

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Joseph Pfeffer, Mason County Judge/Executive
Members of the Mason 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 Mason County Fiscal Court, for the year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Mason 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 Mason 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 Mason County Fiscal Court as of June 30, 2019, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary and Other Information

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2020, on our consideration of the Mason 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 Mason County Fiscal Court's internal control over financial reporting and compliance.

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

- 2019-001 The LGEA Fund Had A Negative Reconciled Fund Balance Of (\$2,049)
- 2019-002 The Mason County Jailer Did Not Prepare An Annual Commissary Report
- 2019-003 The Mason County Jailer Did Not Maintain Receipts And Disbursements Ledgers
- 2019-004 The Mason County Does Not Have Adequate Segregation Of Duties Over Jail Commissary Transactions

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 3, 2020

MASON COUNTY OFFICIALS**For The Year Ended June 30, 2019****Fiscal Court Members:**

Joseph P. Pfeffer	County Judge/Executive
Joe McKay	Commissioner
Annette Walters (7-1-18 to 12-31-18)	Commissioner
Phil Day	Commissioner
Chris O'Hearn (started 1-7-19)	Commissioner

Other Elected Officials:

John Estill	County Attorney
Lisa Kern-Yearly	Jailer
Stephanie Schumacher	County Clerk
Kirk Tolle	Circuit Court Clerk
Patrick Boggs	Sheriff
Troy Cracraft	Property Valuation Administrator
David Lawrence	Coroner

Appointed Personnel:

Kim Muse	County Treasurer
Megan Davenport	Finance Officer

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 3,874,387	\$	\$
In Lieu Tax Payments	17,669		
Excess Fees	147,194		
Licenses and Permits	46,239		
Intergovernmental	365,551	1,065,540	1,916,501
Charges for Services	13,277	21,330	83,053
Miscellaneous	400,704	92,354	141,029
Interest	3,321	134	179
Total Receipts	<u>4,868,342</u>	<u>1,179,358</u>	<u>2,140,762</u>
DISBURSEMENTS			
General Government	1,385,457		
Protection to Persons and Property	202,067		2,086,993
General Health and Sanitation	97,525		
Social Services			
Recreation and Culture	40,273		
Roads		1,764,635	
Airports			
Debt Service	68,108		
Capital Projects			
Administration	1,594,219	316,479	717,384
Total Disbursements	<u>3,387,649</u>	<u>2,081,114</u>	<u>2,804,377</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,480,693</u>	<u>(901,756)</u>	<u>(663,615)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds		918,812	600,000
Transfers To Other Funds	(1,682,578)		
Total Other Adjustments to Cash (Uses)	<u>(1,682,578)</u>	<u>918,812</u>	<u>600,000</u>
Net Change in Fund Balance	(201,885)	17,056	(63,615)
Fund Balance - Beginning (Restated)	<u>4,804,659</u>	<u>85,973</u>	<u>205,491</u>
Fund Balance - Ending	<u>\$ 4,602,774</u>	<u>\$ 103,029</u>	<u>\$ 141,876</u>
Composition of Fund Balance			
Bank Balance	\$ 3,670,714	\$ 122,171	\$ 149,484
Less: Outstanding Checks	(17,940)	(19,142)	(7,608)
Certificate of Deposits	950,000		
Fund Balance - Ending	<u>\$ 4,602,774</u>	<u>\$ 103,029</u>	<u>\$ 141,876</u>

*

* - See Note 13

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

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

Budgeted Funds					
Local Government Economic Assistance Fund	State Grants Fund	Federal Fund	Solid Waste Fund	Landfill Fund	Garbage Collections Fund
\$	\$	\$	\$	\$ 7,478	\$
			4,195		
261,427	68,812	20,895		115,399	
				1,792,105	415,946
73,156		222,800	74,325	33,510	
90			119	8,337	253
<u>334,673</u>	<u>68,812</u>	<u>243,695</u>	<u>78,639</u>	<u>1,956,829</u>	<u>416,199</u>
33,525					
55,702		310,121			
44,950			187,552	1,449,023	412,539
49,941					
206,586					
6,984					
8,000					
				262,515	49,289
			22,023	852,587	
30,839			66,107	497,643	104,685
<u>436,527</u>	<u></u>	<u>310,121</u>	<u>275,682</u>	<u>3,061,768</u>	<u>566,513</u>
<u>(101,854)</u>	<u>68,812</u>	<u>(66,426)</u>	<u>(197,043)</u>	<u>(1,104,939)</u>	<u>(150,314)</u>
			200,000		
<u>(19,197)</u>	<u>(68,812)</u>				
<u>(19,197)</u>	<u>(68,812)</u>		<u>200,000</u>		
(121,051)		(66,426)	2,957	(1,104,939)	(150,314)
119,002	16,293	104,780	113,241	7,462,088	399,272
<u>\$ (2,049)</u>	<u>\$ 16,293</u>	<u>\$ 38,354</u>	<u>\$ 116,198</u>	<u>\$ 6,357,149</u>	<u>\$ 248,958</u>
\$ 363	\$ 16,293	\$ 38,354	\$ 123,182	\$ 4,715,696	\$ 250,595
(2,412)			(6,984)	(10,145)	(1,637)
				1,651,598	
<u>\$ (2,049)</u>	<u>\$ 16,293</u>	<u>\$ 38,354</u>	<u>\$ 116,198</u>	<u>\$ 6,357,149</u>	<u>\$ 248,958</u>

*

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

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

	<u>Unbudgeted Funds</u>		
	<u>Public Properties Corporation Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 3,881,865
In Lieu Tax Payments			17,669
Excess Fees			147,194
Licenses and Permits			50,434
Intergovernmental	422,467		4,236,592
Charges for Services			2,325,711
Miscellaneous	2,663	280,892	1,321,433
Interest	118		12,551
Total Receipts	<u>425,248</u>	<u>280,892</u>	<u>11,993,449</u>
DISBURSEMENTS			
General Government			1,418,982
Protection to Persons and Property			2,654,883
General Health and Sanitation			2,191,589
Social Services			49,941
Recreation and Culture		514,949	761,808
Roads			1,771,619
Airports			8,000
Debt Service	474,681		854,593
Capital Projects	114,645		989,255
Administration	405		3,327,761
Total Disbursements	<u>589,731</u>	<u>514,949</u>	<u>14,028,431</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(164,483)</u>	<u>(234,057)</u>	<u>(2,034,982)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	51,775		1,770,587
Transfers To Other Funds			(1,770,587)
Total Other Adjustments to Cash (Uses)	<u>51,775</u>		<u></u>
Net Change in Fund Balance	(112,708)	(234,057)	(2,034,982)
Fund Balance - Beginning (Restated)	<u>163,407</u>	<u>468,329</u>	<u>13,942,535</u>
Fund Balance - Ending	<u>\$ 50,699</u>	<u>\$ 234,272</u>	<u>\$ 11,907,553</u>
Composition of Fund Balance			
Bank Balance	\$ 50,699	\$ 241,846	\$ 9,379,397
Less: Outstanding Checks		(7,574)	(73,442)
Certificate of Deposits			2,601,598
Fund Balance - Ending	<u>\$ 50,699</u>	<u>\$ 234,272</u>	<u>\$ 11,907,553</u>

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

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TO THE FINANCIAL STATEMENT**

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**MASON COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

State Grants Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary source of receipts for this fund are grants from the state.

Federal Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are federal grants.

Solid Waste Fund - The primary purpose of this fund is to account for activities related to solid waste management at the recycling center. The recycling center sells recyclable materials such as cardboard and aluminum to various vendors.

Landfill Fund - The primary purpose of this fund is to account for the activities of the Mason County - Maysville Landfill.

Garbage Collections Fund - The primary purpose of this fund is to account for the activities of the Mason County Garbage Collections service.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - This fund is used to account for the activity of the Mason County Public Properties Corporation (MCPPC). Receipts and disbursements of this fund are generally restricted for specific purposes, such as issuance of debt for construction projects. The Department for Local Government does not require the fiscal court to budget this fund.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

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

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

E. Mason County Elected Officials

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

H. Related Obligations 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 following are considered related organizations of the Mason County Fiscal Court: Western Mason Water District and Western Lewis-Rectorville Water District.

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 following are considered joint ventures of the Mason County Fiscal Court: Mason County-City of Maysville Tourism Commission, Mason County-City of Maysville Industrial Development, Mason County-City of Maysville Parks and Recreation, Mason County-City of Maysville Ambulance Service, Mason County-City of Maysville Planning and Zoning Commission, Mason County-City of Maysville E-911, and Fleming-Mason Airport.

I. Interlocal Agreement

In August 2016, Mason County and the City of Maysville (City) entered into an Interlocal Agreement in order to provide financing for the City's sewer system for the landfill property. This would fund the development and construction of an extension of the City's sewer system for the landfill property to transport leachate from the landfill for treatment by the City. Per terms of the agreement, Mason County will provide sufficient funds to the City for payment of principal and interest to satisfy such indebtedness. The funds will be paid by the county from the landfill account.

Note 2. Deposits

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

Custodial Credit Risk - Deposits

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

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

Note 3. Transfers

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

	General Fund	Local Government Economic Assistance Fund	State Grants Fund	Total Transfers In
Road Fund	\$ 850,000	\$	\$ 68,812	\$ 918,812
Jail Fund	600,000			600,000
Solid Waste Fund	200,000			200,000
Public Properties Corporation Fund	32,578	19,197		51,775
Total Transfers Out	<u>\$ 1,682,578</u>	<u>\$ 19,197</u>	<u>\$ 68,812</u>	<u>\$ 1,770,587</u>

Reason for transfers:

To move resources from the general, local government economic assistance, and state grants funds, for budgetary purposes, to the funds that will expend them.

Note 4. Agency Trust Funds

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust funds:

Employees' Christmas Club Account - This fund accounts for funds voluntarily withheld from the employees' wages and deposited in the bank until funds are annually paid to the employees. The balance in the Employees' Christmas Club Account as of June 30, 2019, was \$11,825.

FSA/HRA Account - This fund accounts for employee and employer contributions 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 \$750 each year for a single plan and \$2,000 each year for a family plan to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction. The balance in the FSA/HRA account as of June 30, 2019, was \$11,468.

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

Note 5. Long Term Debt

A. Direct Borrowings and Direct Placements

1. Elderly Housing Phase I (Buffalo Trace Area Development District)

In December 1998, the Mason County Public Properties Corporation entered into a note with Buffalo Trace Area Development District, for rehabilitation of housing for the elderly. The note was for \$42,000 with an interest rate of 2.00% per year. The agreement requires annual payments of principal and interest on September 30 of each year. Whenever there is a default under this note or under any instrument securing its repayment, the entire principal balance and all accrued interest on this note become due and payable. Upon the occurrence of any such default, the rate of interest applicable to the entire unpaid principal balance of this note shall be increased by an increment of an additional 5% per annum. If there is any default under this note or any instrument securing it, and this note is placed in the hands of an attorney for collection, or is collected through any court, including any bankruptcy court, maker promises to pay to the holder hereof its reasonable attorney fees and court costs incurred in collecting or attempting to collect or securing or attempting to secure this note or enforcing the holder's rights in any collateral securing this note, provided the same is legally allowed by the laws of the Commonwealth of Kentucky or any state where the collateral or part thereof is situated. The total principal balance was \$3,571 as of June 30, 2019. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 3,571	\$ 50
Totals	\$ 3,571	\$ 50

2. Elderly Housing Phase I (Kentucky Housing Corporation)

In March 1999, the Mason County Public Properties Corporation entered into a note with Kentucky Housing Corporation (KHC), for rehabilitation of housing for the elderly. The note was for \$135,366 with an interest rate of 2.00% per year. The agreement requires annual payments of principal and interest on July 1 of each year. In the event of default under this note, the property described in the mortgage is sold prior to the maturity date of this note. This note is secured by and is the same note mentioned in a real estate mortgage, Assignment of Leases and Rents, Security Agreement, UCC-1 Financing Statement and a UCC-1 Fixture Filing executed in favor of KHC by the undersigned, and this note is expressly made subject to and will be bound by the terms and conditions set forth in said mortgage. This agreement was paid in full by June 30, 2019.

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

Note 5. Long Term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

3. Elderly Housing Phase II (Kentucky Housing Corporation)

On March 1, 2006, the Mason County Fiscal Court entered into a lease agreement with Kentucky Housing Corporation (KHC) for rehabilitation of housing for the elderly. The lease was for \$136,000 with an interest rate of 3.50% per year. The agreement requires annual payments of principal and interest on August 1 of each year. If an event of default occurs, KHC may, without notice, declare all indebtedness secured to be immediately due and may enforce the lien of this mortgage. In any such case, KHC may enter the premises, rent it out, and collect and apply the rent and profits first to the payment of a reasonable compensation to KHC, including attorney's fees, and next to the satisfaction of the obligation secured by this mortgage, and such compensation and fees will become a part of the obligations secured by this mortgage. The total principal balance was \$93,795 as of June 30, 2019. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 4,111	\$ 3,217
2021	4,257	3,071
2022	4,409	2,920
2023	4,566	2,763
2024	4,728	2,600
2025-2029	26,285	10,357
2030-2034	31,304	5,338
2035-2036	14,135	521
Totals	<u>\$ 93,795</u>	<u>\$ 30,787</u>

4. Elderly Housing Phase II (Buffalo Trace Area Development District)

On August 15, 2006, the Mason County Public Properties Corporation entered into a note with Buffalo Trace Area Development District, for Phase II housing for the elderly. The note was for \$20,000 with an interest rate of 3.00% per year. The agreement requires annual payments of principal and interest on August 15 of each year. If an event of default shall occur, the unpaid principal balance plus accrued interest may be declared due and payable by the lender without the necessity of any notice or action by the lender, and the lender shall have any and all of the remedies on an event of default provided by law. The total principal balance was \$12,664 as of June 30, 2019. Future principal and interest requirements are:

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

Note 5. Long Term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

4. Elderly Housing Phase II (Buffalo Trace Area Development District) (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 618	\$ 403
2021	637	384
2022	656	365
2023	675	346
2024	696	325
2025-2029	2,999	1,086
2030-2034	4,283	822
2035-2036	2,100	173
Totals	<u>\$ 12,664</u>	<u>\$ 3,904</u>

5. Landfill Construction Phases IV and V

On August 18, 2009, the Mason County Fiscal Court entered into a lease agreement with Fifth Third Bank for Landfill Phase IV and Phase V construction. The lease is for \$1,300,000 and requires a semi-annual payment of \$60,329, which includes 4.5% interest through and including July 15, 2013, and thereafter for each succeeding five-year period at a rate equal to the five-year interest rate for US Treasury Obligations, as published by the lessor's treasury department, plus 227 basis points multiplied by .65, as calculated on July 15, 2013 and July 15, 2018. If the county fails to make any payment of base rent as it becomes due in accordance with the lease, or fails to perform or observe any other covenant, condition, or agreement to be performed or observed under this leased and the failure is not cured by the county within specified timeline, then the following remedies may be exercised by the lessor at its option: a) by written notice to the county, declare an amount equal to all amounts then due under this lease to be immediately due and payable; b) exercise any other right, remedy or privilege which may be available to it under the applicable laws of the state or any other applicable law or proceed by appropriate court action to enforce the terms of this lease or to recover damages for the breach of this lease or to rescind this lease as to any or all of the leased facilities. The principal balance was \$383,249 as of June 30, 2019. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 112,176	\$ 8,481
2021	114,883	5,774
2022	117,655	3,002
2023	38,535	441
Totals	<u>\$ 383,249</u>	<u>\$ 17,698</u>

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

Note 5. Long Term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

6. Freightliner Garbage Truck

On April 19, 2016, the Mason County Fiscal Court entered into a lease agreement with U.S. Bank to purchase a Freightliner Garbage Truck. The lease is for \$141,000 at an interest rate of 2.390%. The agreement requires annual payments of principal and interest on April 19 of each year. Upon the occurrence of any event of default, the lessor may, without any further notice, exercise one or more the following remedies: a) terminate the agreement and all the county's rights to all items of property; b) proceed by appropriate court action to personally, or by its agents, take possession from the county of any or all items of property wherever found and for this purpose enter upon county's premises where any item of property is located and remove such item of property free from all claims of any nature whatsoever by county and lessor may thereafter dispose of the property; provided, however that any proceeds from the disposition of the property in excess of the sum required to (i) pay to lessor an amount equal to the total unpaid principal component of lease payments under the property schedule, including principal component not otherwise due until future fiscal years, (ii) pay any other amounts then due under the property schedule and this agreement, and (iii) pay lessor's costs and expenses associated with the disposition of the property and the event of default (including attorney's fees), shall be paid to lessee or such other creditor of lessee as may be entitled thereto, and further provided that no deficiency shall be allowed against lessee; (c) proceed by appropriate court action or actions to enforce performance by lessee of its obligations hereunder or to recover damages for the breach hereof or pursue any other remedy available to lessor at law or in equity or otherwise; (d) declare all unpaid lease payments and other sums payable hereunder during the current fiscal year of the lease term to be immediately due and payable without any presentment, demand or protest and/or take any and all actions to which lessor shall be entitled under applicable law. This agreement was paid in full by June 30, 2019.

7. Sheriff Cruisers

In September 2015, the Mason County Fiscal Court entered into a lease agreement with U.S. Bank to purchase three sheriff cruisers. The lease is for \$68,478 at an interest rate of 2.390%. The agreement requires annual payments of principal and interest in September of each year. Upon the occurrence of any event of default, the lessor may, without any further notice, exercise one or more the following remedies: a) terminate the agreement and all the county's rights to all items of property; b) proceed by appropriate court action to personally, or by its agents, take possession from the county of any or all items of property wherever found and for this purpose enter upon county's premises where any item of property is located and remove such item of property free from all claims of any nature whatsoever by county and lessor may thereafter dispose of the property; provided, however that any proceeds from the disposition of the property in excess of the sum required to (i) pay to lessor an amount equal to the total unpaid principal component of lease payments under the property schedule, including principal component not otherwise due until future fiscal years, (ii) pay any other amounts then due under the property schedule and this agreement, and (iii) pay lessor's costs and expenses associated with the disposition of the property and the event of default (including attorney's fees), shall be paid to lessee or such other creditor of lessee as may be entitled thereto, and further provided that no deficiency shall be allowed against lessee; (c) proceed by appropriate court action or actions to enforce performance by lessee of its obligations hereunder or to recover damages for the breach hereof or pursue any other remedy available to lessor at law or in equity or otherwise; (d) declare all unpaid lease payments and other sums payable hereunder during the current fiscal year of the lease term to be immediately due and payable without any presentment, demand or protest and/or take any and all actions to which lessor shall be entitled under applicable law. This agreement was paid in full by June 30, 2019.

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

Note 5. Long Term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

8. Excavator

In July 2016, the Mason County Fiscal Court entered into a lease agreement with Caterpillar Financial Services Corporation to purchase an excavator. The lease is for \$206,054 at an interest rate of 2.890%. The agreement requires monthly payments of principal and interest over a period of five years. To secure the county's obligations under this agreement, they grant the lessor first priority security interest in the unit, including all attachments. The county must protect and defend the lessors security interest in the unit and keep the unit free and clear of any and all claims, liens, encumbrances and legal processes however and whenever arising. Upon an event of default, the lessor will have all rights and remedies available under applicable law and declare all lease payments due or to become due during the fiscal year to be immediately due and payable by the county. The principal balance was \$93,176 as of June 30, 2019. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 45,973	\$ 2,029
2021	43,519	791
2022	3,684	9
Totals	<u>\$ 93,176</u>	<u>\$ 2,829</u>

9. Articulated Truck

In July 2016, the Mason County Fiscal Court entered into a lease agreement with Caterpillar Financial Services Corporation to purchase an articulated truck. The lease is for \$453,635 at an interest rate of 2.890%. The agreement requires monthly payments of principal and interest over a period of five years. To secure the county's obligations under this agreement, they grant the lessor first priority security interest in the unit, including all attachments. The county must protect and defend the lessors security interest in the unit and keep the unit free and clear of any and all claims, liens, encumbrances and legal processes however and whenever arising. Upon an event of default, the lessor will have all rights and remedies available under applicable law and declare all lease payments due or to become due during the fiscal year to be immediately due and payable by the county. The principal balance was \$197,032 as of June 30, 2019. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 93,082	\$ 4,467
2021	95,808	1,741
2022	8,142	20
Totals	<u>\$ 197,032</u>	<u>\$ 6,228</u>

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

Note 5. Long Term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

10. Ameresco Energy Project

On August 31, 2017, the Mason County Fiscal Court entered into a lease agreement with U.S. Bancorp Government Leasing and Finance, Inc., to purchase equipment related to a project to improve energy efficiency. The lease is for \$450,000 at an interest rate of 2.613%. The agreement requires annual payments of principal and interest on August 31 of each year. To the extent permitted by law and to secure the performance of the county's obligations under this agreement, the county grants the lessor a security interest constituting a first lien on the county's interest in all of the equipment in this lease agreement. In the event of default, the lessor shall have the right to declare all lease payments to the end of the budget year to be due, the lessor may terminate the lease and enter the property and retake possession of the property, and the lessor may take any action that is permitted by applicable law to protect any of its rights under the agreement. The principal balance was \$417,589 as of June 30, 2019. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 33,258	\$ 10,912
2021	34,127	10,043
2022	35,019	9,151
2023	35,934	8,236
2024	36,873	7,297
2025-2029	199,332	21,518
2030	43,046	1,123
Totals	<u>\$ 417,589</u>	<u>\$ 68,280</u>

B. Other Debt

1. First Mortgage Refund Revenue Bonds Series 2007

In March 2007, Mason County Public Properties Corporation issued \$4,910,000 first mortgage revenue refunding bonds for the purpose of paying the outstanding principal and interest of the Mason County Public Properties Corporation first mortgage revenue bonds, Series 1999. Principal payments are due each year on March 1 and interest is payable each year on September 1 and March 1. The bonds are equally secured by the Mortgage, without any preference, priority or distinction whatsoever of the lien thereof in favor of any one or more of the bonds over any one or more of the others, reference thereto being hereby made, but only for a particular description of the terms and conditions thereof on which the bonds are issued and secured and for a description of the securities therefor and of the rights of the holders in regard thereto. The total principal balance was \$2,285,000 as of June 30, 2019. Future principal and interest requirements are:

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

Note 5. Long Term Debt (Continued)

B. Other Debt (Continued)

1. First Mortgage Refund Revenue Bonds Series 2007 (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 290,000	\$ 87,972
2021	300,000	76,808
2022	315,000	65,257
2023	325,000	53,130
2024	335,000	40,617
2025-2026	720,000	41,773
Totals	<u>\$ 2,285,000</u>	<u>\$ 365,557</u>

2. First Mortgage Revenue Bonds (Courthouse Facility Project), Series 2017

In November 2017, Mason County Public Properties Corporation issued \$657,000 first mortgage revenue bonds for the purpose of courthouse improvements. Principal payments are due each year on December 1 and interest is payable each year on June 1 and December 1. The bonds are secured by a foreclosable mortgage lien on the project. In the event of default, the mortgage shall be enforced, which may include foreclosure of the liens created by the mortgage and sale of the project. The total principal balance was \$590,000 as of June 30, 2019. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 68,000	\$ 13,743
2021	70,000	12,448
2022	71,000	11,038
2023	73,000	9,506
2024	74,000	7,852
2025-2027	234,000	10,650
Totals	<u>\$ 590,000</u>	<u>\$ 65,237</u>

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

Note 5. Long Term Debt (Continued)

C. Changes In Long-term Debt

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

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 1,559,193	\$	\$ 358,117	\$ 1,201,076	\$ 292,789
Revenue Bonds	3,217,000		342,000	2,875,000	358,000
Total Long-term Debt	<u>\$ 4,776,193</u>	<u>\$ 0</u>	<u>\$ 700,117</u>	<u>\$ 4,076,076</u>	<u>\$ 650,789</u>

* The beginning balance for direct borrowings and direct placements has been increased by \$4,334 due to an error in the prior year audit. The beginning balance for revenue bonds has been increased by \$657,000 due to a prior year omission.

Note 6. Employee Retirement System

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

The county's contribution for FY 2017 was \$718,368, FY 2018 was \$770,023, and FY 2019 was \$874,109.

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.

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

Note 6. Employee Retirement System (Continued)

Nonhazardous (Continued)

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

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

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 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. Hazardous members contribute 8 percent of their annual creditable compensation and 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 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 hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 35.34 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:

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

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

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

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

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

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

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

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

D. Cost of Living Adjustments - Tier 1

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

E. 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.

F. 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.

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

Note 7. Deferred Compensation

The Mason 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 501 High Street, 2nd Floor, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2019, the Mason 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 9. Landfill Closure And Post-Closure Care

Closure and Post-Closure Care Costs of Municipal Solid Waste Landfill

State and federal laws and regulations require the Mason County Fiscal Court to place a final cover on its Municipal Solid Waste Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste.

Through an inter-local agreement with the City of Maysville, the Mason County Fiscal Court manages the operation and accounts for the Maysville-Mason County Landfill. The landfill consists of the following cells:

- 1) The 21.5-acre residual cell that was capped in fiscal years ending 2001/2002 for \$1,065,330. Post-closure care costs are estimated at \$18,600.
- 2) The 41.0-acre contained cell has been operational since January 30, 1997. As of February 14, 2019, 35% of this cell's capacity had been used.
- 3) The residual/CDD cell is for Dayton Power and Light (DP&L) and has been operational since April 1, 2008. As of February 4, 2019, 62% of this cell's capacity had been used. DP&L is responsible for all closure costs for this cell. DP&L makes regular payments to Mason County to fund the closure costs.

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

Note 9. Landfill Closure And Post-Closure Care (Continued)

Closure and Post-Closure Care Costs of Municipal Solid Waste Landfill (Continued)

401 KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars, the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. Pursuant to the regulatory basis of accounting, as described in Note 1, no liability has been recognized on the financial statement for closure or post closure care costs. Mason County must comply with established state and federal closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure.

The most recent estimated closure cost for the landfill is \$4,699,306 with estimated post-closure costs of \$1,990,740. Mason County is required to collect and segregate fifteen (15) percent of gross receipts of the landfill and account for it in a restricted Landfill Closure Fund. The balance maintained for the closure of the contained cell and residual/CDD cell as of June 30, 2019, was \$3,029,958. The City of Maysville and Mason County will jointly fund post-closure costs.

The estimates above are based on information as of the audit date and can be altered based on inflation/deflation, technology, laws, and regulations.

Note 10. Related Party Transactions

The jailer's father owns a meat distributor. During fiscal year ended June 30, 2019, the Mason County Fiscal Court spent \$16,017 with the meat distributor. In addition, the jailer's brother owns the jail's food vendor. During fiscal year ended June 30, 2019, the Mason County Fiscal Court spent \$32,675 with this food vendor.

Note 11. Prior Period Adjustments

The beginning balance of the landfill and public properties corporation funds were increased \$500 and \$120,412, respectively, due to misstatements in the prior year audit.

Note 12. Deficit Fund Balance

As of June 30, 2019, the LGEA fund had a deficit fund balance in the amount of \$2,049. This deficit was due to disbursements in excess of available cash resources for the year, due to approved disbursement payments being prepared for items that exceeded the budget.

Note 13. Interfund Receivable and Payable

The table below reflects fund balances after accounting for the receivable and payable between the general fund and federal fund that is not included on the financial statement prepared in accordance with the regulatory basis of accounting:

	<u>General Fund</u>	<u>Federal Fund</u>
Fund Balance - Beginning	\$ 4,602,774	\$ 38,354
Interfund Receivable (Payable)	<u>(36,000)</u>	<u>36,000</u>
Fund Balance - Ending	<u>\$ 4,566,774</u>	<u>\$ 74,354</u>

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MASON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

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MASON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,849,000	\$ 3,849,000	\$ 3,874,387	\$ 25,387
In Lieu Tax Payments	17,000	17,000	17,669	669
Excess Fees	105,548	105,548	147,194	41,646
Licenses and Permits	44,800	44,800	46,239	1,439
Intergovernmental	389,100	389,100	365,551	(23,549)
Charges for Services	6,500	6,500	13,277	6,777
Miscellaneous	280,500	280,500	400,704	120,204
Interest	1,500	1,500	3,321	1,821
Total Receipts	<u>4,693,948</u>	<u>4,693,948</u>	<u>4,868,342</u>	<u>174,394</u>
DISBURSEMENTS				
General Government	1,512,722	1,636,122	1,385,457	250,665
Protection to Persons and Property	421,200	424,700	202,067	222,633
General Health and Sanitation	91,500	110,213	97,525	12,688
Social Services	5,000	5,000		5,000
Recreation and Culture	25,000	40,500	40,273	227
Debt Service	108,000	120,000	68,108	51,892
Capital Projects	20,000	20,000		20,000
Administration	4,038,325	3,655,212	1,594,219	2,060,993
Total Disbursements	<u>6,221,747</u>	<u>6,011,747</u>	<u>3,387,649</u>	<u>2,624,098</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,527,799)</u>	<u>(1,317,799)</u>	<u>1,480,693</u>	<u>2,798,492</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(2,280,000)</u>	<u>(2,280,000)</u>	<u>(1,682,578)</u>	<u>597,422</u>
Total Other Adjustments to Cash (Uses)	<u>(2,280,000)</u>	<u>(2,280,000)</u>	<u>(1,682,578)</u>	<u>597,422</u>
Net Change in Fund Balance	<u>(3,807,799)</u>	<u>(3,597,799)</u>	<u>(201,885)</u>	<u>3,395,914</u>
Fund Balance - Beginning	<u>3,807,799</u>	<u>3,807,799</u>	<u>4,804,659</u>	<u>996,860</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 210,000</u>	<u>\$ 4,602,774</u>	<u>\$ 4,392,774</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,229,682	\$ 1,229,682	\$ 1,065,540	\$ (164,142)
Charges for Services	13,900	13,900	21,330	7,430
Miscellaneous	100,500	100,500	92,354	(8,146)
Interest	300	300	134	(166)
Total Receipts	<u>1,344,382</u>	<u>1,344,382</u>	<u>1,179,358</u>	<u>(165,024)</u>
DISBURSEMENTS				
Roads	1,606,000	1,889,619	1,764,635	124,984
Debt Service	150,000	150,000		150,000
Administration	613,382	329,763	316,479	13,284
Total Disbursements	<u>2,369,382</u>	<u>2,369,382</u>	<u>2,081,114</u>	<u>288,268</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,025,000)</u>	<u>(1,025,000)</u>	<u>(901,756)</u>	<u>123,244</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	900,000	900,000	918,812	18,812
Total Other Adjustments to Cash (Uses)	<u>900,000</u>	<u>900,000</u>	<u>918,812</u>	<u>18,812</u>
Net Change in Fund Balance	(125,000)	(125,000)	17,056	142,056
Fund Balance - Beginning	<u>125,000</u>	<u>125,000</u>	<u>85,973</u>	<u>(39,027)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 103,029</u>	<u>\$ 103,029</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,051,300	\$ 2,051,300	\$ 1,916,501	\$ (134,799)
Charges for Services	70,500	70,500	83,053	12,553
Miscellaneous	110,800	110,800	141,029	30,229
Interest	50	50	179	129
Total Receipts	<u>2,232,650</u>	<u>2,232,650</u>	<u>2,140,762</u>	<u>(91,888)</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property	2,010,818	2,315,850	2,086,993	228,857
Debt Service	45,000	45,000		45,000
Administration	1,086,832	781,800	717,384	64,416
Total Disbursements	<u>3,142,650</u>	<u>3,142,650</u>	<u>2,804,377</u>	<u>338,273</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(910,000)</u>	<u>(910,000)</u>	<u>(663,615)</u>	<u>246,385</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds	10,000	10,000		(10,000)
Transfers From Other Funds	800,000	800,000	600,000	(200,000)
Total Other Adjustments to Cash (Uses)	<u>810,000</u>	<u>810,000</u>	<u>600,000</u>	<u>(210,000)</u>
Net Change in Fund Balance	(100,000)	(100,000)	(63,615)	36,385
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>205,491</u>	<u>105,491</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 141,876</u>	<u>\$ 141,876</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 155,000	\$ 155,000	\$ 261,427	\$ 106,427
Miscellaneous	35,500	35,500	73,156	37,656
Interest	35	35	90	55
Total Receipts	<u>190,535</u>	<u>190,535</u>	<u>334,673</u>	<u>144,138</u>
DISBURSEMENTS				
General Government	70,300	40,300	33,525	6,775
Protection to Persons and Property	49,800	62,781	55,702	7,079
General Health and Sanitation	41,000	46,400	44,950	1,450
Social Services	45,800	53,389	49,941	3,448
Recreation and Culture	213,000	357,318	206,586	150,732
Roads	7,000	7,000	6,984	16
Airports	8,000	8,000	8,000	
Debt Service	20,000	20,066		20,066
Administration	161,635	21,281	30,839	(9,558)
Total Disbursements	<u>616,535</u>	<u>616,535</u>	<u>436,527</u>	<u>180,008</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(426,000)</u>	<u>(426,000)</u>	<u>(101,854)</u>	<u>324,146</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	300,000	300,000		(300,000)
Transfers To Other Funds			(19,197)	(19,197)
Total Other Adjustments to Cash (Uses)	<u>300,000</u>	<u>300,000</u>	<u>(19,197)</u>	<u>(319,197)</u>
Net Change in Fund Balance	(126,000)	(126,000)	(121,051)	4,949
Fund Balance - Beginning	<u>126,000</u>	<u>126,000</u>	<u>119,002</u>	<u>(6,998)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (2,049)</u>	<u>\$ (2,049)</u>

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

	STATE GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 25,000	\$ 25,000	\$ 68,812	\$ 43,812
Total Receipts	<u>25,000</u>	<u>25,000</u>	<u>68,812</u>	<u>43,812</u>
DISBURSEMENTS				
General Health and Sanitation	25,000	25,000		25,000
Administration	7,000	7,000		7,000
Total Disbursements	<u>32,000</u>	<u>32,000</u>		<u>32,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(7,000)</u>	<u>(7,000)</u>	<u>68,812</u>	<u>75,812</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	5,000	5,000		(5,000)
Transfers To Other Funds			(68,812)	(68,812)
Total Other Adjustments to Cash (Uses)	<u>5,000</u>	<u>5,000</u>	<u>(68,812)</u>	<u>(73,812)</u>
Net Change in Fund Balance	(2,000)	(2,000)		2,000
Fund Balance - Beginning	<u>2,000</u>	<u>2,000</u>	<u>16,293</u>	<u>14,293</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,293</u>	<u>\$ 16,293</u>

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

	FEDERAL GRANTS FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 20,895	\$ (79,105)
Miscellaneous	50,000	50,000	222,800	172,800
Total Receipts	<u>150,000</u>	<u>150,000</u>	<u>243,695</u>	<u>93,695</u>
DISBURSEMENTS				
Protection to Persons and Property	100,000	310,150	310,121	29
Administration	55,900	55,750		55,750
Total Disbursements	<u>155,900</u>	<u>365,900</u>	<u>310,121</u>	<u>55,779</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(5,900)</u>	<u>(215,900)</u>	<u>(66,426)</u>	<u>149,474</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	5,000	5,000		(5,000)
Total Other Adjustments to Cash (Uses)	<u>5,000</u>	<u>5,000</u>		<u>(5,000)</u>
Net Change in Fund Balance	(900)	(210,900)	(66,426)	144,474
Fund Balance - Beginning	900	900	104,780	103,880
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (210,000)</u>	<u>\$ 38,354</u>	<u>\$ 248,354</u>

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

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 5,000	\$ 5,000	\$ 4,195	\$ (805)
Intergovernmental	20,000	20,000		(20,000)
Miscellaneous	85,500	85,500	74,325	(11,175)
Interest	25	25	119	94
Total Receipts	<u>110,525</u>	<u>110,525</u>	<u>78,639</u>	<u>(31,886)</u>
DISBURSEMENTS				
General Health and Sanitation	191,000	222,320	187,552	34,768
Debt Service	200	200		200
Capital Projects	50,000	50,000	22,023	27,977
Administration	139,399	108,079	66,107	41,972
Total Disbursements	<u>380,599</u>	<u>380,599</u>	<u>275,682</u>	<u>104,917</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(270,074)</u>	<u>(270,074)</u>	<u>(197,043)</u>	<u>73,031</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>220,000</u>	<u>220,000</u>	<u>200,000</u>	<u>(20,000)</u>
Total Other Adjustments to Cash (Uses)	<u>220,000</u>	<u>220,000</u>	<u>200,000</u>	<u>(20,000)</u>
Net Change in Fund Balance	(50,074)	(50,074)	2,957	53,031
Fund Balance - Beginning	<u>50,074</u>	<u>50,074</u>	<u>113,241</u>	<u>63,167</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 116,198</u>	<u>\$ 116,198</u>

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

	LANDFILL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 8,500	\$ 8,500	\$ 7,478	\$ (1,022)
Intergovernmental	135,000	135,000	115,399	(19,601)
Charges for Services	1,925,000	1,925,000	1,792,105	(132,895)
Miscellaneous	1,072,000	1,072,000	33,510	(1,038,490)
Interest	5,000	5,000	8,337	3,337
Total Receipts	<u>3,145,500</u>	<u>3,145,500</u>	<u>1,956,829</u>	<u>(1,188,671)</u>
DISBURSEMENTS				
General Health and Sanitation	1,723,050	2,007,047	1,449,023	558,024
Debt Service	533,000	533,000	262,515	270,485
Capital Projects	1,177,500	1,902,366	852,587	1,049,779
Administration	4,936,950	3,917,887	497,643	3,420,244
Total Disbursements	<u>8,370,500</u>	<u>8,360,300</u>	<u>3,061,768</u>	<u>5,298,532</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(5,225,000)</u>	<u>(5,214,800)</u>	<u>(1,104,939)</u>	<u>4,109,861</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds	200,000	200,000		(200,000)
Transfers From Other Funds	25,000	25,000		(25,000)
Total Other Adjustments to Cash (Uses)	<u>225,000</u>	<u>225,000</u>		<u>(225,000)</u>
Net Change in Fund Balance	(5,000,000)	(4,989,800)	(1,104,939)	3,884,861
Fund Balance - Beginning (Restated)	<u>5,000,000</u>	<u>5,000,000</u>	<u>7,462,088</u>	<u>2,462,088</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 10,200</u>	<u>\$ 6,357,149</u>	<u>\$ 6,346,949</u>

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

GARBAGE COLLECTIONS FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 405,000	\$ 405,000	\$ 415,946	\$ 10,946
Miscellaneous	18,000	18,000		(18,000)
Interest	125	125	253	128
Total Receipts	<u>423,125</u>	<u>423,125</u>	<u>416,199</u>	<u>(6,926)</u>
DISBURSEMENTS				
General Health and Sanitation	344,800	471,737	412,539	59,198
Debt Service	30,500	55,500	49,289	6,211
Administration	272,825	120,888	104,685	16,203
Total Disbursements	<u>648,125</u>	<u>648,125</u>	<u>566,513</u>	<u>81,612</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(225,000)</u>	<u>(225,000)</u>	<u>(150,314)</u>	<u>74,686</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>25,000</u>	<u>25,000</u>		<u>(25,000)</u>
Total Other Adjustments to Cash (Uses)	<u>25,000</u>	<u>25,000</u>		<u>(25,000)</u>
Net Change in Fund Balance	(200,000)	(200,000)	(150,314)	49,686
Fund Balance - Beginning	<u>200,000</u>	<u>200,000</u>	<u>399,272</u>	<u>199,272</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 248,958</u>	<u>\$ 248,958</u>

MASON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2019

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

The local government economic assistance fund administration exceeded budgeted appropriations by \$9,558. This resulted from unposted budgeted appropriations.

MASON COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

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MASON COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 2,648,218	\$	\$	\$ 2,648,218
Buildings and Building Improvements	19,578,958			19,578,958
Vehicles	1,937,176	89,438	24,900	2,001,714
Equipment	6,825,190	66,035	28,655	6,862,570
Furniture and Office Equipment	523,002	17,295	30,589	509,708
Infrastructure	6,590,255	1,309,559		7,899,814
 Total Capital Assets	 <u>\$ 38,102,799</u>	 <u>\$ 1,482,327</u>	 <u>\$ 84,144</u>	 <u>\$ 39,500,982</u>

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

June 30, 2019

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land	\$ 1	
Land Improvements	\$ 2,500	10 - 60
Buildings	\$ 2,500	10 - 75
Building Improvements	\$ 2,500	5 - 75
Machinery and Equipment	\$ 2,500	3 - 25
Furniture and Fixtures	\$ 2,500	3 - 25
Vehicles	\$ 2,500	3 - 25
Infrastructure	\$ 2,500	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 Joseph Pfeffer, Mason County Judge/Executive
Members of the Mason 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 Mason County Fiscal Court for the fiscal year ended June 30, 2019, and the related notes to the financial statement which collectively comprise the Mason County Fiscal Court's financial statement and have issued our report thereon dated June 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Mason 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 Mason County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mason 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 2019-002 and 2019-003 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 2019-001 and 2019-004 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mason 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 2019-002 and 2019-003.

Views of Responsible Officials and Planned Corrective Action

Mason 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

June 3, 2020

**MASON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

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**MASON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The LGEA Fund Had A Negative Reconciled Fund Balance Of (\$2,049)

The Local Government Economic Assistance fund had a negative reconciled fund balance of (\$2,049) as of June 30, 2019. The negative balance was caused by approved disbursement payments being prepared for items that exceeded the budget. To offset the negative balance, the treasurer made an adjusting journal entry to back off the outstanding checks. However, these checks cleared resulting in a negative fund balance. As a result, the auditor had to make an adjustment to reverse the adjusting journal entry made by the treasurer. Without the auditor making an adjustment, the treasurer's quarterly report falsely reports the fund's balance as positive, rather than negative, which gives the impression the fund is solvent when it is not.

The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires purchase orders not be issued unless adequate funds are available to cover the expenditure. Also, under duties of county treasurer, the county treasurer should only countersign checks if there is sufficient fund balance and adequate cash in the bank to cover the check. Furthermore, good internal controls dictate monthly bank reconciliations are performed that provide an accurate and complete record of the county's fund balance. We recommend the fiscal court monitor fund balances to ensure sufficient funds are available prior to authorizing and approving payments. Furthermore, journal entries should only be used on documentable errors, not to balance an account.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's response: I will be more careful in the future of my account balances and will make the necessary cash transfers to prevent negative balances from occurring again. I understand a journal entry is not the way to correct a negative balance.

2019-002 The Mason County Jailer Did Not Prepare An Annual Commissary Report

The jailer did not prepare an annual commissary report and submit it to the county treasurer. According to the jailer, this was due to oversight. Further, the jailer does not have controls in place to ensure an annual commissary report is prepared and submitted to the county treasurer. The failure to maintain accurate, detailed reports does not provide a true picture of the activities within the jailer's accounts. It also increases the risk of errors, fraud, misstatements, or omissions.

KRS 441.135(2) states in part, "[t]he jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account." The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines an example of an annual commissary report that may be used for the year-end report submitted to the county treasurer pursuant to KRS 441.135(2). We recommend the jailer prepare an annual commissary report and submit it to the county treasurer.

Views of Responsible Official and Planned Corrective Action:

County Jailer's response: As the elected Jailer of Mason County, I accept all responsibility for the failures of the individuals who I entrust to ensure their responsibilities are completed. As the Jailer, I have re-evaluated the responsibilities of the Commissary and Class D position. The individual who was responsible for this report is no longer employed with our agency. As the current individual who was given this responsibility did not follow up or in a timely manner or report the issue to my office, has been relieved of many of her current responsibilities until a re-evaluation of this position is completed.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Mason County Jailer Did Not Prepare An Annual Commissary Report (Continued)

Views of Responsible Official and Planned Corrective Action: (Continued)

County Jailer's response: (Continued) As I was unaware this report was not received in a timely manner by the Mason County Treasurer's Office, or the Mason Fiscal Court, it was my understanding from the individuals I had placed in a position of responsibility the report had been forwarded. I have until the reorganization of the Commissary and Class D Coordinators position have placed our Internal Affairs Manager in direct supervision of this area. Internal Affairs shall report to me on a daily basis of the actions taken place in this area.

2019-003 The Mason County Jailer Did Not Maintain Receipts And Disbursements Ledgers

The Mason County Jailer did not maintain a receipts ledger. Receipts should be posted to a receipts ledger on a daily basis. Each days total for all receipt categories should agree with the amount deposited line on the daily checkout sheet. A list of checks provided by the jailer was used for a disbursements ledger in order to develop a sample for testing. However, that is not a true disbursements ledger. Each check written must be posted to the proper category listed on a disbursements ledger. According to the jailer, she was unaware receipt and disbursements ledgers were not being maintained. After discussion with her new bookkeeper, they have not been able to retrieve these ledgers from their jail commissary bookkeeping software. Further, the jailer does not have controls in place to ensure ledgers are prepared. Receipts and disbursements ledgers are necessary to properly reconcile the bank account, and to compile receipts and disbursements for the annual commissary report. KRS 441.135(2) states in part, "[t]he jailer shall keep books of accounts of all receipts and disbursements from the canteen[.]" The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* has an example of a jail commissary receipts journal and jail commissary disbursements journal that may be used for the ledgers. Also, good internal controls require receipts and disbursements ledgers be maintained. We recommend the jailer ensure that receipts and disbursements ledgers are maintained for the jail commissary. If the jailer is unable to retrieve the ledgers from the software, we recommend manual ledgers be prepared in order to comply with jail commissary bookkeeping requirements.

Views of Responsible Official and Planned Corrective Action:

County Jailer's response: As this note of issue that the Mason County Detention Center did not maintain receipts and disbursements ledgers is not completely correct. Upon notification of this issue I discussed with our Internal Affairs section to review this item. It was reported to me by Internal Affairs Manager that the receipts and disbursements ledgers could have been made available but would have taken someone who was more familiar with the [software name] program than our current Class D Coordinator who was responsible for this information. All income and disbursements are entered in the [software name] program. All receipts are kept and filed with the Class D Coordinator. The deposits are compiled, listed and filed in this area and can be found on all deposit slips with the totals on the [software name] program. These could have been found by reviewing all deposit receipts as the current Class D Coordinator had separated all receipts on the deposit slips. However the [software name] program is comparable to [another name] program in some aspects. What you put in is what comes out. The review by Internal Affairs advised me, these figures could be pulled but would take an amount of time but the receipts were kept but not in an easy access form. Also, that all receipts could be pulled from the [software name] program on a monthly and yearly basis for totals via the report tab in the program. These issues are easily correctable with how we enter the amounts in the programs. When asked for this information, it was found the responsible party did not understand the terminology of receipts and disbursements, thus giving the auditor a false impression of the location of said information.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-003 The Mason County Jailer Did Not Maintain Receipts And Disbursements Ledgers (Continued)

Views of Responsible Official and Planned Corrective Action: (Continued)

County Jailer's response: (Continued) With regard to the disbursement section of this note, all disbursement records via checks are documented in the check tab of the [software name] program. All paper bills, statements and invoices are filed accordingly and could have been made available. However, once again, our Class D Coordinator did not understand what was being requested and did not follow up with management.

At this time recommendations from our Internal Affairs section has been made to my office as to eliminate the possibilities of misunderstanding and documentation of our records. This shall be finalized no later than July 1, 2020. Such actions shall include but not limited to reassignment of personnel and opening separation of financial accounts that was inherited to my office from previous administrations.

2019-004 The Mason County Jailer Does Not Have Adequate Segregation Of Duties Over Jail Commissary Transactions

The jail lacks adequate segregation of duties over jail commissary transactions. The bookkeeper for the jail commissary prepares deposits, prepares daily checkout sheets, and posts to the receipts ledger. In addition, the bookkeeper prepares monthly collection and disbursement reports, posts to the disbursements ledger, and prepares monthly bank reconciliations. According to the jailer, the limited number of staff in the office at the jail prevents a proper segregation of duties. Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts and disbursements, which increases the risk that undetected misappropriation of assets and inaccurate financial reporting will occur. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to the fiscal court.

A strong internal control system requires the duties of receiving, recording, disbursing, and reporting be segregated in order to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Although the jailer has implemented some compensating controls, such as dual signatures on checks and recounting the daily deposits, they do not eliminate the risk associated with inadequate segregation of duties. We recommend a segregation of duties over jail commissary transactions. If these duties cannot be segregated, we recommend the jailer implement and document additional compensating controls to help offset this weakness:

- Recount the daily deposit and verify that it agrees to the daily checkout sheet.
- Agree daily checkout sheet to the receipts ledger and deposit slip.
- Review the monthly reports and agree them to the receipts ledger and disbursements ledger.
- Review the monthly bank reconciliation and trace transactions to source documents.

The jailer should initial these documents as proof of her review.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-004 The Mason County Jailer Does Not Have Adequate Segregation Of Duties Over Jail Commissary Transactions (Continued)

Views of Responsible Official and Planned Corrective Action:

County Jailer's response: As the Commissary section and our Class D section has been combined prior to my appointment as well as my election to the office of Jailer, I have been opposed to this combination since the beginning of my term as Jailer. It is not an excuse by my office by not demanding a separation of these responsibilities. With this audit I shall make the decision to separate these two areas of responsibilities. Upon my election I had such of a concern for this section I requested a private audit of the accounts from an independent auditing company. As I have on my staff in my Internal Affairs section, an individual who has experience with forensic auditing in law enforcement, areas of concern from his review came to light. Therefore, my request for the independent audit. With that particular audit, did not express the findings that I had suspected and was found by this audit.

The corrective action of this issue shall be the separation of the commissary and Class D Coordinators financial accounts. A separate account shall be for commissary as a standalone account in this area. Also implemented a manager level individual from our Internal Affairs sections shall be appointed to review, supervise, manage and approve any and all operations while reporting weekly to my office the operations of these two areas. A Review of the current staff in this area shall be implemented upon the appointment of the Internal Affairs manager to review and evaluate the constancy of individuals assigned to this section.

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

MASON COUNTY FISCAL COURT

For The Year Ended June 30, 2019

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
COUNTY FISCAL COURT

For The Year Ended June 30, 2019

The Mason 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