of the Clay County Fiscal Court, for the year ended June 30, 2023, in accordance with accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Clay County Fiscal Court, for the year ended June 30, 2023, or the changes in financial position and cash flows thereof for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Fiscal Court Audit Guide* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of Clay County Fiscal Court and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the People of Kentucky

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

As described in Note 1 of the financial statement, the financial statement is prepared by the 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 and pervasive.

Responsibilities of Management for the Financial Statement

Clay County Fiscal Court's management is responsible for the preparation and fair presentation of the 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 Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Clay County Fiscal Court's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clay County Fiscal Court's ability to continue as a going concern for a reasonable period of time.

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Members of the Clay County Fiscal Court

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 Clay County Fiscal Court. The Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 Schedule of Expenditures of Federal Awards 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 the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

Other Information

Management is responsible for the other information included in this report. The other information is comprised of the schedule of capital assets but does not include the financial statement and our auditor's report thereon. Our opinions on the financial statement do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statement, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statement, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Questioned Costs included herein, which discusses the following report findings:

- 2023-001 The Clay County Fiscal Court Did Not Accurately Report Financial Information On The Fourth Quarter Financial Report
- 2023-002 The Clay County Fiscal Court's Actual Disbursements Exceeded Budgeted Appropriations
- 2023-003 The Clay County Fiscal Court's Schedule Of Expenditures Of Federal Awards (SEFA) Was Materially Misstated
- 2023-004 The Clay County Fiscal Court Did Not Perform Bank Reconciliations For Revolving Accounts
- 2023-005 The Clay County Fiscal Court Does Not Have Adequate Segregation Of Duties Over Occupational Tax Receipts
- 2023-006 The Clay County Fiscal Court's Controls Over Receipts Were Not Operating Effectively
- 2023-007 The Kentucky Infrastructure Authority Debt Payments Were Not Paid As Required By The Debt Agreement
- 2023-008 The Clay County Fiscal Court Submitted Inaccurate Retirement Reports For Employees And Did Not Remit Retirement Payments Properly
- 2023-009 The Clay County Fiscal Court Did Not Properly Remit Local And State Tax Payments

Respectfully submitted,



Allison Ball
 Auditor of Public Accounts
 Frankfort, Ky

July 5, 2024

CLAY COUNTY OFFICIALS
For The Year Ended June 30, 2023

Fiscal Court Members:

Tommy Harmon	County Judge/Executive
Johnny W. Johnson (term ended 12/31/2022)	Former County Judge/Executive
Russell Smith	Magistrate
Sonya Gray	Magistrate
Sonny Gay (term began 1/1/2023)	Magistrate
Hugh Lunsford (term ended 12/31/2022)	Magistrate
Christopher Smith	Magistrate
Jerry Combs (term began 1/1/2023)	Magistrate
Joan Brown (term ended 12/31/2022)	Magistrate
William Warren	Magistrate

Other Elected Officials:

Joseph C. White	County Attorney
Linda Smallwood	Jailer
Beverly Craft	County Clerk
Leslie Phillips	Circuit Court Clerk
Patrick Robinson	Sheriff
Paul Durham	Property Valuation Administrator
Jarrold Becknell	Coroner

Appointed Personnel:

Kelly Smith (October 8, 2022 to June 30, 2023)	County Treasurer
Sherry Owens (July 1, 2022 to October 7, 2022)	Former County Treasurer
Vickie Nicholson (January 1, 2023 to June 30, 2023)	Financial Officer
Mona Davidson (July 1, 2022 to December 31, 2022)	Financial Officer

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

For The Year Ended June 30, 2023

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

For The Year Ended June 30, 2023

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 530,680	\$	\$	\$
In Lieu Tax Payments	181,980			
Excess Fees	110,260			
Licenses and Permits	11,883			
Intergovernmental	1,015,015	4,860,856	3,129,996	663,630
Charges for Services	1,820,433		43,837	
Miscellaneous	1,422,735		106,256	
Interest	2,219	11,408	584	926
Total Receipts	<u>5,095,205</u>	<u>4,872,264</u>	<u>3,280,673</u>	<u>664,556</u>
DISBURSEMENTS				
General Government	1,907,865	21,600		
Protection to Persons and Property	248,474		2,666,090	35,020
General Health and Sanitation				
Social Services				
Recreation and Culture	35,901			
Roads	261,257	3,115,108		33,248
Debt Service			435,000	
Administration	1,153,891	414,164	849,797	
Total Disbursements	<u>3,607,388</u>	<u>3,550,872</u>	<u>3,950,887</u>	<u>68,268</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,487,817</u>	<u>1,321,392</u>	<u>(670,214)</u>	<u>596,288</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account	49,243			
Transfers From Other Funds	2,051,777	200,000	700,000	
Transfers To Other Funds	(1,691,918)			
Total Other Adjustments to Cash (Uses)	<u>409,102</u>	<u>200,000</u>	<u>700,000</u>	
Net Change in Fund Balance	1,896,919	1,521,392	29,786	596,288
Fund Balance - Beginning	671,075	389,066	141,402	179,263
Fund Balance - Ending	<u>\$ 2,567,994</u>	<u>\$ 1,910,458</u>	<u>\$ 171,188</u>	<u>\$ 775,551</u>
Composition of Fund Balance				
Bank Balance	\$ 2,741,454	\$ 1,912,243	\$ 173,728	\$ 775,551
Plus: Deposits In Transit				
Less: Outstanding Checks and Liabilities	(173,460)	(1,785)	(2,540)	
Certificates of Deposit				
Fund Balance - Ending	<u>\$ 2,567,994</u>	<u>\$ 1,910,458</u>	<u>\$ 171,188</u>	<u>\$ 775,551</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, 2023
(Continued)

Budgeted Funds						
Forest Fire Fund	Occupational Tax Fund	Special Water Line Extension Fund	Special ARPA Fund	Special Reserve Fund	Debt Service Fund	Document Storage Fee Fund
\$ 133	\$ 1,965,902	\$	\$	\$	\$	\$
					56,000	15,977
	501			5,001		
133	1,966,403			5,001	56,000	15,977
	1,674,878					
	144,574	27,715				
	8,500					
					49,000	
	600,005					24,440
	2,427,957	27,715			49,000	24,440
133	(461,554)	(27,715)		5,001	7,000	(8,463)
	400,000	30,000				
			(2,051,777)			
	400,000	30,000	(2,051,777)			
133	(61,554)	2,285	(2,051,777)	5,001	7,000	(8,463)
147	177,705	10,995	2,051,777	522,230		9,960
\$ 280	\$ 116,151	\$ 13,280	\$ 0	\$ 527,231	\$ 7,000	\$ 1,497
\$ 280	\$ 121,432	\$ 13,280	\$ 0	\$ 0	\$ 7,000	\$ 1,497
	(5,281)					
				527,231		
\$ 280	\$ 116,151	\$ 13,280	\$ 0	\$ 527,231	\$ 7,000	\$ 1,497

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, 2023
(Continued)

	<u>Unbudgeted Funds</u>			<u>Total Funds</u>
	<u>Opioid Fund</u>	<u>Clay County Kentucky Justice Center Corporation Fund</u>	<u>Jail Commissary Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 2,496,715
In Lieu Tax Payments				181,980
Excess Fees				110,260
Licenses and Permits				11,883
Intergovernmental		592,912		10,262,409
Charges for Services				1,920,270
Miscellaneous			868,743	2,413,711
Interest		920		21,559
Total Receipts		<u>593,832</u>	<u>868,743</u>	<u>17,418,787</u>
DISBURSEMENTS				
General Government				1,929,465
Protection to Persons and Property				4,624,462
General Health and Sanitation				172,289
Social Services	180,880			189,380
Recreation and Culture			801,879	837,780
Roads				3,409,613
Debt Service		590,912		1,074,912
Administration		74,565		3,116,862
Total Disbursements	<u>180,880</u>	<u>665,477</u>	<u>801,879</u>	<u>15,354,763</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(180,880)</u>	<u>(71,645)</u>	<u>66,864</u>	<u>2,064,024</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account				49,243
Transfers From Other Funds	361,918			3,743,695
Transfers To Other Funds				<u>(3,743,695)</u>
Total Other Adjustments to Cash (Uses)	<u>361,918</u>			<u>49,243</u>
Net Change in Fund Balance	181,038	(71,645)	66,864	2,113,267
Fund Balance - Beginning		74,964	330,134	4,558,718
Fund Balance - Ending	<u>\$ 181,038</u>	<u>\$ 3,319</u>	<u>\$ 396,998</u>	<u>\$ 6,671,985</u>
Composition of Fund Balance				
Bank Balance	\$ 242,038	\$ 3,319	\$ 409,682	\$ 6,401,504
Plus: Deposits In Transit			1,650	1,650
Less: Outstanding Checks	(61,000)		(14,334)	(258,400)
Certificates of Deposit				<u>527,231</u>
Fund Balance - Ending	<u>\$ 181,038</u>	<u>\$ 3,319</u>	<u>\$ 396,998</u>	<u>\$ 6,671,985</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	12
NOTE 2.	DEPOSITS	15
NOTE 3.	TRANSFERS	16
NOTE 4.	CUSTODIAL FUNDS	16
NOTE 5.	LEASE	16
NOTE 6.	LONG-TERM DEBT	17
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	19
NOTE 8.	HEALTH REIMBURSEMENT ACCOUNT/FLEXIBLE SPENDING ACCOUNT	22
NOTE 9.	INSURANCE	22
NOTE 10.	COMMITMENTS AND CONTINGENCIES	22
NOTE 11.	PAYROLL REVOLVING ACCOUNT	22

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2023

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 for and on behalf of, and as the agency and instrumentality of 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, 2023
(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 American Rescue Plan Act (ARPA) Fund - The primary purpose of this fund is to account for federal receipts and disbursements associated with ARPA.

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 sources of receipts for this fund are payments from the North Manchester Water Association.

Document Storage Fee Fund - The purpose of this fund is to account for county clerk storage fees for the retention of deed room records in the county clerk's office. The primary source of receipts for this fund is collection of the storage fee collected by the county clerk on deed room transactions.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Opioid Fund - The purpose of this fund is to account for the county supporting opioid addiction treatment and recovery services. The primary source of receipts for this fund are from national settlement with pharmaceutical distributors that played a role in creating and fueling the opioid epidemic.

Clay County Kentucky 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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting according to the laws of Kentucky as required by the state local finance officer, 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.

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 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 Clay County Kentucky 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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

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 federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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 the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2023.

	General Fund	Special ARPA Fund	Total Transfers In
General Fund	\$	\$ 2,051,777	\$ 2,051,777
Road Fund	200,000		200,000
Jail Fund	700,000		700,000
Occupational Tax Fund	400,000		400,000
Special Water Line Extension Fund	30,000		30,000
Opioid Fund	361,918		361,918
Total Transfers Out	<u>\$ 1,691,918</u>	<u>\$ 2,051,777</u>	<u>\$ 3,743,695</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. Custodial Funds

Custodial funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. In accordance with the regulatory basis of accounting, custodial funds are not presented on the financial statement.

The fiscal court has the following custodial fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the Jail Inmate Fund as of June 30, 2023, was \$16,505.

Note 5. Lease

Lessor

On April 27, 2022, the Clay County Fiscal Court entered into a leasing agreement with the Administrative Office of the Courts (AOC) for occupancy space in the Clay County Judicial Center. The lease was for one fiscal year and Clay County would receive quarterly payments. Clay County recognized \$256,157 in lease revenue related to this lease. As of June 30, 2023, the Clay County Fiscal Court's receivable for lease payments was \$0.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 6. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Kentucky Infrastructure Authority (KIA) Loan

In 1996, the Clay County Fiscal Court obtained a water resource loan of \$997,484 (plus interest) from the Kentucky Infrastructure Authority (KIA) on behalf of the North Manchester Water Association (NMWA). As part of the KIA loan agreement, the Clay County Fiscal Court executed a lease agreement with the NMWA over the same 30-year term as the loan agreement with KIA.

During the fiscal year ending June 30, 2023, the North Manchester Water Association remitted total payments of \$56,000 to the fiscal court to pay towards the KIA loan. The payment schedule required 12 monthly payments of \$12,582, totaling \$150,984, 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 the North Manchester Water Association. In the event of default, the agency shall bear interest per annum equal to the default rate as set forth in the project specifics. Whenever any event of default has occurred, KIA may demand one or any combination of the following: (a) all payments due immediately, (b) exercise all rights and remedies of the KIA, (c) take whatever action at law or in equity that may appear necessary. As of June 30, 2023, the principal balance is \$871,483. Future lease principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019-2023 Loan Default	438,512	51,897
2024	140,093	11,627
2025	144,282	7,154
2026	148,596	2,546
Totals	<u>\$ 871,483</u>	<u>\$ 73,224</u>

2. Kentucky Association of Counties Finance Corporation (KACO), Financing Program Revenue Bonds, 2017 First Series A

On May 9, 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 bonds are general obligations of the county and the full faith, credit and taxing power of the county is irrevocably pledged to the payment of principal of and interest on the bonds when due. The 2006 refunding bonds were paid in full in June 2017 with the refinance. In the event of default KACO may take any of the following steps: (a) take appropriate court action to enforce the pledge, (b) take legal title to and sell or release the project or any portion thereof, (c) take whatever action at law or in equity that may appear necessary or desirable to enforce the rights of this lease. The fiscal court made the final payment of \$435,000 on August 4, 2022. This debt was retired as of June 30, 2023.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 6. Long-term Debt (Continued)

B. Other Debt

1. Clay County Kentucky Justice Center Corporation First Revenue Refunding Bonds, Series 2012

On November 1, 2012, the Clay County Kentucky Justice Center Corporation 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 Kentucky 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 Kentucky 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 Kentucky 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 Kentucky Justice Center Corporation are dependent upon the use allowance payment in order to meet the debt service for the bonds. 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, 2023, the principal balance remaining was \$580,000. Future bond payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2024	\$ 580,000	\$ 7,250
Totals	\$ 580,000	\$ 7,250

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 6. Long-term Debt (Continued)

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 1,362,483	\$	\$ 491,000	\$ 871,483	\$ 578,605
Revenue Bonds	1,150,000		570,000	580,000	580,000
Total Long-term Debt	<u>\$ 2,512,483</u>	<u>\$ 0</u>	<u>\$ 1,061,000</u>	<u>\$ 1,451,483</u>	<u>\$ 1,158,605</u>

D. Aggregate Debt Schedule

The amount of required principal and interest payments on long-term obligations at June 30, 2023, were as follows:

Fiscal Year Ended June 30	Other Debt		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2019-2023 Loan Default	\$	\$	\$ 438,512	\$ 51,897
2024	580,000	7,250	140,093	11,627
2025			144,282	7,154
2026			148,596	2,546
Totals	<u>\$ 580,000</u>	<u>\$ 7,250</u>	<u>\$ 871,483</u>	<u>\$ 73,224</u>

Note 7. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (Ky. Ret. Sys.). 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. Effective April 1, 2021, the Kentucky Public Pension Authority (KPPA) was created by KRS 61.505 to provide staffing and daily administrative needs for CERS and Ky. Ret. Sys. The CERS nine (9) member board of trustees is responsible for the governance of the CERS pension and insurance plans.

The county's contribution for FY 2021 was \$1,001,718, FY 2022 was \$1,263,266, and FY 2023 was \$1,198,729.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 7. Employee Retirement System (Continued)

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 Ky. Ret. Sys. 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 Ky. Ret. Sys. 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 26.79 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%

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

Benefits are covered under KRS 78.5536.

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 78.5536. 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 Ky. Ret. Sys. 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.

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, KPPA 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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

Ky. Ret. Sys. Annual Financial Report and Proportionate Share Audit Report

Ky. Ret. Sys. 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 Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KPPA 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 8. Health Reimbursement Account/Flexible Spending Account

The Clay County Fiscal Court established a health reimbursement account to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$2,000 each year to pay for qualified medical expenses. The balance in the health reimbursement account as of June 30, 2023, was \$38,237.

Note 9. Insurance

For the fiscal year ended June 30, 2023, 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 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.

Note 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2023, was added to the General Fund cash balance for financial reporting purposes.

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2023

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CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2023

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 622,000	\$ 622,000	\$ 530,680	\$ (91,320)
In Lieu Tax Payments	1,230	1,230	181,980	180,750
Excess Fees	160,000	160,000	110,260	(49,740)
Licenses and Permits	20,300	20,300	11,883	(8,417)
Intergovernmental	470,100	853,769	1,015,015	161,246
Charges for Services	1,200,100	1,783,476	1,820,433	36,957
Miscellaneous	123,700	971,134	1,422,735	451,601
Interest	500	500	2,219	1,719
Total Receipts	<u>2,597,930</u>	<u>4,412,409</u>	<u>5,095,205</u>	<u>682,796</u>
DISBURSEMENTS				
General Government	1,752,484	2,168,918	1,907,865	261,053
Protection to Persons and Property	3,000	248,474	248,474	
Recreation and Culture	43,000	47,902	35,901	12,001
Roads		261,257	261,257	
Administration	1,375,500	2,625,468	1,153,891	1,471,577
Total Disbursements	<u>3,173,984</u>	<u>5,352,019</u>	<u>3,607,388</u>	<u>1,744,631</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(576,054)</u>	<u>(939,610)</u>	<u>1,487,817</u>	<u>2,427,427</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	223,214	223,214	2,051,777	1,828,563
Transfers To Other Funds			(1,691,918)	(1,691,918)
Total Other Adjustments to Cash (Uses)	<u>223,214</u>	<u>223,214</u>	<u>359,859</u>	<u>136,645</u>
Net Change in Fund Balance	(352,840)	(716,396)	1,847,676	2,564,072
Fund Balance - Beginning	<u>153,840</u>	<u>716,396</u>	<u>671,075</u>	<u>(45,321)</u>
Fund Balance - Ending	<u>\$ (199,000)</u>	<u>\$ 0</u>	<u>\$ 2,518,751</u>	<u>\$ 2,518,751</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 50,000	\$ 50,000	\$	\$ (50,000)
Intergovernmental	2,427,847	3,059,970	4,860,856	1,800,886
Interest	1,000	1,000	11,408	10,408
Total Receipts	<u>2,478,847</u>	<u>3,110,970</u>	<u>4,872,264</u>	<u>1,761,294</u>
DISBURSEMENTS				
General Government	21,600	21,600	21,600	
Roads	1,887,015	3,616,169	3,115,108	501,061
Administration	367,018	(348,964)	414,164	(763,128)
Total Disbursements	<u>2,275,633</u>	<u>3,288,805</u>	<u>3,550,872</u>	<u>(262,067)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>203,214</u>	<u>(177,835)</u>	<u>1,321,392</u>	<u>1,499,227</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			200,000	200,000
Transfers To Other Funds	(223,214)	(223,214)		223,214
Total Other Adjustments to Cash (Uses)	<u>(223,214)</u>	<u>(223,214)</u>	<u>200,000</u>	<u>423,214</u>
Net Change in Fund Balance	(20,000)	(401,049)	1,521,392	1,922,441
Fund Balance - Beginning	<u>20,000</u>	<u>401,049</u>	<u>389,066</u>	<u>(11,983)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,910,458</u>	<u>\$ 1,910,458</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 2,695,353	\$ 2,695,353	\$ 3,129,996	\$ 434,643
Charges for Services	35,000	35,000	43,837	8,837
Miscellaneous	461,500	461,500	106,256	(355,244)
Interest	300	300	584	284
Total Receipts	<u>3,192,153</u>	<u>3,192,153</u>	<u>3,280,673</u>	<u>88,520</u>
DISBURSEMENTS				
Protection to Persons and Property	2,471,353	2,597,326	2,666,090	(68,764)
Debt Service		435,000	435,000	
Administration	720,800	1,027,011	849,797	177,214
Total Disbursements	<u>3,192,153</u>	<u>4,059,337</u>	<u>3,950,887</u>	<u>108,450</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(867,184)</u>	<u>(670,214)</u>	<u>196,970</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		<u>700,000</u>	<u>700,000</u>	
Total Other Adjustments to Cash (Uses)		<u>700,000</u>	<u>700,000</u>	
Net Change in Fund Balance		(167,184)	29,786	196,970
Fund Balance - Beginning		<u>167,184</u>	<u>141,402</u>	<u>(25,782)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 171,188</u>	<u>\$ 171,188</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(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	150,000	150,000	663,630	513,630
Interest	150	150	926	776
Total Receipts	<u>150,250</u>	<u>150,250</u>	<u>664,556</u>	<u>514,306</u>
DISBURSEMENTS				
Protection to Persons and Property	38,500	35,252	35,020	232
Roads	30,000	33,248	33,248	
Administration	300	179,563		179,563
Total Disbursements	<u>68,800</u>	<u>248,063</u>	<u>68,268</u>	<u>179,795</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>81,450</u>	<u>(97,813)</u>	<u>596,288</u>	<u>694,101</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(81,450)</u>	<u>(81,450)</u>		81,450
Total Other Adjustments to Cash (Uses)	<u>(81,450)</u>	<u>(81,450)</u>		<u>81,450</u>
Net Change in Fund Balance		(179,263)	596,288	775,551
Fund Balance - Beginning		<u>179,263</u>	<u>179,263</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 775,551</u>	<u>\$ 775,551</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	FOREST FIRE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 5,000	\$ 5,000	\$ 133	\$ (4,867)
Total Receipts	5,000	5,000	133	(4,867)
DISBURSEMENTS				
Protection to Persons and Property	5,000	5,000		5,000
Administration		147		147
Total Disbursements	5,000	5,147		5,147
Net Change in Fund Balance		(147)	133	280
Fund Balance - Beginning		147	147	
Fund Balance - Ending	\$ 0	\$ 0	\$ 280	\$ 280

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,800,000	\$ 1,800,000	\$ 1,965,902	\$ 165,902
Miscellaneous	200	200		(200)
Interest	1,000	1,000	501	(499)
Total Receipts	<u>1,801,200</u>	<u>1,801,200</u>	<u>1,966,403</u>	<u>165,203</u>
DISBURSEMENTS				
General Government	2,500			
Protection to Persons and Property	1,256,400	1,681,101	1,674,878	6,223
General Health and Sanitation	165,200	144,175	144,574	(399)
Social Services	8,000	8,500	8,500	
Administration	551,400	561,359	600,005	(38,646)
Total Disbursements	<u>1,983,500</u>	<u>2,395,135</u>	<u>2,427,957</u>	<u>(32,822)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(182,300)</u>	<u>(593,935)</u>	<u>(461,554)</u>	<u>132,381</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	81,450	399,450	400,000	550
Total Other Adjustments to Cash (Uses)	<u>81,450</u>	<u>399,450</u>	<u>400,000</u>	<u>550</u>
Net Change in Fund Balance	(100,850)	(194,485)	(61,554)	132,931
Fund Balance - Beginning	<u>100,350</u>	<u>194,485</u>	<u>177,705</u>	<u>(16,780)</u>
Fund Balance - Ending	<u>\$ (500)</u>	<u>\$ 0</u>	<u>\$ 116,151</u>	<u>\$ 116,151</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

SPECIAL WATER LINE EXTENSION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$ 172,091	\$	\$ (172,091)
Total Receipts		172,091		(172,091)
DISBURSEMENTS				
General Health and Sanitation	178,691	178,691	27,715	150,976
Administration		6,623		6,623
Total Disbursements	178,691	185,314	27,715	157,599
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(178,691)	(13,223)	(27,715)	(14,492)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			30,000	30,000
Total Other Adjustments to Cash (Uses)			30,000	30,000
Net Change in Fund Balance	(178,691)	(13,223)	2,285	15,508
Fund Balance - Beginning	6,600	13,223	10,995	(2,228)
Fund Balance - Ending	\$ (172,091)	\$ 0	\$ 13,280	\$ 13,280

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

SPECIAL ARPA FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$	\$	\$
Total Receipts				
DISBURSEMENTS				
Administration		2,051,777		2,051,777
Total Disbursements		2,051,777		2,051,777
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(2,051,777)		2,051,777
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(2,051,777)	(2,051,777)
Total Other Adjustments to Cash (Uses)			(2,051,777)	(2,051,777)
Net Change in Fund Balance		(2,051,777)	(2,051,777)	
Fund Balance - Beginning		2,051,777	2,051,777	
Fund Balance - Ending	\$	0	\$	0
	\$	0	\$	0

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	SPECIAL RESERVE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 1,000	\$ 1,000	\$ 5,001	\$ 4,001
Total Receipts	<u>1,000</u>	<u>1,000</u>	<u>5,001</u>	<u>4,001</u>
DISBURSEMENTS				
Administration	522,726	523,099		523,099
Total Disbursements	<u>522,726</u>	<u>523,099</u>		<u>523,099</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(521,726)</u>	<u>(522,099)</u>	<u>5,001</u>	<u>527,100</u>
Net Change in Fund Balance	(521,726)	(522,099)	5,001	527,100
Fund Balance - Beginning	<u>521,726</u>	<u>522,099</u>	<u>522,230</u>	<u>131</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 527,231</u>	<u>\$ 527,231</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	DEBT SERVICE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Charges for Services	\$ 164,600	\$ 164,600	\$ 56,000	\$ (108,600)
Miscellaneous				
Interest				
Total Receipts	<u>164,600</u>	<u>164,600</u>	<u>56,000</u>	<u>(108,600)</u>
DISBURSEMENTS				
Debt Service	<u>164,600</u>	<u>164,600</u>	<u>49,000</u>	<u>115,600</u>
Total Disbursements	<u>164,600</u>	<u>164,600</u>	<u>49,000</u>	<u>115,600</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>7,000</u>	<u>7,000</u>
Net Change in Fund Balance			7,000	7,000
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,000</u>	<u>\$ 7,000</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

DOCUMENT STORAGE FEE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$ 15,977	\$ 15,977
Total Receipts			15,977	15,977
DISBURSEMENTS				
Administration		9,960	24,440	(14,480)
Total Disbursements		9,960	24,440	(14,480)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(9,960)	(8,463)	1,497
Net Change in Fund Balance		(9,960)	(8,463)	1,497
Fund Balance - Beginning		9,960	9,960	
Fund Balance - Ending	\$	0	\$ 1,497	\$ 1,497

CLAY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2023

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting according to the laws of Kentucky as required by the state local finance officer, 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.

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

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

Note 2. Reconciliation of the General Fund

Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ 359,859
To adjust for the payroll revolving account balance	<u>49,243</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u><u>\$ 409,102</u></u>
Ending Fund Balance - Budgetary Basis	\$ 2,518,751
To adjust for the payroll revolving account balance	<u>49,243</u>
Total Ending Fund Balance - Regulatory Basis	<u><u>\$ 2,567,994</u></u>

Note 3. Excess of Disbursements Over Appropriations

The Road Fund, administration line-item exceeded budgeted appropriations by \$763,128.

The Jail Fund, protection to persons and property line-item exceeded budgeted appropriations by \$68,764.

The Occupational Tax Fund, general health and sanitation line-item exceeded budgeted appropriations by \$399.

The Occupational Tax Fund, administration line-item exceeded budgeted appropriations by \$38,646.

The Document Storage Fee Fund, administration line-item exceeded budgeted appropriations by \$14,480.

CLAY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2023

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**CLAY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<u>U. S. Department of Homeland Security</u>				
<i>Passed-Through Kentucky Emergency Management</i>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-DR	\$ _____	\$ 1,324,576
Total U.S. Department of Homeland Security			_____	1,324,576
<u>U.S. Department of Transportation</u>				
Formula Grants for Rural Areas and Tribal Transit Program	20.509		\$ _____	\$ 12,255
Total U.S. Department of Transportation			_____	12,255
Total Expenditures of Federal Awards			\$ 0	\$ 1,336,831

The accompanying notes are an integral part of this schedule.

CLAY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2023

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Clay County, Kentucky under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Clay County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Clay County, Kentucky.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

Clay County has not adopted an indirect cost rate and has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CLAY COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2023

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CLAY COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2023

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 1,114,727	\$	\$ 48,000	\$ 1,066,727
Buildings	18,732,377	12,558		18,744,935
Vehicles and Equipment	5,034,476	330,205		5,364,681
Infrastructure	11,405,335	47,813		11,453,148
 Total Capital Assets	 <u>\$ 36,286,915</u>	 <u>\$ 390,576</u>	 <u>\$ 48,000</u>	 <u>\$ 36,629,491</u>

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

June 30, 2023

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

**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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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

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

The Honorable Tommy Harmon, Clay County Judge/Executive
The Honorable Johnny W. Johnson, Former Clay County Judge/Executive
Members of the Clay County Fiscal Court

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, 2023, 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 July 5, 2024.

Report on 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) as a basis for designing 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 have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001, 2023-002, 2023-003, 2023-005, 2023-008, and 2023-009 to be material weaknesses.



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

Report on Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2023-004 and 2023-006 to be significant deficiencies.

Report on 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 financial statement. 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2023-007.

Views of Responsible Officials and Planned Corrective Action

Government Auditing Standards requires the auditor to perform limited procedures on the Clay County's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The county's response was not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

July 5, 2024

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With The Uniform Guidance

Independent Auditor's Report

The Honorable Tommy Harmon, Clay County Judge/Executive
The Honorable Johnny W. Johnson, Former Clay County Judge/Executive
Members of the Clay County Fiscal Court

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Clay County Fiscal Court's compliance with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Clay County Fiscal Court's major federal programs for the year ended June 30, 2023. The Clay County Fiscal Court's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Clay County Fiscal Court complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Clay County Fiscal Court and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Clay County Fiscal Court's compliance with the compliance requirements referred to above.



Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With The Uniform Guidance
(Continued)

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Clay County Fiscal Court's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Clay County Fiscal Court's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Clay County Fiscal Court's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Clay County Fiscal Court's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Clay County Fiscal Court's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Clay County Fiscal Court's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With The Uniform Guidance
(Continued)

Report on Internal Control over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

July 5, 2024

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CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2023

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CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2023

Section I: Summary of Auditor's Results

Financial Statement

Type of report the auditor issued on whether the financial statement audited was prepared in accordance with GAAP:
Adverse on GAAP and Unmodified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any noncompliances material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs: Unmodified		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings

2023-001 The Clay County Fiscal Court Did Not Accurately Report Financial Information On The Fourth Quarter Financial

The Clay County Fiscal Court's financial information on the fourth quarter report contained the following material errors as noted below:

- The General Fund original budget was overstated on the quarterly financial report in the amount of \$199,000 due to duplicate postings for Medicare expenses totaling \$22,000 and election equipment expenses totaling \$177,000.
- The budget amendment approved on July 14, 2022, for increases in receipts and disbursements totaling \$3,453,067 was not entered into the accounting software and was not included in the quarterly financial report submitted to the Department of Local Government (DLG). This included amended budget amounts for the General Fund of \$562,556, Road Fund of \$381,049, Jail Fund of \$167,184, LGEA Fund of \$179,263, Forest Fire Fund of \$147, Occupational Tax Fund of \$94,135, Special Water Line Extension Fund of \$6,623, Special ARPA Fund of \$2,051,777, Special Reserve Fund of \$373, and Document Storage Fee Fund of \$9,960.
- Intrafund transfers for budget amounts of the General Fund did not zero out and had a negative balance of \$218,762 on the quarterly report. This budget amount was transferred from the General Fund to the Jail Fund in the amount of \$85,732, Occupational Tax Fund in the amount of \$132,907, and Document Storage Fee Fund in the amount of \$123.
- The Road Fund original budget was overstated on the quarterly report in the amount of \$1,236,035.
- The Occupational Tax Fund was overstated on the quarterly financial report in the amount of \$500 due to duplicate posting of miscellaneous expenses.
- The approved budget amendment for the Document Storage Fee Fund of \$9,960 was overstated on the quarterly financial report in the amount of \$14,357.
- Disbursements totaling \$180,880 for the Opioid Fund were not included in the quarterly financial report submitted to DLG. Disbursements had been coded to a receipt account and did not carry over to the financial report.

The fiscal court failed to recognize the importance of strong internal controls over reporting financial information and instead relied on a single employee without sufficient oversight. Due to the lack of effective internal controls, the amounts reported on the quarterly financial report were materially misstated and did not agree with the approved budgeted amounts and the actual transaction amounts. The misstatements required multiple adjustments due to the errors noted above on the quarterly report. This lack of oversight could result in undetected misappropriation of assets and resulted in inaccurate financial reporting to external agencies such as DLG and the fiscal court.

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

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires the county treasurer to, "[p]repare a quarterly financial statement for the State Local Finance Officer." The manual provides a format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, actual receipts and disbursements and total available in each line item. In addition, the manual provides a chart of accounts and states, "[a]ll counties must use the account numbers from the chart of accounts."

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings (Continued)

2023-001 The Clay County Fiscal Court Did Not Accurately Report Financial Information On The Fourth Quarter Financial (Continued)

Furthermore, DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* states, "Intrafund transfers are transfers of appropriations from one line item to another within the same fund. By court order, transfers (of appropriation) may be made directly from one line item to another or channeled through 9200-999. The total of these transfers should equal zero within the same fund. All transfers require a court order."

Strong internal controls over financial reporting are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court.

We recommend the fiscal court strengthen internal controls to help ensure accurate financial reporting by complying with the KRS and guidance located in the DLG policy manual by having the finance officer and treasurer reconcile the receipts and appropriation ledgers at least once a month and document the review by initialing and dating the reconciliation.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Due to previous administration and software, we were unable to accurately report the fourth quarter financial report. Since then we have been able to secure all correct documentation in order to have accurate reporting.

2023-002 The Clay County Fiscal Court's Actual Disbursements Exceeded Budgeted Appropriations

The Clay County Fiscal Court lacks strong internal controls over the budget process. The fiscal court exceeded their approved budgeted appropriations in the Road Fund, Occupational Tax Fund, and the Document Storage Fee Fund. Fiscal courts are required to maintain expenditures within budgeted appropriations in all operating funds. The following line items exceeded the approved budget:

- The Road Fund, administration disbursements exceeded budgeted appropriations by \$763,128.
- The Jail Fund, protection to persons and property disbursements exceeded budgeted appropriations by \$68,764.
- The Occupational Tax Fund, general health and sanitation disbursements exceed budgeted appropriations by \$399, and the administration disbursements exceeded budgeted appropriations by \$38,646.
- The Document Storage Fee Fund, administration disbursements exceeded budgeted appropriations by \$14,480.
- The Opioid Fund was not budgeted for the fiscal year and included actual receipts of \$361,918 and actual disbursements of \$180,880 during fiscal year 2023.

By exceeding the budgeted line items listed above, the fiscal court exceeded the overall approved budget for the following funds:

- The Road Fund Budget was overspent in the amount of \$262,067.
- The Occupational Tax Fund budget was overspent in the amount of \$32,822.
- The Document Storage Fee Fund budget was overspent in the amount of \$14,480.

**CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)**

Section II: Financial Statement Findings (Continued)

2023-002 The Clay County Fiscal Court's Actual Disbursements Exceeded Budgeted Appropriations
(Continued)

The fiscal court failed to properly monitor budgeted expenditures of the county's operating funds as noted in finding 2023-001 and to submit budget amendments for approval as necessary. A portion of expenditures of the Clay County Fiscal Court's Road Fund, Occupational Tax Fund, and Document Storage Fee Fund were made without sufficient budget appropriations. As a result of failing to budget the Opioid Fund, the fiscal court was not in compliance with the Uniform System of Accounts and with the Department for Local Government.

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. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable."

The Uniform System of Accounts as prescribed by KRS 68.210 requires counties to submit quarterly reports to their regulatory agency, the Department for Local Government (DLG). These reports should include all funds of the fiscal court, should include all activity within the funds, and should agree to the fiscal court's reconciled cash balances. The DLG requires all funds except for Public Properties Corporation (PPC), Jail Commissary, and Trust Funds to be budgeted and that all funds except for PPC, Jail Commissary, and Trust Funds be listed on the quarterly report.

Strong internal controls over financial reporting are vital in ensuring the fiscal court's actual expenditures do not exceed the budgeted expenditures in each fund.

We recommend the Clay County Fiscal Court ensure all line items, as well as all funds, are properly budgeted. The budget should be reviewed periodically by management and department heads and always before a purchase order is approved and the expenditure is completed. Budget transfers or budget amendments should be prepared and reported properly on the fourth quarterly report.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The fiscal court will monitor budget line items accordingly, previously we were unable to see amendments/transfers through original software. Software is now up to date and tracks all disbursements.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings (Continued)

2023-003 The Clay County Fiscal Court's Schedule Of Expenditures Of Federal Awards (SEFA) Was Materially Misstated

This is a repeat finding and was included in the prior year audit report as finding 2022-004. The Clay County Fiscal Court did not prepare a Schedule of Expenditures of Federal Awards (SEFA) that accurately reflects the county's expenditures of federal awards for fiscal year ending June 30, 2023. The county's SEFA was materially misstated, and the following adjustments were made:

- Federal Emergency Management Agency (FEMA) expenditures in the amount of \$5,653 were understated when compared to the county's FEMA related expenditure records.
- FEMA expenditures on the SEFA in the amount of \$902,636 cannot be confirmed as FEMA related.
- FEMA expenditures in the amount of \$221,254 were overstated on the SEFA and cannot be traced to the county's disbursement records for fiscal year ending June 30, 2023.
- Equipment expenses of \$68,352, material expenses of \$41,366, and labor expenses of \$36,897 relating to FEMA projects totaling \$146,615 that were not included on the county's SEFA.

Turnover of personnel at several positions led to the breakdown in the SEFA reporting process. The county's longtime emergency management director left the position as of December 31, 2022, and a temporary director was employed on January 1, 2023. Per the county's fiscal court minutes, a new permanent director was hired on January 12, 2023, and resigned prior to the February 9, 2023, fiscal court meeting. Also, during the February 9, 2023, meeting the fiscal court employed a new emergency management director and deputy director. Additionally, the county's part-time grant writer who was hired January 1, 2023, and was responsible for compiling the county's SEFA, was not experienced in the SEFA reporting process. The county's SEFA was materially misstated and not an accurate representation of federal expenditures for the fiscal year ending June 30, 2023.

Good internal controls dictate the fiscal court prepare an accurate SEFA and include total federal awards expended for each individual federal program. Completeness and accuracy are critical to the SEFA preparation. In addition, Uniform Guidance states that the auditee must prepare a SEFA for the period covered by the auditee's financial statements, which must include the total federal awards expended as determined by 2 CFR 200.502.

2 CFR 200.302(b)(1) states, "[i]dentification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and the name of the pass-through entity, if any." This information enables the auditee to reconcile amounts presented in the financial statement to related amounts in the SEFA.

2 CFR 200.508 states, "[t]he auditee must: (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements."

2 CFR 200.510(b) states, in part, "Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended."

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings (Continued)

2023-003 The Clay County Fiscal Court's Schedule Of Expenditures Of Federal Awards (SEFA) Was Materially Misstated (Continued)

We recommend the Clay County Fiscal Court develop policies and procedures for SEFA preparation, as well as strengthen internal controls over the preparation to ensure its completeness, accuracy, and compliance with reporting compliance requirements.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Due to previous administration changes and lack of paperwork we were unable to provide necessary documentation for the SEFA. We have implemented a new tracking system in order to correct this issue.

2023-004 The Clay County Fiscal Court Did Not Perform Bank Reconciliations For Revolving Accounts

This is a repeat finding and was included in the prior year audit report as finding 2022-006. The Clay County Fiscal Court did not prepare bank reconciliations for the revolving accounts which included a payroll account for employee deductions for federal, social security, and state taxes; a retirement account for employee retirement deductions; and a health insurance for fiscal year 2023. The fiscal court's revolving accounts are designed to be used as a clearing bank account for payroll processing and should reconcile to zero every month. Since bank reconciliations were not provided, the accuracy of the cash balances of these accounts as of June 30, 2023, could not be verified and the following issues were noted:

- The payroll account had an unreconciled balance as of June 30, 2023, of \$182,096. It was determined by the auditor that there were outstanding checks totaling \$35,969, unpaid liabilities for Kentucky state tax for January through June 2023 totaling \$67,624 that had not been submitted to the state timely, and unpaid liabilities for occupational tax totaling \$29,260 that had not been submitted to the Clay County Occupational Tax Administrator. After accounting for outstanding checks and unpaid liabilities, the account had a balance of \$49,243 as of June 30, 2023, that could not be identified.
- The payroll account was charged \$425 for overdraft charges.
- The health insurance account had a negative balance of \$12,464 and had been charged \$113 for overdraft charges as of June 30, 2023.
- The retirement account had a surplus balance of \$9,186 as of June 30, 2023, that could not be identified.

The county treasurer did not prepare accurate bank reconciliations for the fiscal court revolving accounts. Also, the fiscal court did not establish relevant review procedures to determine if the county treasurer was preparing bank reconciliations monthly for the revolving accounts. The county has surplus funds in these revolving accounts that could be used for other purposes. Also, by not completing a correct reconciliation that accounts for all outstanding receivables and outstanding liabilities, the county had a deficit balance in the accounts and incurred overdraft charges. Funds were also maintained in the accounts that were due for state and occupational tax that had not been paid timely.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires officials handling public funds to prepare monthly bank reconciliations.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings (Continued)

2023-004 The Clay County Fiscal Court Did Not Perform Bank Reconciliations For Revolving Accounts
 (Continued)

Strong internal controls over the bank reconciliations for revolving accounts should be implemented to ensure the reconciled balance each month of the payroll, retirement, and health insurance revolving accounts should reconcile to zero for the month, and that all amounts due for Kentucky State tax, health insurance premiums, and retirement amounts are paid timely from these accounts.

We recommend the fiscal court establish procedures to prepare and review bank reconciliations for the payroll, health insurance, and retirement revolving accounts. Also, oversight procedures to review the bank reconciliations and financial reports prepared by the county treasurer should be implemented. The review should be conducted by an independent employee to verify accuracy and completeness.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: New software has implemented reconciliation for all accounts.

2023-005 The Clay County Fiscal Court Does Not Have Adequate Segregation Of Duties Over Occupational
 Tax Receipts

This is a repeat finding and was included in the prior year audit report as finding 2022-009. The Clay County Fiscal Court does not have adequate segregation of duties over occupational tax receipts. The tax administrator opens the mail, matches the checks to the occupational tax bill, stamps checks for deposit only, makes a list of checks, and totals the checks for deposit. The occupational tax clerk prepares and sends out occupational tax bills, makes copies of the checks, posts receipts 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 attached to the receipt deposit report which is maintained at the occupational tax office. The county treasurer posts receipts to the receipts ledger monthly from the occupational tax bank statement and prepares bank reconciliations. No documented review of the receipt process was noted.

The county has an accounting firm that bills and collects occupational tax receipts with a limited number of employees. In addition, occupational tax information is restricted and can only be accessed by authorized personnel. This along with 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.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings (Continued)

2023-005 The Clay County Fiscal Court Does Not Have Adequate Segregation Of Duties Over Occupational Tax Receipts (Continued)

To adequately protect against undetected misappropriation of assets and inaccurate financial reporting, we recommend the fiscal court separate the duties involving mailing the bills, opening mail, preparing the receipt list, collecting and depositing receipts, and preparing deposits. If this is not feasible due to a limited budget, strong oversight over these areas could occur and involve an employee who is not currently performing any of those functions. This oversight should be documented by dating and signing or initialing the documentation.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The mail is now processed by assigned employee then given to the Occupational Tax Administrator.

2023-006 The Clay County Fiscal Court's Controls Over Receipts Were Not Operating Effectively

The Clay County Fiscal Court's controls over receipts were not operating effectively. The following issues were noted:

- Receipts were not deposited timely:
 - A check for \$6,170 dated May 31, 2023, received from the county clerk for delinquent taxes was not deposited until July 3, 2023.
 - A check for \$1,406 dated March 31, 2023, received from the county clerk for delinquent taxes was not deposited until July 3, 2023.
 - A check for \$7,846 dated March 31, 2023, received from the sheriff for property taxes was not deposited until July 3, 2023.
- Receipts were not posted to ledgers with accuracy or a consistent methodology. Auditors made the following General Fund reclassifications totaling \$1,188,262:
 - \$199,607 for Administrative Office of Courts lease payments
 - \$181,980 for Federal payments in lieu of taxes
 - \$306,675 for Local Assistance and Tribal Consistency Fund payments
 - \$500,000 for East Kentucky State Aid Funding for Emergencies payments
- Telecom tax payments of \$10,981 received from the Kentucky Department of Revenue were posted with ambulance service receipts.
- Jail Fund receipts totaling \$13,035 were posted to General Fund ledgers.

The former county treasurer resigned in September 2022. The current county treasurer was employed in October 2022 without any prior training and had limited experience in the financial reporting duties of the treasurer position. Due to the lack of effective controls, the fiscal court's quarterly financial reports did not present a precise and consistent representation of receipts collected.

Good controls in place ensure that deposits are made timely and receipts are posted correctly to ledgers. KRS 68.020(4) states the county treasurer, "shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer."

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings (Continued)

2023-006 The Clay County Fiscal Court's Controls Over Receipts Were Not Operating Effectively
 (Continued)

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires the county treasurer to, "[p]repare a quarterly financial statement for the State Local Finance Officer." The manual provides a format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, actual receipts and disbursements and total available in each line item. In addition, the manual provides a chart of accounts and states, "[a]ll counties must use the account numbers from the chart of accounts."

We recommend the fiscal court comply with the KRS and guidance located in the DLG policy manual to strengthen controls to ensure accurate financial reporting by making daily deposits, maintaining daily deposit records, and ensuring accurate posting to receipts ledger.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Checks are taken to the bank upon arrival and not held for any period of time.

2023-007 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 2022-002. 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 on the first of each month; however, payments were not made in accordance with the amortization schedule during the fiscal year. Total payments of \$56,000 were made through March 2023 and applied to the prior year principal balance. The amortization schedule required total payments of \$151,996, comprised of principal payments of \$136,026 and interest payments of \$14,956. In addition, servicing fees of \$1,014 were required to be paid. The total past due principal balance is \$438,512 and the total past due interest is \$51,897 as of June 30, 2023, based upon county records.

The Clay County Fiscal Court entered into the debt agreement 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 on the first of each month in accordance with the debt amortization schedule.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings (Continued)

2023-007 The Kentucky Infrastructure Authority Debt Payments Were Not Paid As Required By The Debt Agreement (Continued)

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 to become compliant 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 county judge/executive did not provide a response.

2023-008 The Clay County Fiscal Court Submitted Inaccurate Retirement Reports For Employees And Did Not Remit Retirement Payments Properly

This is a repeat finding and was included in the prior year audit report as finding 2022-005. The Clay County Fiscal Court did not properly pay the Kentucky Retirement System (KRS) for retirement contributions and submitted inaccurate retirement reports for employees during fiscal year ending June 30, 2023. A review of payroll records, retirement reports, and bank statements noted the following:

- Retirement contributions for the months of October 2022 through June 2023 were paid late:
 - October 2022 through March 2023 contributions totaling \$778,735 were paid on April 27, 2023.
 - April 2023 contributions totaling \$117,322 were paid on August 22, 2023.
 - May 2023 contributions totaling \$152,653 were paid on September 25, 2023.
 - June 2023 contributions totaling \$129,400 were paid on October 2, 2023.
- Retirement contributions reported for May 2023 were inaccurate when compared to the county's payroll reports:
 - Total gross wages for retirement reported to KRS were \$485,009 and total gross wages for retirement according to the county's payroll records were \$396,527 for a difference of \$88,482.
 - 126 employees had May gross wages reported to KRS as retirement wages that did not agree to actual gross wages per county's payroll reports.
 - Four employees were reported to KRS with gross wages of \$8,514, but these employees were not listed on the county's payroll reports earning any gross wages for retirement.
 - 10 employees with gross wages totaling \$12,307 per county's payroll records were not listed on retirement reports submitted to KRS.
- Retirement contributions reported for June 2023 were inaccurate when compared to the county's payroll reports:
 - Total gross wages for retirement reported to KRS for June 2023 were \$410,713 and total gross wages for retirement according to the county's payroll records were \$377,941 for a difference of \$32,772.
 - 19 employees had June gross wages reported to KRS for retirement that did not agree to actual gross wages per county's payroll reports.
 - 11 employees not listed on payroll reports for June 2023 were reported to KRS with retirement gross wages totaling \$21,757.
 - 14 employees with gross wages totaling \$17,718 per county's payroll records were not listed on KRS retirement reports.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings (Continued)

2023-008 The Clay County Fiscal Court Submitted Inaccurate Retirement Reports For Employees And Did Not Remit Retirement Payments Properly (Continued)

The fiscal court failed to implement controls to monitor that payroll liabilities for retirement are reported correctly to KRS and properly remitted to appropriate parties. Instead, they relied on a single employee to report and remit the amounts due without sufficient oversight. In addition, as reported in finding 2023-004 the retirement and payroll bank accounts used to process retirement transactions were not properly reconciled to ensure all liabilities were paid timely. As a result, retirement payments were not remitted in accordance with the KRS guidelines. The lack of payments and improper reporting to the retirement system could result in the fiscal court being assessed penalty amounts and employee retirement accounts being misstated.

Strong internal controls over the payroll process are essential in ensuring that employee withholdings and employer contributions are properly reported and remitted to the appropriate taxing authorities and vendors. In addition, KRS 61.675(3) states, “(a) Any agency participating in the Kentucky Employees Retirement System which is not an integral part of the executive branch of state government shall file the following at the retirement office on or before the tenth day of the month following the period being reported: 1. The employer and employee contributions required under KRS 61.560, 61.565, and 61.702; 2. The employer contributions and reimbursements for retiree health insurance premiums required under KRS 61.637; and 3. A record of all contributions to the system on the forms prescribed by the board. (b) If the agency fails to file all contributions and reports on or before the tenth day of the month following the period being reported, interest on the delinquent contributions at the actuarial rate adopted by the board compounded annually, but not less than one thousand dollars (\$1,000), may be added to the amount due the system.”

We recommend the fiscal court implement internal controls over payroll liabilities for retirement contributions to ensure retirement reports submitted to KRS are correct based upon the county’s payroll reports and payments to KRS for retirement are submitted timely. This finding will be referred to the Kentucky Retirement System.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Reports in error were amended and payments are completed properly each month.

2023-009 The Clay County Fiscal Court Did Not Properly Remit Local And State Tax Payments

The fiscal court did not remit payments monthly from October 2022 through June 2023 to the Clay County Occupational Tax Administrator for employee occupational tax withholdings totaling \$29,260. Furthermore, the fiscal court did not properly pay the Kentucky Department of Revenue (DOR) for state income tax withheld from employees and failed to submit bi-monthly tax returns consistently and accurately during the fiscal year ending June 30, 2023, and subsequently through December 31, 2023. A review of payroll records, tax reports, and bank statements noted the following:

- 11 bi-monthly returns were not filed or paid to the Department of Revenue for fiscal year 2023 totaling \$67,624.
- \$219 of penalty and interest was paid to the Department of Revenue on March 6, 2023, for the February 15, 2023 return.
- \$26,498 was paid to the Department of Revenue on October 12, 2023; however, no returns were filed.
- \$171,928, including penalty and interest of \$6,946, was paid to the Department of Revenue on February 26, 2024, with a December 31, 2023 return. The payment included state tax employee withholdings for January 1, 2023, through December 31, 2023.
- Overpayment of approximately \$38,618 to the Department of Revenue for employee withholdings for state income taxes.

**CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)**

Section II: Financial Statement Findings (Continued)

2023-009 The Clay County Fiscal Court Did Not Properly Remit Local And State Tax Payments (Continued)

The fiscal court failed to implement controls to monitor that payroll liabilities are reported correctly and properly remitted to appropriate parties. Instead, they relied on a single employee to report and remit the amounts due without sufficient oversight. In addition, as reported in finding 2023-004 the payroll bank account that is used to process state and local tax transactions was not properly reconciled to ensure all liabilities were paid timely.

As a result, state and local tax payments were not remitted in accordance with state laws and regulations and the county's occupational tax ordinance. The lack of payments to the Kentucky Department of Revenue for income tax withheld could result in the fiscal court being assessed penalty amounts. Not paying occupational tax to the county's occupational tax administrator could result in the county being restricted by fewer funds to perform needed services.

Strong internal controls over the payroll process are essential in ensuring that employee withholdings are paid over to the appropriate entities.

In addition, KRS 141.310(1) states, "[e]very employer making payment of wages on or after January 1, 1971, shall deduct and withhold upon the wages a tax determined under KRS 141.315 or by the tables authorized by KRS 141.370." Article VI, Section 1, of the Clay County Fiscal Court's Occupational Tax Ordinance states, "It shall be the duty of every person engaged in any trade, occupation, or profession within Clay County who employees or engages the services of others in connection there with, to withhold from the compensation of such employee, the license fee herein provided, at the time such compensation is paid or credited; said person shall pay to the administrator..."

We recommend the fiscal court implement internal controls over payroll liabilities to ensure compliance with KRS 141.310(1) and the occupational tax ordinance and remit amounts due to the Department of Revenue and the Clay County Occupational Tax Administrator timely. We also recommend the fiscal court contact the Department of Revenue to determine if employee state tax withholdings were overpaid and to request a refund for the overpayment.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Clay County Fiscal Court were unaware these payments were not being made until it was brought to our attention. Issue has been resolved.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section III: Summary Schedule of Prior Audit Findings

Finding Number	Prior Year Finding Title	Status	Corrective Action
2022-001	The Clay County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained	Resolved	
2022-002	The Kentucky Infrastructure Authority Debt Payments Were Not Paid As Required By The Debt Agreement	Unresolved	See corrective action for current year finding 2023-007
2022-003	The Detention Center Bonds, Refinanced With Kentucky Association of Counties Finance Corporation Were Not Paid As Required By The Debt Agreement	Resolved	
2022-004	The Clay County Treasurer Did Not Prepare An Accurate Schedule Of Expenditures Of Federal Awards	Unresolved	See corrective action for current year finding 2023-003
2022-005	The Clay County Fiscal Court Did Not Properly Remit Payroll Retirement Payments	Unresolved	See corrective action for current year finding 2023-008
2022-006	The Clay County Fiscal Court Did Not Perform Bank Reconciliations	Unresolved	See corrective action for current year finding 2023-004
2022-007	The Clay County Fiscal Court Did Not Have Strong Internal Controls Over Disbursements	Resolved	
2022-008	The Clay County Fiscal Court Did Not Have Adequate Controls In Place Over Payroll	Resolved	
2022-009	The Clay County Fiscal Court Does Not Have Adequate Segregation Of Duties Over Occupational Tax Receipts	Unresolved	See corrective action for current year finding 2023-005
2022-010	The Clay County Jailer Lacks Adequate Controls Over Commissary Disbursements	Resolved	
2022-011	The Clay County Fiscal Court Could Not Provide Supporting Documentation For Federal Emergency Management Agency (FEMA) Expenditures	Resolved	
2022-012	The Clay County Fiscal Court Failed To Implement Internal Controls To Ensure Costs Submitted To Document Loss Of Revenue Were For Eligible Expenses Not Already Reimbursed By Other Entities	Resolved	

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

CLAY COUNTY FISCAL COURT

For The Year Ended June 30, 2023

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
COUNTY FISCAL COURT

For The Year Ended June 30, 2023

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