

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Johnny W. Johnson, Clay County Judge/Executive
Members of the Clay County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clay County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Clay County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Clay County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Clay County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

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

Members of the Clay County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2019, on our consideration of the Clay County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Clay County Fiscal Court's internal control over financial reporting and compliance.

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

- 2018-001 The Kentucky Infrastructure Authority Debt Payments Were Not Paid As Required By The Debt Agreement
- 2018-002 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2018-003 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Occupational Tax Receipts
- 2018-004 The Clay County Fiscal Court Does Not Have Adequate Internal Controls Over The Purchase Order System
- 2018-005 The Clay County Fiscal Court Did Not Obtain Bids When Required
- 2018-006 The Clay County Fiscal Court Lacks Internal Control Over Payroll
- 2018-007 The Clay County Fiscal Court Did Not Maintain All Haul Tickets For Asphalt
- 2018-008 The Clay County Jail Commissary Lacks Segregation Of Duties Over Receipts, Disbursements, And The Bank Reconciliation Process
- 2018-009 The Clay County Jail's Year-End Commissary Report Was Misstated And The June 30, 2018 Bank Reconciliation Was Inaccurate

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

January 14, 2019

CLAY COUNTY OFFICIALS
For The Year Ended June 30, 2018

Fiscal Court Members:

Johnny W. Johnson	County Judge/Executive
Harrison Pennington	Magistrate
P.C. Hoskins	Magistrate
Sonny Gay	Magistrate
Randall Wagers	Magistrate
Ray Brown	Magistrate
Allan E. Robinson	Magistrate

Other Elected Officials:

Clay M. Bishop, Jr	County Attorney
Linda Smallwood	Jailer
Michael Baker	County Clerk
Leslie Phillips	Circuit Court Clerk
Angela Johnson	Sheriff
Phillip Mobley	Property Valuation Administrator
Danny Finley	Coroner

Appointed Personnel:

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

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 570,206	\$	\$	\$
In Lieu Tax Payments	198,775	178,081		
Excess Fees	211,395			
Licenses and Permits	32,495			
Intergovernmental	417,193	2,433,609	2,815,725	374,548
Charges for Services	1,492,573		31,204	
Miscellaneous	280,529	51,036	137,041	
Interest	687	2,007	461	422
Total Receipts	3,203,853	2,664,733	2,984,431	374,970
DISBURSEMENTS				
General Government	1,310,223	21,600		
Protection to Persons and Property	8,274		2,179,347	37,716
General Health and Sanitation				
Social Services				
Recreation and Culture	118,823			
Roads		1,788,364		85,556
Debt Service	89,430		545,522	
Administration	1,354,112	372,650	677,958	
Total Disbursements	2,880,862	2,182,614	3,402,827	123,272
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	322,991	482,119	(418,396)	251,698
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	100,000	200,000	512,155	
Transfers To Other Funds	(585,655)	(200,000)		(251,500)
Total Other Adjustments to Cash (Uses)	(485,655)		512,155	(251,500)
Net Change in Fund Balance	(162,664)	482,119	93,759	198
Fund Balance - Beginning (Restated)	505,130	439,579	210,383	125,843
Fund Balance - Ending	\$ 342,466	\$ 921,698	\$ 304,142	\$ 126,041
Composition of Fund Balance				
Bank Balance	\$ 346,207	\$ 948,379	\$ 304,266	\$ 126,041
Plus: Deposits In Transit				
Less: Outstanding Checks	(3,741)	(26,681)	(124)	
Certificates of Deposit				
Fund Balance - Ending	\$ 342,466	\$ 921,698	\$ 304,142	\$ 126,041

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, 2018
(Continued)

Budgeted Funds				Unbudgeted Funds		
Forest Fire Fund	Occupational Tax Fund	Special Water Line Extension Fund	Special Reserve Fund	Public Facilities Construction Corporation Fund	Jail Commissary Fund	Total Funds
\$ 3,762	\$ 1,579,637	\$	\$	\$	\$	\$ 2,153,605
						376,856
						211,395
						32,495
				582,862		6,623,937
						1,523,777
	277				666,475	1,135,358
	240		1,551	726	543	6,637
<u>3,762</u>	<u>1,580,154</u>		<u>1,551</u>	<u>583,588</u>	<u>667,018</u>	<u>12,064,060</u>
						1,331,823
3,416	1,239,028					3,467,781
	129,769					129,769
	8,000					8,000
					671,352	790,175
						1,873,920
				582,863		1,217,815
	488,623					2,893,343
<u>3,416</u>	<u>1,865,420</u>			<u>582,863</u>	<u>671,352</u>	<u>11,712,626</u>
						351,434
346	(285,266)		1,551	725	(4,334)	351,434
	325,000					1,137,155
	(100,000)					(1,137,155)
	225,000					
346	(60,266)		1,551	725	(4,334)	351,434
58	93,441	17,594	507,217	71,754	563,423	2,534,422
<u>\$ 404</u>	<u>\$ 33,175</u>	<u>\$ 17,594</u>	<u>\$ 508,768</u>	<u>\$ 72,479</u>	<u>\$ 559,089</u>	<u>\$ 2,885,856</u>
\$ 404	\$ 33,291	\$ 17,594	\$	\$ 72,479	\$ 573,307	\$ 2,421,968
	(116)				2,192	2,192
					(16,410)	(47,072)
			508,768			508,768
<u>\$ 404</u>	<u>\$ 33,175</u>	<u>\$ 17,594</u>	<u>\$ 508,768</u>	<u>\$ 72,479</u>	<u>\$ 559,089</u>	<u>\$ 2,885,856</u>

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

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**CLAY COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the fiscal court. 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, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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

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

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

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

D. Budgetary Information

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

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

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

E. Clay County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2018.

	General	Road	LGEA	Occupational	Total
	Fund	Fund	Fund	Tax	Transfers In
				Fund	
General Fund	\$	\$ 100,000	\$	\$	\$ 100,000
Road Fund	100,000			100,000	200,000
Jail Fund	260,655		251,500		512,155
Occupational Tax	225,000	100,000			325,000
Total Transfers Out	<u>\$ 585,655</u>	<u>\$ 200,000</u>	<u>\$ 251,500</u>	<u>\$ 100,000</u>	<u>\$ 1,137,155</u>

Reason for transfers:

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

Note 4. Long-Term Debt

A. Kentucky Infrastructure Authority (KIA) Loan

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

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

Note 4. Long-Term Debt (Continued)

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

The North Manchester Water Association remitted total payments of \$89,430 directly to KIA during the fiscal year ended June 30, 2018. The payment schedule required 12 monthly payments of \$12,582 to be made the first of each month; however, only seven payments were made during the fiscal year. Principal payments and interest payments of \$49,335 and \$14,495, respectively were not made for the last five months of the fiscal year.

At the end of the term of the lease, the county will convey title of the assets to North Manchester Water Association. As of June 30, 2018, the principal balance is \$1,124,072. Future lease principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018 Loan Default	\$ 49,335	\$ 14,495
2019	120,903	32,118
2020	124,518	28,258
2021	128,242	24,282
2022	132,076	20,187
2023	136,026	15,970
2024-2026	<u>432,972</u>	<u>21,327</u>
Totals	<u>\$ 1,124,072</u>	<u>\$ 156,637</u>

B. Justice Center Refunding Bonds Series 2012

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

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

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

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

Note 4. Long-Term Debt (Continued)

B. Justice Center Refunding Bonds Series 2012 (Continued)

The use allowance payment commenced with occupancy of the Justice Center Building by AOC. AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until November 1, 2023, but the lease does not legally obligate AOC to do so. As of June 30, 2018, after the advance refunding the principal balance remaining was \$3,290,000. Future bond payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 515,000	\$ 65,662
2020	530,000	55,213
2021	545,000	44,463
2022	550,000	33,168
2023	570,000	20,913
2024-2028	<u>580,000</u>	<u>7,250</u>
Totals	<u>\$ 3,290,000</u>	<u>\$ 226,669</u>

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

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

On May 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 refunding bonds were paid in full in June 2017. As of June 30, 2018, the principal balance of the lease agreement is \$2,060,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 495,000	\$ 51,325
2020	510,000	40,162
2021	520,000	28,671
2022	<u>535,000</u>	<u>14,271</u>
Totals	<u>\$ 2,060,000</u>	<u>\$ 134,429</u>

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

Note 4. Long-Term Debt (Continued)

D. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 3,795,000	\$	\$ 505,000	\$ 3,290,000	\$ 515,000
Financing Obligations	3,737,130		553,058	3,184,072	665,238
Total Long-term Debt	<u>\$ 7,532,130</u>	<u>\$ 0</u>	<u>\$ 1,058,058</u>	<u>\$ 6,474,072</u>	<u>\$ 1,180,238</u>

Note 5. Employee Retirement System

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

The county's contribution for FY 2016 was \$637,980, FY 2017 was \$687,611, and FY 2018 was \$755,024.

Nonhazardous

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

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

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

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

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

Note 5. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

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

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

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

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

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

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

Note 5. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 6. Insurance

For the fiscal year ended June 30, 2018, 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 7. Health Reimbursement 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.

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

Note 8. Prior Period Adjustments

The county treasurer voided prior year outstanding checks for being outstanding for more than one year. This resulted in an increase to the beginning balance of the general fund by \$191, the road fund by \$16, the jail fund by \$8,834, the occupational tax fund by \$199, and the special water line extension fund by \$2,993.

Note 9. Related Party Transactions

The Clay County Fiscal Court pays \$800 per month to the Clay County Attorney for office space rent. The amount paid during fiscal year 2018 was \$9,600.

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 579,000	\$ 584,378	\$ 570,206	\$ (14,172)
In Lieu Tax Payments	31,230	31,230	198,775	167,545
Excess Fees	151,000	234,166	211,395	(22,771)
Licenses and Permits	17,100	30,748	32,495	1,747
Intergovernmental	264,300	455,123	417,193	(37,930)
Charges for Services	1,915,100	1,915,100	1,492,573	(422,527)
Miscellaneous	100,750	156,382	280,529	124,147
Interest	500	591	687	96
Total Receipts	<u>3,058,980</u>	<u>3,407,718</u>	<u>3,203,853</u>	<u>(203,865)</u>
DISBURSEMENTS				
General Government	1,270,393	1,398,343	1,310,223	88,120
Protection to Persons and Property	3,600	9,855	8,274	1,581
Recreation and Culture	28,500	219,324	118,823	100,501
Debt Service			89,430	(89,430)
Administration	1,402,387	1,716,226	1,354,112	362,114
Total Disbursements	<u>2,704,880</u>	<u>3,343,748</u>	<u>2,880,862</u>	<u>462,886</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>354,100</u>	<u>63,970</u>	<u>322,991</u>	<u>259,021</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			100,000	100,000
Transfers To Other Funds	(429,100)	(429,100)	(585,655)	(156,555)
Total Other Adjustments to Cash (Uses)	<u>(429,100)</u>	<u>(429,100)</u>	<u>(485,655)</u>	<u>(56,555)</u>
Net Change in Fund Balance	(75,000)	(365,130)	(162,664)	202,466
Fund Balance - Beginning (Restated)	<u>75,000</u>	<u>505,130</u>	<u>505,130</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 140,000</u>	<u>\$ 342,466</u>	<u>\$ 202,466</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 50,000	\$ 53,869	\$ 178,081	\$ 124,212
Intergovernmental	2,027,200	2,460,392	2,433,609	(26,783)
Miscellaneous	2,100	2,100	51,036	48,936
Interest	1,000	1,642	2,007	365
Total Receipts	<u>2,080,300</u>	<u>2,518,003</u>	<u>2,664,733</u>	<u>146,730</u>
DISBURSEMENTS				
General Government	22,000	22,000	21,600	400
Roads	1,710,500	2,078,700	1,788,364	290,336
Administration	347,800	856,882	372,650	484,232
Total Disbursements	<u>2,080,300</u>	<u>2,957,582</u>	<u>2,182,614</u>	<u>774,968</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(439,579)</u>	<u>482,119</u>	<u>921,698</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			200,000	200,000
Transfers To Other Funds			<u>(200,000)</u>	<u>(200,000)</u>
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance		(439,579)	482,119	921,698
Fund Balance - Beginning (Restated)		<u>439,579</u>	<u>439,579</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 921,698</u>	<u>\$ 921,698</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,657,800	\$ 2,661,397	\$ 2,815,725	\$ 154,328
Charges for Services	50,000	50,000	31,204	(18,796)
Miscellaneous	130,000	130,000	137,041	7,041
Interest	300	353	461	108
Total Receipts	<u>2,838,100</u>	<u>2,841,750</u>	<u>2,984,431</u>	<u>142,681</u>
DISBURSEMENTS				
Protection to Persons and Property	1,908,675	2,210,075	2,179,347	30,728
Debt Service	545,523	545,523	545,522	1
Administration	781,402	719,035	677,958	41,077
Total Disbursements	<u>3,235,600</u>	<u>3,474,633</u>	<u>3,402,827</u>	<u>71,806</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(397,500)</u>	<u>(632,883)</u>	<u>(418,396)</u>	<u>214,487</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>322,500</u>	<u>322,500</u>	<u>512,155</u>	<u>189,655</u>
Total Other Adjustments to Cash (Uses)	<u>322,500</u>	<u>322,500</u>	<u>512,155</u>	<u>189,655</u>
Net Change in Fund Balance	(75,000)	(310,383)	93,759	404,142
Fund Balance - Beginning (Restated)	<u>75,000</u>	<u>210,383</u>	<u>210,383</u>	<u> </u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (100,000)</u>	<u>\$ 304,142</u>	<u>\$ 404,142</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 100	\$ 100	\$	\$ (100)
Intergovernmental	340,000	421,303	374,548	(46,755)
Interest	200	368	422	54
Total Receipts	<u>340,300</u>	<u>421,771</u>	<u>374,970</u>	<u>(46,801)</u>
DISBURSEMENTS				
Protection to Persons and Property	38,500	38,500	37,716	784
Roads	75,000	132,000	85,556	46,444
Administration	300	125,614		125,614
Total Disbursements	<u>113,800</u>	<u>296,114</u>	<u>123,272</u>	<u>172,842</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>226,500</u>	<u>125,657</u>	<u>251,698</u>	<u>126,041</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(251,500)</u>	<u>(251,500)</u>	<u>(251,500)</u>	<u></u>
Total Other Adjustments to Cash (Uses)	<u>(251,500)</u>	<u>(251,500)</u>	<u>(251,500)</u>	<u></u>
Net Change in Fund Balance	(25,000)	(125,843)	198	126,041
Fund Balance - Beginning	<u>25,000</u>	<u>125,843</u>	<u>125,843</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 126,041</u>	<u>\$ 126,041</u>

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

FORESTRY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	5,000	5,000	3,762	(1,238)
Total Receipts	5,000	5,000	3,762	(1,238)
DISBURSEMENTS				
Protection to Persons and Property	5,000	5,058	3,416	1,642
Total Disbursements	5,000	5,058	3,416	1,642
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(58)	346	404
Net Change in Fund Balance		(58)	346	404
Fund Balance - Beginning		58	58	
Fund Balance - Ending	\$ 0	\$ 0	\$ 404	\$ 404

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

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,500,000	\$ 1,506,838	\$ 1,579,637	\$ 72,799
Miscellaneous	1,500	1,500	277	(1,223)
Interest	300	300	240	(60)
Total Receipts	<u>1,501,800</u>	<u>1,508,638</u>	<u>1,580,154</u>	<u>71,516</u>
DISBURSEMENTS				
General Government	2,500	2,500		2,500
Protection to Persons and Property	1,213,300	1,340,463	1,239,028	101,435
General Health and Sanitation	116,700	141,540	129,769	11,771
Social Services	8,000	8,000	8,000	
Administration	519,400	507,676	488,623	19,053
Total Disbursements	<u>1,859,900</u>	<u>2,000,179</u>	<u>1,865,420</u>	<u>134,759</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(358,100)</u>	<u>(491,541)</u>	<u>(285,266)</u>	<u>206,275</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	358,100	358,100	325,000	(33,100)
Transfers To Other Funds			(100,000)	(100,000)
Total Other Adjustments to Cash (Uses)	<u>358,100</u>	<u>358,100</u>	<u>225,000</u>	<u>(133,100)</u>
Net Change in Fund Balance		(133,441)	(60,266)	73,175
Fund Balance - Beginning (Restated)		<u>93,441</u>	<u>93,441</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (40,000)</u>	<u>\$ 33,175</u>	<u>\$ 73,175</u>

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

SPECIAL WATER LINE EXTENSION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
General Health and Sanitation	\$ 14,600	\$ 14,600	\$	\$ 14,600
Administration		2,994		2,994
Total Disbursements	14,600	17,594		17,594
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(14,600)	(17,594)		17,594
Net Change in Fund Balance	(14,600)	(17,594)		17,594
Fund Balance - Beginning (Restated)	14,600	17,594	17,594	
Fund Balance - Ending	\$ 0	\$ 0	\$ 17,594	\$ 17,594

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

	SPECIAL RESERVE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 4,000	\$ 4,000	\$ 1,551	\$ (2,449)
Total Receipts	4,000	4,000	1,551	(2,449)
DISBURSEMENTS				
Administration	511,300	511,217		511,217
Total Disbursements	511,300	511,217		511,217
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(507,300)	(507,217)	1,551	508,768
Net Change in Fund Balance	(507,300)	(507,217)	1,551	508,768
Fund Balance - Beginning	507,300	507,217	507,217	
Fund Balance - Ending	\$ 0	\$ 0	\$ 508,768	\$ 508,768

CLAY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

General fund debt service disbursements exceeded budgeted appropriations by \$89,430.

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CLAY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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CLAY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	(*Restated) Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land	\$ 1,041,727	\$	\$	\$ 1,041,727
Buildings and Improvements*	18,732,377			18,732,377
Vehicles and Equipment*	4,463,904	24,000	122,286	4,365,618
Infrastructure	9,201,327	414,871		9,616,198
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	\$ 33,439,335	\$ 438,871	\$ 122,286	\$ 33,755,920
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

CLAY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2018

Note 1. Capital Assets

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

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

Note 2. Prior Period Adjustment

The vehicles and equipment beginning balance was reduced by \$6,000 as a result of equipment being improperly included in the beginning balance. In addition, there was a \$1 rounding error to buildings and improvements beginning balance.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clay County Fiscal Court for the fiscal year ended June 30, 2018, 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 January 14, 2019.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-002, 2018-003, 2018-005, and 2018-008 to be material weaknesses.



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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-004, 2018-006, 2018-007, and 2018-009 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clay County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-004, 2018-005, and 2018-006.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

January 14, 2019

**CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Kentucky Infrastructure Authority Debt Payments Were Not Paid As Required By The Debt Agreement

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 to be made the first of each month; however, only seven payments were made during the fiscal year. Principal payments and interest payments totaling \$49,335 and \$14,495, respectively were not made for the last five months of the fiscal year.

The Clay County Fiscal Court entered into the debt with KIA in order to obtain funding for waterlines on behalf of North Manchester Water Association. The fiscal court further entered into a lease agreement with North Manchester Water Association where they would make lease payments equaling the debt service payments directly to KIA. North Manchester made payments through January 2018 but then failed to make required subsequent payments as required by the lease agreement.

The county is in default on the debt agreement with KIA by not ensuring proper debt payments were made in accordance with their agreement.

The loan agreement the county entered into with KIA requires monthly loan payments to be made the first of each month in accordance with the debt amortization schedule.

We recommend the Clay County Fiscal Court comply with the terms of the KIA agreement by making all required debt payments in the future. We further recommend the fiscal court contact KIA in order to become in compliance with the terms of the agreement regarding unpaid principal and interest payments. In addition, the county should consult with the county attorney regarding the agreement in place with North Manchester Water Association.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Have met with North Manchester Water Association and Co. Attorney to try and work out a solution. NMW advised they have requested a rate increase which would cover the loan payment amount.

2018-002 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts

This is a repeat finding and was included in the prior year audit report as finding 2017-002. The Clay County Fiscal Court does not have adequate segregation of duties over receipts. The county treasurer opens mail, prepares all deposits, posts to receipt ledgers, and prepares bank reconciliations. In January 2018, the receipt process was changed and the secretary started opening the mail and creating a receipt list. This list was compared to the deposit slip which is still prepared by the treasurer. The treasurer posts to the receipt ledgers and prepares the bank reconciliation with no documented review.

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.

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

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts (Continued)

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

To adequately protect against undetected misappropriation of assets and inaccurate financial reporting, we recommend the fiscal court separate the duties involving the opening of mail, collecting and depositing of receipts, and preparation of reports and reconciliations. If this is not feasible due to a limited budget, strong oversight over these areas could occur and involve an employee that isn't currently performing any of those functions. Additionally, the county judge/executive could provide this oversight and document it on the appropriate source documents.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This is due to low office staff. Two people in County Judges Office does record receipts.

2018-003 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Occupational Tax Receipts

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

The county has two employees working in the occupational tax office. In addition, occupational tax information is restricted and can only be accessed by authorized personal. 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.

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

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

To adequately protect against undetected misappropriation of assets and inaccurate financial reporting, we recommend the fiscal court separate the duties involving mailing of the bills, opening of mail, preparing the

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Occupational Tax Receipts (Continued)

receipt list, collecting and depositing of receipts, and preparation of the deposit. If this is not feasible due to a limited budget, strong oversight over these areas could occur and involve an employee that isn't currently performing any of those functions.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This is due to low Office Staff, financially unable to change the office staff at this time.

2018-004 The Clay County Fiscal Court Does Not Have Adequate Internal Controls Over The Purchase Order System

This is a repeat finding and was included in the prior year audit report as finding 2017-006. The Clay County Fiscal Court is not properly utilizing a purchase order system. The purchasing procedures in place do not comply with the required purchase order system required by the state local finance officer. In addition, the internal controls over the purchase order system allowed the system to be circumvented. As a result, four invoices were paid before a purchase order was issued.

Internal controls over purchase orders were not operating as intended during fiscal year 2018. The treasurer stated that each department has been giving guidelines for making purchases; however, some still fail to follow guidelines and will make purchases without receiving a purchase order.

As a result of not monitoring controls, the county could over spend their line item budget amounts.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government, "[p]urchases shall not be made without approval by the judge/executive (or designee) and/or department head" and "[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made."

We recommend the Clay County Fiscal Court strengthen internal controls by ensuring that purchases orders are issued for all disbursements and sufficient funds are available prior to issuing a purchase order.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The County Judge/Executive has advised all Departments to call for purchase orders.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Clay County Fiscal Court Did Not Obtain Bids When Required

This is a repeat finding and was included in the prior year audit report as finding 2017-007. The Clay County Fiscal Court did not properly bid a \$85,175 to one vendor. For fiscal year 2018, fiscal court orders documented that multiple bids were accepted and approved on bids for contracts for steel drilling and road pipe instead of choosing one bid. The vendor that was paid over \$20,000 was the secondary bidder. According to the county, they were unaware that multiple bids could not be accepted.

By limiting competition or not receiving bids at all, the fiscal court may not get the benefits of the best price available. Competitive bidding ensures the fiscal court procures equipment and services at the best price available.

KRS 424.260(1) states, in part, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.” In addition, fiscal court’s own administrative code requires that purchases over \$20,000 be bid.

KRS 178.140(1)(2) states, “[a]ll bids for the construction or maintenance of county roads and bridges shall be received at the time and place specified in the advertisement, and shall be opened publicly at the time of awarding, and the amount of items comprising each bid shall be publicly announced. The contract shall be awarded to the lowest and best bidder, who shall furnish satisfactory security in an amount equal to the amount of the contract in question, to be approved by the county judge/executive of the county.”

We recommend the Clay County Fiscal Court follow proper bid laws and regulations by ensuring all purchases of \$20,000 or more be made in compliance with KRS 424.260.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: In the future the Clay County Fiscal Court will accept only one vendor per bid.

2018-006 The Clay County Fiscal Court Lacks Internal Control Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2017-009. The Clay County Fiscal Court does not have proper internal controls over the payroll process. During fiscal year ending June 30, 2018, the following issues were noted:

- Four timesheets did not annotate actual hours worked.
- One timecard was approved without employee signature.
- Three timecards were processed without supervisor approvals.
- One employee was paid without timecard documentation.
- Four timesheets were not calculated correctly.
- One employee worked more than 40 hours in a week without receiving compensatory time.
- One employee timesheet was not accurate.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The Clay County Fiscal Court Lacks Internal Control Over Payroll (Continued)

Weak internal controls over payroll have allowed these issues to go undetected. As a result, the fiscal court is not in compliance with federal and state labor regulations or the county's administrative code.

KRS 337.320(1) requires every employer to "keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires."

Clay County Administrative Code Section XII: Personnel Policies and Procedures (1)(a) states, "Hours of Work (a) The work day shall consist of not less than eight (8) consecutive hours, and the work week shall consist of at least forty (40) hours in five (5) consecutive days." Additionally, Amendment #6 of the Clay County Administrative Code states, "[a]ll salary personnel working for Clay County, Kentucky shall be allowed to accumulate one-half (1/2) day each month for vacation time" and "[a]ll salary personnel working for Clay County, Kentucky shall be allowed to accumulate one-half (1/2) day each month for sick leave time."

Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

Section 213(a)(1) of the Fair Labor Standards Act exempts bona fide executive, administrative, and professional employees, outside sales employees, and certain skilled computer professionals from both the minimum wage and overtime pay requirements.

We recommend the Clay County Fiscal Court strengthen internal controls over payroll by requiring employees and supervisors to sign timecards, ensure timecards reflect actual hours worked, keep leave balances current on all employees, and require all employees to maintain timecards. We further recommend the Clay County Fiscal Court obtain a legal opinion from the county attorney as to whether county employees considered salaried qualify as such under labor laws.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Salaried employees and supervisors have been notified of turning in documentation of hours worked. We have also advised them to have time sheets/cards signed.

2018-007 The Clay County Fiscal Court Did Not Maintain All Haul Tickets For Asphalt

The Clay County Fiscal Court is responsible for maintenance of county roads, including resurfacing. The county contracts the resurfacing of roads to vendors because it is not feasible for the county to perform the resurfacing on its own due to equipment and supply costs. The county does not maintain all asphalt haul tickets. The vendor attaches the last haul ticket for each job with the invoice delivered to the county treasurer for payment, but there is no review of asphalt haul tickets to make sure all loads were delivered to the county job site. The county also does not have an employee present at the jobsite to sign off that the asphalt is delivered to the county jobsite.

According to the county, they were unaware that this was required. These deficiencies could result in inaccurate reporting and misappropriation of assets. Strong internal controls require adequate documentation be maintained to support all county expenditures.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The Clay County Fiscal Court Did Not Maintain All Haul Tickets For Asphalt (Continued)

We recommend the county have an employee present at the jobsite each time a delivery is made. The employee should sign the haul tickets for each load of asphalt that is delivered. The county should then compare each signed haul ticket back to the bill received from the asphalt company to ensure they are only paying for materials delivered to the county.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Believes an employee was on site collecting tickets this past fall. County Judge will advise Road Supervisor to make sure all tickets are kept.

2018-008 The Clay County Jail Commissary Lacks Segregation Of Duties Over Receipts, Disbursements, And The Bank Reconciliation Process

The Clay County jail commissary bookkeeper's duties include posting receipts, preparing and posting disbursements, and completing the bank reconciliation. When one employee is responsible for the receipt, disbursement, and reconciliation process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases. The Clay County Jailer has implemented some compensating controls over these functions by reviewing deposits, reviewing invoices, reviewing bank reconciliations, and documenting her review by initials or signature. This review, however, is not effective as evidenced by the issues noted in finding #2018-009.

The limited number of Clay County jail staff in the office prevents a proper segregation of duties. This could result in undetected misappropriation of assets and incorrect reporting.

Effective internal controls require proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

We recommend the Clay County Jailer segregate duties over receipts, disbursements, and the bank reconciliation process. If segregation of duties is not possible, the Clay County Jailer should continue to implement compensating controls by monitoring the financial activities of the jail commissary and continue to document her review. The review should ensure accurate financial reporting and bank reconciliations.

Views of Responsible Official and Planned Corrective Action:

Jailer's Response: This process goes through four employees now. I do not have enough staff to segregate any further. Jailer will continue to sign all deposits and go over reconciliations.

2018-009 The Clay County Jail's Year-End Commissary Report Was Misstated And The June 30, 2018 Bank Reconciliation Was Inaccurate

The Clay County Jail's year-end commissary report for June 30, 2018, was not an accurate representation of the financial activity that occurred during the period. At the end of each fiscal year, the jailer is required to submit a report reflecting the financial activity of the commissary account to the county treasurer. The jailer's report required 16 adjustments to receipts totaling \$8,520 in order to reconcile to bank activity for the period.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-009 The Clay County Jail's Year-End Commissary Report Was Misstated And The June 30, 2018 Bank Reconciliation Was Inaccurate (Continued)

Additionally, the jail's June 30, 2018 bank reconciliation was inaccurate. The bank reconciliation's reconciled balance of \$573,307 agreed to the confirmed bank balance; however, the reconciliation listed outstanding checks of \$4,440 and outstanding deposits of \$5,888 that do not agree to the audited amounts of \$13,596 and \$2,192, respectively.

The jailer's former bookkeeper left employment with the jail in August 2018 and the new bookkeeper was hired. According to the jailer, the new bookkeeper did not have sufficient training time. The jailer's year end commissary report and bank reconciliation were inaccurate due to errors made by the new bookkeeper.

Inmate accounts, as well as the jailer's commissary account, may not have full use of all the funds they are entitled to since the account is not being properly maintained.

Good internal controls dictate financial statements are properly prepared and all bank accounts are reconciled accurately and timely.

The jailer should establish a policy requiring monthly reconciliations of ledger and bank balances to minimize financial reporting errors and ensure proper disbursement of funds.

Views of Responsible Official and Planned Corrective Action:

Jailer's Response: The jailer will make sure that the bank reconciliation is done properly, and that monthly ledger and bank balances is done correctly to minimize financial reporting errors and ensure proper disbursement of funds.

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

CLAY COUNTY FISCAL COURT

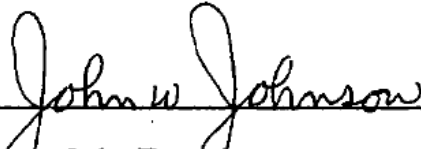
For The Year Ended June 30, 2018

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
CLAY COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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