

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

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



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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 Roger T. Daniel, Former Johnson County Judge/Executive

The Honorable Mark McKenzie, Johnson County Judge/Executive

Members of the Johnson 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 Johnson County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Johnson County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

As described in Note 1 of the financial statement, the financial statement is prepared by the Johnson 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 Johnson 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 Johnson 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 Johnson 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

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William M. Landrum III, Secretary

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2019, on our consideration of the Johnson 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 Johnson 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 Disbursements Exceeded Approved Budget Appropriations
- 2018-002 The Fiscal Court Did Not Establish Adequate Controls Over The Justice Center Corporation Fund
- 2018-003 The Former County Treasurer Did Not Properly Account For And Did Not Properly Reconcile And Report The Financial Activity Of The County
- 2018-004 The Payroll Revolving Account Had A Cash Surplus of \$133,798 And Was Not Reconciled To Zero On A Monthly Basis

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 30, 2019

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

Roger T. Daniel	County Judge/Executive
Paul Daniel	Commissioner
Kathy Adams	Commissioner
Darren Gamble	Commissioner

Other Elected Officials:

Michael Endicott	County Attorney
Doug Saylor	Jailer
Sally Holbrook	County Clerk
Penny Adams	Circuit Court Clerk
Dwayne Price	Sheriff
Michael Stafford	Property Valuation Administrator
J.R. Frisby	Coroner

Appointed Personnel:

Adaline Stambaugh	County Treasurer
Edadeane Bussey	Occupational Tax Collector
Betty Picklesimer	Finance Officer
Carla Burke	Administrative Assistant
Lillian Wheeler	Programs and Projects Coordinator

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 2,156,923	\$	\$
In Lieu Tax Payments	213	1,191	
Intergovernmental	2,264,119	1,740,758	126,349
Charges for Services	8,160		
Miscellaneous	133,173	172,393	587
Interest	5,329	9,296	348
Total Receipts	<u>4,567,917</u>	<u>1,923,638</u>	<u>127,284</u>
DISBURSEMENTS			
General Government	2,233,819		
Protection to Persons and Property	123,012		591,539
General Health and Sanitation	296,404	732	
Social Services			
Recreation and Culture	4,819		
Roads		1,997,687	
Debt Service		286,575	
Administration	1,053,133	258,558	19,765
Total Disbursements	<u>3,711,187</u>	<u>2,543,552</u>	<u>611,304</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>856,730</u>	<u>(619,914)</u>	<u>(484,020)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds		275,808	
Change in Payroll Revolving Account	(12,762)		
Transfers From Other Funds			460,000
Transfers To Other Funds	(463,660)		
Total Other Adjustments to Cash (Uses)	<u>(476,422)</u>	<u>275,808</u>	<u>460,000</u>
Net Change in Fund Balance	380,308	(344,106)	(24,020)
Fund Balance - Beginning (Restated)	<u>1,113,222</u>	<u>2,063,927</u>	<u>34,375</u>
Fund Balance - Ending	<u>\$ 1,493,530</u>	<u>\$ 1,719,821</u>	<u>\$ 10,355</u>
Composition of Fund Balance			
Bank Balance	\$ 1,414,079	\$ 1,995,941	\$ 10,706
Payroll Revolving Account Reconciled Balance	133,798		
Less: Outstanding Checks	(54,347)	(276,120)	(351)
Fund Balance - Ending	<u>\$ 1,493,530</u>	<u>\$ 1,719,821</u>	<u>\$ 10,355</u>

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

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

Budgeted Funds						
Local						
Government	Public Properties	Industrial	Industrial	Industrial	Industrial	Federal
Economic	Courthouse	Development	Development	Development	Development	Grants
Assistance	Corporation Bond	Authority	Authority	Authority	Authority	Fund
Fund	Sinking Fund	#1 Fund	#2 Fund	#3 Fund	#4 Fund	Fund
\$	\$	\$	\$	\$	\$	\$
331,548						356,298
	769	1,126	64	516	149	
331,548	769	1,126	64	516	149	356,298
47,195						
21,000						
49,102						
123,687						
55,137						356,298
296,121						356,298
35,427	769	1,126	64	516	149	
35,427	769	1,126	64	516	149	
87,024	159,917	234,121	13,267	107,361	30,887	32,366
\$ 122,451	\$ 160,686	\$ 235,247	\$ 13,331	\$ 107,877	\$ 31,036	\$ 32,366
\$ 122,494	\$ 160,686	\$ 235,247	\$ 13,331	\$ 107,877	\$ 31,036	\$ 32,366
(43)						
\$ 122,451	\$ 160,686	\$ 235,247	\$ 13,331	\$ 107,877	\$ 31,036	\$ 32,366

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

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

	<u>Budgeted Funds</u>		
	<u>Johnson County Employee FSA and HRA Insurance Fund</u>	<u>Justice Center Corporation Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 2,156,923
In Lieu Tax Payments			1,404
Intergovernmental		683,013	5,502,085
Charges for Services			8,160
Miscellaneous			306,153
Interest	1	400	17,998
Total Receipts	<u>1</u>	<u>683,413</u>	<u>7,992,723</u>
DISBURSEMENTS			
General Government			2,281,014
Protection to Persons and Property			714,551
General Health and Sanitation			318,136
Social Services			49,102
Recreation and Culture			4,819
Roads			2,121,374
Debt Service		683,013	969,588
Administration	2,942		1,745,833
Total Disbursements	<u>2,942</u>	<u>683,013</u>	<u>8,204,417</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,941)</u>	<u>400</u>	<u>(211,694)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			275,808
Change in Payroll Revolving Account			(12,762)
Transfers From Other Funds	3,660		463,660
Transfers To Other Funds			(463,660)
Total Other Adjustments to Cash (Uses)	<u>3,660</u>		<u>263,046</u>
Net Change in Fund Balance	719	400	51,352
Fund Balance - Beginning (Restated)	<u>1,573</u>	<u>385,581</u>	<u>4,263,621</u>
Fund Balance - Ending	<u>\$ 2,292</u>	<u>\$ 385,981</u>	<u>\$ 4,314,973</u>
Composition of Fund Balance			
Bank Balance	\$ 2,292	\$ 385,981	\$ 4,512,036
Payroll Revolving Account Reconciled Balance			133,798
Less: Outstanding Checks			(330,861)
Fund Balance - Ending	<u>\$ 2,292</u>	<u>\$ 385,981</u>	<u>\$ 4,314,973</u>

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

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**JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

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

JOHNSON 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.

Public Properties Courthouse Corporation Bond Sinking Fund - The primary purpose of this fund is debt reduction on the Courthouse Corporation Bond issue.

Industrial Development Authority #1 Fund - The primary purpose of this fund is restricted to the recruitment of new companies and jobs to the county.

Industrial Development Authority #2 Fund - The primary purpose of this fund is restricted to the recruitment of new companies and jobs to the county.

Industrial Development Authority #3 Fund - The primary purpose of this fund is restricted to the recruitment of new companies and jobs to the county.

Industrial Development Authority #4 Fund - The primary purpose of this fund is restricted to the recruitment of new companies and jobs to the county.

Federal Grants Fund - The primary purpose of this fund is to serve as a pass through fund for federal grants received and passed through to Mountain Comprehensive Care.

Johnson County Employee FSA and HRA Insurance Fund - The purpose of this fund is to provide the county's portion for employee's FSA and HRA accounts.

Justice Center Corporation Fund - The Justice Center Corporation Fund accounts for the activities of the Justice Center Corporation. The Justice Center Corporation issued debt to build facilities and additions of the Justice Center. The Justice Center Corporation entered into a contract, lease, and option with the county and the Administrative Office of the Courts.

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.

JOHNSON 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 justice center corporation fund to be budgeted; however, the fiscal court has elected to budget this fund. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Johnson County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Johnson 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 Johnson 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.

H. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on this criteria, the Industrial Development Board is considered a related organization of the Johnson County Fiscal Court.

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

Note 1. Summary of Significant Accounting Policies (Continued)

H. Related Organizations and Joint Ventures (Continued)

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on this criteria, the Big Sandy Regional Jail is considered a joint venture of the Johnson County Fiscal Court, the Lawrence County Fiscal Court, the Magoffin County Fiscal Court, and the Martin County Fiscal Court.

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.

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. On June 30, 2018, the fiscal court's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$388,826

Note 3. Transfers

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

	General Fund	Total Transfers In
	<u> </u>	<u> </u>
Jail Fund	\$ 460,000	\$ 460,000
Johnson County Employee FSA and HRA Insurance Fund	3,660	3,660
	<u> </u>	<u> </u>
Total Transfers Out	<u>\$ 463,660</u>	<u>\$ 463,660</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.

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

Note 4. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2012

On August 2, 2012, the Johnson County Justice Center Corporation refinanced the First Mortgage Revenue Bonds, Series 2004 which provided funding for the construction of the Johnson County Judicial Center. The new 2012 bond series was issued for \$5,880,000, with interest rates varying between 2.00 percent and 2.65 percent. Interest is payable on February 1 and August 1 of each year. Funding of the debt service is provided by a lease arrangement with the Administration Office of the Courts (AOC). Bonds outstanding as of June 30, 2018, were \$4,385,000. Debt service requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2019	\$ 585,000	\$ 96,413
2020	595,000	84,613
2021	610,000	71,800
2022	625,000	57,516
2023	640,000	42,094
2024-2025	1,330,000	34,766
Totals	<u>\$ 4,385,000</u>	<u>\$ 387,200</u>

B. Financing Obligation - Trucks

The Johnson County Fiscal Court purchased two Mack trucks for \$275,808 on July 15, 2017. The county received funds through Kentucky Association of Counties Leasing Program to purchase the trucks. The agreement required monthly interest payments for 18 months with the principal due on January 20, 2019. On June 29, 2018, this lease was paid in full.

C. 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	\$ 4,960,000	\$	\$ 575,000	\$ 4,385,000	\$ 585,000
Financing Obligations		275,808	275,808		
Total Long-term Debt	<u>\$ 4,960,000</u>	<u>\$ 275,808</u>	<u>\$ 850,808</u>	<u>\$ 4,385,000</u>	<u>\$ 585,000</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.

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

Note 5. Employee Retirement System (Continued)

The county's contribution for FY 2016 was \$311,806, FY 2017 was \$324,777, and FY 2018 was \$342,492.

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.

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

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

Note 5. Employee Retirement System (Continued)

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.

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.

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

Note 5. Employee Retirement System (Continued)

KRS Annual Financial Report and Proportionate Share Audit Report (Continued)

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

Note 6. Deferred Compensation

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

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

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

Note 7. Insurance

For the fiscal year ended June 30, 2018, the Johnson County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Subsequent Events

The Johnson County Fiscal Court purchased two Mack trucks in 2019. The county received funds through the Kentucky Association of Counties Leasing Program to purchase the trucks.

Note 9. Payroll Revolving Account

The reconciled balance of \$133,798 in the payroll revolving account, as of June 30, 2018, was added to the general fund cash balance for financial reporting purposes.

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

Note 10. Justice Center Corporation Fund's Cash In Bank

The Johnson County Fiscal Court has \$383,752 in an account at City National Bank titled under Johnson County Fiscal Court Judicial Center as of June 30, 2018. This money was issued by Citizens National Bank to the fiscal court to close out an old account under the justice center fund. The county attorney researched this matter to determine who owns this money but was unable to make a determination due to the lack of a paper trail at this time. He attempted to obtain a paper trail as to how this money was deposited, the source of its income, and its obligations therein from the Administrative Office of the Courts, U.S. National Bank Association, and Citizens National Bank. He seems to think the money came in to play from a required agreement as an escrow in a sinking fund. The Administrative Office of the Courts said the money belongs to them but could not provide any proof at this time. Citizens National Bank cannot provide a paper trail due to a system issue.

Note 11. Prior Period Restatement

The beginning balance of the general fund has been restated and increased by \$99,540 due to an outstanding check reported in error.

The beginning balance for the jail fund has been restated and increased by \$190 due to a prior year voided check.

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

For The Year Ended June 30, 2018

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JOHNSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,989,500	\$ 1,989,500	\$ 2,156,923	\$ 167,423
In Lieu Tax Payments	800	800	213	(587)
Intergovernmental	2,118,436	2,118,436	2,264,119	145,683
Charges for Services	7,000	7,000	8,160	1,160
Miscellaneous	63,900	63,900	133,173	69,273
Interest	3,500	3,500	5,329	1,829
Total Receipts	<u>4,183,136</u>	<u>4,183,136</u>	<u>4,567,917</u>	<u>384,781</u>
DISBURSEMENTS				
General Government	2,544,227	2,626,420	2,233,819	392,601
Protection to Persons and Property	109,000	125,893	123,012	2,881
General Health and Sanitation	453,000	457,131	296,404	160,727
Recreation and Culture	20,000	20,000	4,819	15,181
Administration	1,341,125	1,237,908	1,053,133	184,775
Total Disbursements	<u>4,467,352</u>	<u>4,467,352</u>	<u>3,711,187</u>	<u>756,165</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(284,216)</u>	<u>(284,216)</u>	<u>856,730</u>	<u>1,140,946</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(400,000)</u>	<u>(400,000)</u>	<u>(463,660)</u>	<u>(63,660)</u>
Total Other Adjustments to Cash (Uses)	<u>(400,000)</u>	<u>(400,000)</u>	<u>(463,660)</u>	<u>(63,660)</u>
Net Change in Fund Balance	(684,216)	(684,216)	393,070	1,077,286
Fund Balance - Beginning (Restated)	<u>684,216</u>	<u>684,216</u>	<u>966,662</u>	<u>282,446</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,359,732</u>	<u>\$ 1,359,732</u>

JOHNSON 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	\$	\$	\$ 1,191	\$ 1,191
Intergovernmental	1,236,116	1,236,116	1,740,758	504,642
Miscellaneous	229,591	229,591	172,393	(57,198)
Interest	14,000	14,000	9,296	(4,704)
Total Receipts	<u>1,479,707</u>	<u>1,479,707</u>	<u>1,923,638</u>	<u>443,931</u>
DISBURSEMENTS				
General Health and Sanitation	30,000	23,007	732	22,275
Roads	1,762,470	1,750,109	1,997,687	(247,578)
Debt Service	249,500	286,575	286,575	
Administration	308,000	290,279	258,558	31,721
Total Disbursements	<u>2,349,970</u>	<u>2,349,970</u>	<u>2,543,552</u>	<u>(193,582)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(870,263)</u>	<u>(870,263)</u>	<u>(619,914)</u>	<u>250,349</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			<u>275,808</u>	<u>275,808</u>
Total Other Adjustments to Cash (Uses)			<u>275,808</u>	<u>275,808</u>
Net Change in Fund Balance	(870,263)	(870,263)	(344,106)	526,157
Fund Balance - Beginning	<u>870,263</u>	<u>870,263</u>	<u>2,063,927</u>	<u>1,193,664</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,719,821</u>	<u>\$ 1,719,821</u>

JOHNSON 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	\$ 186,000	\$ 186,000	\$ 126,349	\$ (59,651)
Miscellaneous			587	587
Interest	500	500	348	(152)
Total Receipts	<u>186,500</u>	<u>186,500</u>	<u>127,284</u>	<u>(59,216)</u>
DISBURSEMENTS				
Protection to Persons and Property	592,300	591,539	591,539	
Administration	19,200	19,961	19,765	196
Total Disbursements	<u>611,500</u>	<u>611,500</u>	<u>611,304</u>	<u>196</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(425,000)</u>	<u>(425,000)</u>	<u>(484,020)</u>	<u>(59,020)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	400,000	400,000	460,000	60,000
Total Other Adjustments to Cash (Uses)	<u>400,000</u>	<u>400,000</u>	<u>460,000</u>	<u>60,000</u>
Net Change in Fund Balance	(25,000)	(25,000)	(24,020)	980
Fund Balance - Beginning (Restated)	<u>25,000</u>	<u>25,000</u>	<u>34,375</u>	<u>9,375</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,355</u>	<u>\$ 10,355</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 211,500	\$ 211,500	\$ 331,548	\$ 120,048
Total Receipts	<u>211,500</u>	<u>211,500</u>	<u>331,548</u>	<u>120,048</u>
DISBURSEMENTS				
General Government	51,694	47,203	47,195	8
General Health and Sanitation	30,000	29,100	21,000	8,100
Social Services	63,752	49,102	49,102	
Roads	75,473	123,687	123,687	
Administration	90,581	62,408	55,137	7,271
Total Disbursements	<u>311,500</u>	<u>311,500</u>	<u>296,121</u>	<u>15,379</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>35,427</u>	<u>135,427</u>
Net Change in Fund Balance	(100,000)	(100,000)	35,427	135,427
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>87,024</u>	<u>(12,976)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 122,451</u>	<u>\$ 122,451</u>

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

PUBLIC PROPERTIES COURTHOUSE CORPORATION BOND
SINKING FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 1,000	\$ 1,000	\$ 769	\$ (231)
Total Receipts	1,000	1,000	769	(231)
DISBURSEMENTS				
Administration	160,725	160,725		160,725
Total Disbursements	160,725	160,725		160,725
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(159,725)	(159,725)	769	160,494
Net Change in Fund Balance	(159,725)	(159,725)	769	160,494
Fund Balance - Beginning	159,725	159,725	159,917	192
Fund Balance - Ending	\$ 0	\$ 0	\$ 160,686	\$ 160,686

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

INDUSTRIAL DEVELOPMENT AUTHORITY #1 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 2,000	\$ 2,000	\$ 1,126	\$ (874)
Total Receipts	2,000	2,000	1,126	(874)
DISBURSEMENTS				
Administration	235,841	235,841		235,841
Total Disbursements	235,841	235,841		235,841
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	(233,841)	(233,841)	1,126	234,967
Net Change in Fund Balance	(233,841)	(233,841)	1,126	234,967
Fund Balance - Beginning	233,841	233,841	234,121	280
Fund Balance - Ending	\$ 0	\$ 0	\$ 235,247	\$ 235,247

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

INDUSTRIAL DEVELOPMENT AUTHORITY #2 FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 80	\$ 80	\$ 64	\$ (16)
Total Receipts	<u>80</u>	<u>80</u>	<u>64</u>	<u>(16)</u>
DISBURSEMENTS				
Administration	13,331	13,331		13,331
Total Disbursements	<u>13,331</u>	<u>13,331</u>		<u>13,331</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(13,251)</u>	<u>(13,251)</u>	<u>64</u>	<u>13,315</u>
Net Change in Fund Balance	(13,251)	(13,251)	64	13,315
Fund Balance - Beginning	<u>13,251</u>	<u>13,251</u>	<u>13,267</u>	<u>16</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,331</u>	<u>\$ 13,331</u>

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

INDUSTRIAL DEVELOPMENT AUTHORITY #3 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 1,200	\$ 1,200	\$ 516	\$ (684)
Total Receipts	1,200	1,200	516	(684)
DISBURSEMENTS				
Administration	108,433	108,433		108,433
Total Disbursements	108,433	108,433		108,433
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(107,233)	(107,233)	516	107,749
Net Change in Fund Balance	(107,233)	(107,233)	516	107,749
Fund Balance - Beginning	107,233	107,233	107,361	128
Fund Balance - Ending	\$ 0	\$ 0	\$ 107,877	\$ 107,877

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

INDUSTRIAL DEVELOPMENT AUTHORITY #4 FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 160	\$ 160	\$ 149	\$ (11)
Total Receipts	160	160	149	(11)
DISBURSEMENTS				
Administration	31,010	31,010		31,010
Total Disbursements	31,010	31,010		31,010
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(30,850)	(30,850)	149	30,999
Net Change in Fund Balance	(30,850)	(30,850)	149	30,999
Fund Balance - Beginning	30,850	30,850	30,887	37
Fund Balance - Ending	\$ 0	\$ 0	\$ 31,036	\$ 31,036

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

	FEDERAL GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 400,000	\$ 400,000	\$ 356,298	\$ (43,702)
Total Receipts	400,000	400,000	356,298	(43,702)
DISBURSEMENTS				
Administration	400,000	400,000	356,298	43,702
Total Disbursements	400,000	400,000	356,298	43,702
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance - Beginning			32,366	32,366
Fund Balance - Ending	\$ 0	\$ 0	\$ 32,366	\$ 32,366

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

JOHNSON COUNTY EMPLOYEE FSA AND HRA INSURANCE FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Interest	\$	\$	\$ 1	\$ 1
Total Receipts			1	1
DISBURSEMENTS				
Administration			2,942	(2,942)
Total Disbursements			2,942	(2,942)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			(2,941)	(2,941)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			3,660	3,660
Total Other Adjustments to Cash (Uses)			3,660	3,660
Net Change in Fund Balance			719	(2,941)
Fund Balance - Beginning			1,573	1,573
Fund Balance - Ending	\$	0	\$ 2,292	\$ (1,368)

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

Justice Center Corporation Fund				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$	\$
Intergovernmental			683,013	
Interest	2,500	2,500	400	(2,100)
Total Receipts	<u>2,500</u>	<u>2,500</u>	<u>683,413</u>	<u>(2,100)</u>
DISBURSEMENTS				
Debt Service			683,013	(683,013)
Administration	385,817	385,817		385,817
Total Disbursements	<u>385,817</u>	<u>385,817</u>	<u>683,013</u>	<u>(297,196)</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)				
	<u>(383,317)</u>	<u>(383,317)</u>	<u>400</u>	<u>383,717</u>
Net Change in Fund Balance	(383,317)	(383,317)	400	383,717
Fund Balance - Beginning	<u>383,317</u>	<u>383,317</u>	<u>385,581</u>	<u>2,264</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 385,981</u>	<u>\$ 385,981</u>

JOHNSON 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. Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ (463,660)
To adjust for change in payroll account balance	<u>(12,762)</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (476,422)</u>
Fund Balance - Ending - Budgetary Basis	\$ 1,359,732
To adjust for revolving payroll account balance	<u>133,798</u>
Fund Balance - Ending - Regulatory Basis	<u>\$ 1,493,530</u>

Note 3. Excess of Disbursements Over Appropriations

Road fund road disbursements exceeded budgeted appropriations by \$247,578 due to the Johnson County Fiscal Court not budgeting the disbursement of financing obligation proceeds for trucks.

Justice Center Corporation fund debt service disbursements exceeded budgeted appropriations by \$683,013 due to the Johnson County Fiscal Court not budgeting the disbursement for debt.

Johnson County Employee FSA and HRA insurance fund administration disbursements exceeded appropriations by \$2,942 due to the Johnson County Fiscal Court not budgeting for the transfer made in the administration account.

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

For The Year Ended June 30, 2018

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JOHNSON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 1,230,000	\$	\$	\$ 1,230,000
Buildings	13,186,371			13,186,371
Vehicles	1,169,826	56,000	55,138	1,170,688
Equipment	1,268,692			1,268,692
Infrastructure	11,466,336	716,910		12,183,246
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 28,321,225</u>	<u>\$ 772,910</u>	<u>\$ 55,138</u>	<u>\$ 29,038,997</u>

JOHNSON 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	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

**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 Roger T. Daniel, Former Johnson County Judge/Executive
The Honorable Mark McKenzie, Johnson County Judge/Executive
Members of the Johnson 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 Johnson County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Johnson County Fiscal Court's financial statement and have issued our report thereon dated May 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Johnson 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 Johnson County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Johnson 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.

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 2018-001, 2018-002, 2018-003, and 2018-004 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)

Compliance And Other Matters

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

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 30, 2019

**JOHNSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**JOHNSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 Disbursements Exceeded Approved Budget Appropriations

The Johnson County Fiscal Court's disbursements exceeded the approved budget in the following funds:

- Road Fund - The road disbursements exceeded the approved budget appropriations by \$247,578
- Justice Center Corporation Fund - The debt service disbursements exceeded budget appropriations by \$683,013
- Johnson County Employee FSA and HRA Insurance Fund - The administration disbursements exceeded appropriations by \$2,942

Budget amendments or appropriation transfers were not made to ensure the budget was not overspent. This was due to an oversight by management. Johnson County is in violation of KRS 68.300. 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." KRS 68.300 further states, "[n]o member of the fiscal court shall vote for any such illegal appropriation or claim." We recommend the fiscal court and the county treasurer monitor the budget more closely and amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding the budget.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: We concur and have made the recommended changes in accounting policy.

2018-002 The Fiscal Court Did Not Establish Adequate Controls Over The Justice Center Corporation Fund

The fiscal court did not maintain adequate controls over the Justice Center Corporation Fund. No financial statements were prepared for these funds and no information regarding the activity in these funds was submitted to the fiscal court for review. Also, the county's debt schedule presented with the Fourth Quarter Report (which serves as the year-end financial statement) did not report debt obligations of the Johnson County Justice Center Bonds, resulting in an understatement of debt of \$4,385,000. The former treasurer was unaware she had to prepare a financial statement for the Justice Center Corporation Fund and said she sent the debt schedule to the Department for Local Government (DLG) when submitting the fourth quarter report, but DLG had no record of it being submitted. By not preparing an annual financial statement, the fiscal court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted funds. This could result in undetected fraud, errors, and misstatements. Also, not presenting all debt that the county has outstanding does not give users of the county's financial information a true picture of the county's financial well-being. The fiscal court is financially accountable and legally obligated for the Justice Center Corporation Fund. The fiscal court should establish adequate controls over these funds so that proper records are maintained and complete and accurate information is available for review. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts, set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires all county debt be reflected properly on the quarterly financial statement. We recommend the county treasurer reconcile these accounts and prepare a financial statement for the Justice Center Corporation Fund and include all debt of the county on the quarterly financial statement as required.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: We concur and recommendations have been implemented.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Former County Treasurer Did Not Properly Account For And Did Not Properly Reconcile
And Report The Financial Activity Of The County

The former county treasurer did not properly account, reconcile, and report the financial activity of the county. The following issues have been noted:

- The fourth quarter report included several misclassifications which caused it to be materially misstated. Some examples of these posting errors include the following:

\$246,898 - General Fund - Sheriff Excess Fees posted in Real Property Account
\$221,181 - General Fund - various incorrect postings to the Reimbursement Account
\$353,029 - Road Fund - various incorrect postings to the Reimbursement Account
\$385,581 - Justice Center Corporation Fund - prior year carryover posted as a current year receipt

Due to these misstatements, the auditor proposed material audit adjustments to management in order to properly reflect accurate information on the county's financial statement.

- Bank reconciliations provided for the audit included inaccurate balances because they did not include all necessary information. Inaccuracies included incorrect beginning balances, voided outstanding checks included on outstanding check listings, and actual outstanding checks omitted from the list.
- The former county treasurer did not properly prepare an annual statement in accordance with KRS 424.220 nor was a settlement presented to the fiscal court for approval as required by KRS 68.020(5) and 68.030. The settlement presented to auditors was a list of bank account balances only.

The fiscal court did not have controls in place to establish appropriate oversight of the former county treasurer's activities. The fiscal court did not have procedures in place to detect the material misclassifications and errors made by the former treasurer. The former treasurer appeared to not understand how to record these transactions. As a result, these misclassifications and failure to have a properly prepared treasurer's settlement could impact the fiscal court's ability to make sound financial decisions during the course of a fiscal year. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* lists the duties of the county treasurer based on KRS 68.020, 68.300, and 68.360(1). This manual requires the county treasurer to maintain the financial records, to receive and disburse money, to invest funds, to prepare monthly bank reconciliations, to prepare financial reports monthly, and to settle accounts within 30 days after the close of each fiscal year. We recommend the fiscal court ensure there are proper training procedures for the financial staff and implement oversight and review procedures to ensure financial transactions are recorded, reconciled, and reported properly.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: We concur and will implement recommendations.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Payroll Revolving Account Had A Cash Surplus of \$133,798 And Was Not Reconciled To Zero On A Monthly Basis

The payroll revolving account had a cash surplus of \$133,798 and was not reconciled to zero on a monthly basis. The former treasurer did not have reconciling procedures in place to ensure the payroll revolving account was not overpaid from other funds of the county. In addition, the former treasurer did not reconcile this account to zero on a monthly basis. As a result, the overpayments from other funds of the county to the payroll revolving account have accumulated over the years and caused the other funds to have reduced cash resources available for the needs of the county. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. We recommend the fiscal court reconcile the payroll revolving account monthly to a zero balance in order to prevent large surpluses accumulating in this revolving account that actually belong to other funds. We further recommend the fiscal court return the surplus stated above to the proper funds.

County Judge/Executive's Response: We concur and recommendations have been implemented.

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

JOHNSON COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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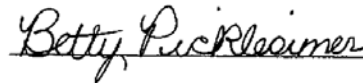
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
JOHNSON COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Johnson 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