

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

**For The Year Ended
June 30, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clay County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Clay County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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



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Auditor's Responsibility (Continued)

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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Clay County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Clay County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Clay County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to

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Other Matters (Continued)

Supplementary Information (Continued)

the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2018, on our consideration of the Clay County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Clay County Fiscal Court's internal control over financial reporting and compliance.

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

- 2017-001 The Clay County Fiscal Court Lacks Internal Controls Over The Environment Of The County Road Department
- 2017-002 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2017-003 The Clay County Fiscal Court Lacks Internal Controls Over Community Center Receipts
- 2017-004 The Clay County Fiscal Court Did Not Properly Collect Past Due Ambulance Service Bills
- 2017-005 The Clay County Fiscal Court Did Not Have Sufficient Internal Controls Over Credit Card Disbursements
- 2017-006 The Clay County Fiscal Court Does Not Have Adequate Internal Controls Over The Purchase Order System
- 2017-007 The Clay County Fiscal Court Did Not Obtain Bids When Required
- 2017-008 The Clay County Fiscal Court Paid An Employee As A Salaried And Hourly Employee
- 2017-009 The Clay County Fiscal Court Lacks Internal Control Over Payroll
- 2017-010 The Clay County Fiscal Court Incorrectly Amended The Budget Of The General Fund, Local Governmental Economic Assistance Fund, And Occupational Tax Fund
- 2017-011 The Clay County Jail Commissary Used A Debit Card For Purchases During Fiscal Year 2017
- 2017-012 The Clay County Fiscal Court Did Not Adequately Identify Federal Grants Or Maintain An Accurate Schedule Of Expenditures Of Federal Awards (SEFA)
- 2017-013 An Emergency Budget Amendment Was Declared For A Non-Emergency Situation

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

May 21, 2018

CLAY COUNTY OFFICIALS
For The Year Ended June 30, 2017

Fiscal Court Members:

Johnny W. Johnson	County Judge/Executive (November 1, 2016 to June 30, 2017)
Joe Asher	County Judge/Executive (July 1, 2016 to October 31, 2016)
Harrison Pennington	Magistrate
P.C. Hoskins	Magistrate
Sonny Gay	Magistrate
Randall Wagers	Magistrate
Ray Brown	Magistrate
Allan E. Robinson	Magistrate

Other Elected Officials:

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

Appointed Personnel:

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

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 564,196	\$	\$	\$
In Lieu Tax Payments	129,613			
Excess Fees	143,558			
Licenses and Permits	19,607			100
Intergovernmental	307,026	2,535,430	3,045,311	338,516
Charges for Services	1,726,187		90,407	
Miscellaneous	234,053	21,113	134,454	
Interest	679	1,681	470	210
Total Receipts	<u>3,124,919</u>	<u>2,558,224</u>	<u>3,270,642</u>	<u>338,826</u>
DISBURSEMENTS				
General Government	1,241,457	21,300		
Protection to Persons and Property	4,518		2,355,111	37,157
General Health and Sanitation				
Social Services				
Recreation and Culture	32,838			
Roads		1,983,031		22,822
Debt Service	153,490	2,597	3,041,532	
Administration	1,374,257	241,393	702,428	
Total Disbursements	<u>2,806,560</u>	<u>2,248,321</u>	<u>6,099,071</u>	<u>59,979</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>318,359</u>	<u>309,903</u>	<u>(2,828,429)</u>	<u>278,847</u>
Other Adjustments to Cash (Uses)				
Lease Proceeds			2,545,000	
Discount on Lease			(25,445)	
Transfers From Other Funds	360,950	100,000	380,000	
Transfers To Other Funds	(455,000)	(100,000)	(5,950)	(180,000)
Total Other Adjustments to Cash (Uses)	<u>(94,050)</u>		<u>2,893,605</u>	<u>(180,000)</u>
Net Change in Fund Balance	224,309	309,903	65,176	98,847
Fund Balance - Beginning (Restated)	280,630	129,660	136,373	26,996
Fund Balance - Ending	<u>\$ 504,939</u>	<u>\$ 439,563</u>	<u>\$ 201,549</u>	<u>\$ 125,843</u>
Composition of Fund Balance				
Bank Balance	\$ 507,129	\$ 439,579	\$ 210,383	\$ 125,843
Less: Outstanding Checks	(2,190)	(16)	(8,834)	
Certificate of Deposit				
Fund Balance - Ending	<u>\$ 504,939</u>	<u>\$ 439,563</u>	<u>\$ 201,549</u>	<u>\$ 125,843</u>

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

CLAY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017
(Continued)

Budgeted Funds				Unbudgeted Funds		
Forest Fire Fund	Occupational Tax Fund	Special Water Line Extension Fund	Special Reserve Fund	Public Facilities Construction Corporation Fund	Jail Commissary Fund	Total Funds
\$ 3,933	\$ 1,541,653	\$	\$	\$	\$	\$ 2,109,782
						129,613
						143,558
						19,707
		132,692		577,812		6,936,787
						1,816,594
	1,750				740,678	1,132,048
	247		3,690	188	491	7,656
<u>3,933</u>	<u>1,543,650</u>	<u>132,692</u>	<u>3,690</u>	<u>578,000</u>	<u>741,169</u>	<u>12,295,745</u>
						1,262,757
4,000	1,175,520					3,576,306
	138,111	132,692				270,803
	8,000					8,000
					555,851	588,689
						2,005,853
				577,812		3,775,431
	452,361					2,770,439
<u>4,000</u>	<u>1,773,992</u>	<u>132,692</u>		<u>577,812</u>	<u>555,851</u>	<u>14,258,278</u>
(67)	(230,342)		3,690	188	185,318	(1,962,533)
						2,545,000
						(25,445)
	305,000					1,145,950
	(55,000)		(350,000)			(1,145,950)
	250,000		(350,000)			2,519,555
(67)	19,658		(346,310)	188	185,318	557,022
125	73,584	14,601	853,527	71,566	378,105	1,965,167
<u>\$ 58</u>	<u>\$ 93,242</u>	<u>\$ 14,601</u>	<u>\$ 507,217</u>	<u>\$ 71,754</u>	<u>\$ 563,423</u>	<u>\$ 2,522,189</u>
\$ 58	\$ 93,242	\$ 14,601	\$	\$ 71,754	\$ 567,031	\$ 2,029,620
					(3,608)	(14,648)
			507,217			507,217
<u>\$ 58</u>	<u>\$ 93,242</u>	<u>\$ 14,601</u>	<u>\$ 507,217</u>	<u>\$ 71,754</u>	<u>\$ 563,423</u>	<u>\$ 2,522,189</u>

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

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**CLAY COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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.

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

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

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

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer 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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(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 public facilities construction corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

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.

E. Clay County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met for the fiscal court's deposits. However, these requirements were not met for the jail commissary fund as the jailer did not have a written agreement with the bank.

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, 2017, the fiscal court deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, on June 30, 2017, the jail commissary fund's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$317,031

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	Road Fund	Jail Fund	LGEA Fund	Occupational Tax Fund	Special Reserve Fund	Total Transfers In
General Fund	\$	\$ 100,000	\$ 5,950	\$	\$ 55,000	\$ 200,000	\$ 360,950
Road Fund	100,000						100,000
Jail Fund	200,000			180,000			380,000
Occupational Tax Fund	155,000					150,000	305,000
Total Transfers Out	\$ 455,000	\$ 100,000	\$ 5,950	\$ 180,000	\$ 55,000	\$ 350,000	\$ 1,145,950

Reason for transfers:

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

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Long-term Debt

A. Kentucky Infrastructure Authority (KIA) Loan

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

The North Manchester Water Association remitted total payments of \$153,490 directly to KIA during the fiscal year ended June 30, 2017. At the end of the term of the lease, the county will convey title of the assets to North Manchester Water Association. As of June 30, 2017, the principal balance is \$1,192,130. Future lease principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 117,393	\$ 35,866
2019	120,903	32,118
2020	124,518	28,258
2021	128,242	24,282
2022	132,076	20,187
2023-2026	568,998	37,297
Totals	<u>\$ 1,192,130</u>	<u>\$ 178,008</u>

B. Justice Center Refunding Bonds Series 2012

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

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

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

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Long-term Debt (Continued)

B. Justice Center Refunding Bonds Series 2012 (Continued)

The use allowance payment commenced with occupancy of the Justice Center Building by AOC. AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until November 1, 2023, but the lease does not legally obligate AOC to do so. As of June 30, 2017, after the advance refunding the principal balance remaining was \$3,795,000. Future bond payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 505,000	\$ 75,863
2019	515,000	65,662
2020	530,000	55,213
2021	545,000	44,463
2022	550,000	33,168
2023-2024	<u>1,150,000</u>	<u>28,162</u>
Totals	<u>\$ 3,795,000</u>	<u>\$ 302,531</u>

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

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

On May 9, 2017, the Clay County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Finance Corporation (KACo), using Financing Program Revenue Bonds, 2017 First Series A, to refund the outstanding County of Clay, Kentucky, General Obligation Public Project Refunding Bonds, Series 2006, dated January 12, 2006. The refunding bonds were paid in full in June 2017. As of June 30, 2017, the principal balance of the lease agreement is \$2,545,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2018	\$ 485,000	\$ 60,522
2019	495,000	51,325
2020	510,000	40,162
2021	520,000	28,671
2022	<u>535,000</u>	<u>14,271</u>
Totals	<u>\$ 2,545,000</u>	<u>\$ 194,951</u>

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Long-term Debt (Continued)

D. Financing Obligation - Roller

On August 22, 2014, the Clay County Fiscal Court entered into a 60 month financing obligation for the purchase of a compaction roller. Total principal amount was \$37,372 with an interest rate of 7.40 percent. In fiscal year ended June 30, 2015, the county applied an additional \$20,000 to the obligation, resulting in an expedited payoff schedule. The loan was paid in full in November 2016.

E. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 7,200,000	\$	\$ 3,405,000	\$ 3,795,000	\$ 505,000
Financing Obligations	1,308,561	2,545,000	116,431	3,737,130	602,393
Total Long-term Debt	<u>\$ 8,508,561</u>	<u>\$ 2,545,000</u>	<u>\$ 3,521,431</u>	<u>\$ 7,532,130</u>	<u>\$ 1,107,393</u>

Note 5. Employee Retirement System

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

The county's contribution for FY 2015 was \$647,769, FY 2016 was \$637,980, and FY 2017 was \$687,611.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one 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 five percent of their annual creditable compensation. Nonhazardous members also contribute one 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 four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 5. Employee Retirement System (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 18.68 percent.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

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

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

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

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 a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at www.kyret.ky.gov. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 6. Insurance

For the fiscal year ended June 30, 2017, the Clay County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 7. Health Reimbursement Account

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

Note 8. Prior Period Adjustments

The county treasurer voided prior year outstanding checks for being outstanding for more than one year. This resulted in an increase to the beginning balance of the general fund by \$364, the jail fund by \$20, and the occupational tax fund by \$6.

The prior year audit report included a special insurance fund which had an ending balance of \$26,600. This fund will no longer be included in the financial statement due to a change in the way the health reimbursement account is funded. The funds are now transferred as needed to pay for health insurance bills with a maximum of \$2,000 per employee annually.

Note 9. Related Party Transactions

The Clay County Fiscal Court pays \$800 per month to the Clay County Attorney for office space rent. The amount paid during fiscal year 2017 was \$9,600.

Note 10. County Judge/Executive

Joe Asher, former Clay County Judge/Executive, resigned his position effective October 31, 2016. Johnny Johnson was appointed as interim judge/executive and on December 29, 2016, was appointed by the governor to serve the remainder of the term of office ending on January 1, 2019.

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CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

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CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 564,000	\$ 577,668	\$ 564,196	\$ (13,472)
In Lieu Tax Payments	31,230	31,230	129,613	98,383
Excess Fees	87,517	143,556	143,558	2
Licenses and Permits	15,100	17,804	19,607	1,803
Intergovernmental	284,300	323,073	307,026	(16,047)
Charges for Services	1,420,100	1,420,100	1,726,187	306,087
Miscellaneous	175,750	231,990	234,053	2,063
Interest	500	500	679	179
Total Receipts	<u>2,578,497</u>	<u>2,745,921</u>	<u>3,124,919</u>	<u>378,998</u>
DISBURSEMENTS				
General Government	1,288,100	1,527,991	1,241,457	286,534
Protection to Persons and Property	3,600	6,100	4,518	1,582
Recreation and Culture	36,353	46,353	32,838	13,515
Debt Service			153,490	(153,490)
Administration	1,417,600	1,143,107	1,374,257	(231,150)
Total Disbursements	<u>2,745,653</u>	<u>2,723,551</u>	<u>2,806,560</u>	<u>(83,009)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(167,156)</u>	<u>22,370</u>	<u>318,359</u>	<u>295,989</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			360,950	360,950
Transfers To Other Funds	(503,000)	(503,000)	(455,000)	48,000
Total Other Adjustments to Cash (Uses)	<u>(503,000)</u>	<u>(503,000)</u>	<u>(94,050)</u>	<u>408,950</u>
Net Change in Fund Balance	(670,156)	(480,630)	224,309	704,939
Fund Balance - Beginning (Restated)	<u>670,156</u>	<u>280,630</u>	<u>280,630</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (200,000)</u>	<u>\$ 504,939</u>	<u>\$ 704,939</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 100,000	\$ 100,000	\$	\$ (100,000)
Intergovernmental	1,951,657	2,770,770	2,535,430	(235,340)
Miscellaneous	2,100	20,858	21,113	255
Interest	1,000	1,429	1,681	252
Total Receipts	<u>2,054,757</u>	<u>2,893,057</u>	<u>2,558,224</u>	<u>(334,833)</u>
DISBURSEMENTS				
General Government	22,000	22,000	21,300	700
Roads	1,666,000	2,387,700	1,983,031	404,669
Debit Service	9,000	9,000	2,597	6,403
Administration	404,816	604,017	241,393	362,624
Total Disbursements	<u>2,101,816</u>	<u>3,022,717</u>	<u>2,248,321</u>	<u>774,396</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(47,059)</u>	<u>(129,660)</u>	<u>309,903</u>	<u>439,563</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			100,000	100,000
Transfers To Other Funds			(100,000)	(100,000)
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance	(47,059)	(129,660)	309,903	439,563
Fund Balance - Beginning	<u>47,059</u>	<u>129,660</u>	<u>129,660</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 439,563</u>	<u>\$ 439,563</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,043,800	\$ 2,657,975	\$ 3,045,311	\$ 387,336
Charges for Services	35,000	84,710	90,407	5,697
Miscellaneous	153,600	168,329	134,454	(33,875)
Interest	300	387	470	83
Total Receipts	<u>2,232,700</u>	<u>2,911,401</u>	<u>3,270,642</u>	<u>359,241</u>
DISBURSEMENTS				
Protection to Persons and Property	1,877,555	2,392,597	2,355,111	37,486
Debt Service	556,865	556,865	3,041,532	(2,484,667)
Administration	804,535	1,104,567	702,428	402,139
Total Disbursements	<u>3,238,955</u>	<u>4,054,029</u>	<u>6,099,071</u>	<u>(2,045,042)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,006,255)</u>	<u>(1,142,628)</u>	<u>(2,828,429)</u>	<u>(1,685,801)</u>
Other Adjustments to Cash (Uses)				
Lease Proceeds			2,545,000	2,545,000
Discount on Lease			(25,445)	(25,445)
Transfers From Other Funds	1,006,255	1,006,255	380,000	(626,255)
Transfers To Other Funds			(5,950)	(5,950)
Total Other Adjustments to Cash (Uses)	<u>1,006,255</u>	<u>1,006,255</u>	<u>2,893,605</u>	<u>1,887,350</u>
Net Change in Fund Balance		(136,373)	65,176	201,549
Fund Balance - Beginning (Restated)		<u>136,373</u>	<u>136,373</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 201,549</u>	<u>\$ 201,549</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
License and Permits	\$ 100	\$ 100	\$ 100	\$
Intergovernmental	345,000	384,378	338,516	(45,862)
Interest	200	200	210	10
Total Receipts	<u>345,300</u>	<u>384,678</u>	<u>338,826</u>	<u>(45,852)</u>
DISBURSEMENTS				
Protection to Persons and Property	38,500	38,500	37,157	1,343
Roads	75,000	75,000	22,822	52,178
Administration	300	(5,081)		(5,081)
Total Disbursements	<u>113,800</u>	<u>108,419</u>	<u>59,979</u>	<u>48,440</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>231,500</u>	<u>276,259</u>	<u>278,847</u>	<u>2,588</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(303,255)	(303,255)	(180,000)	123,255
Total Other Adjustments to Cash (Uses)	<u>(303,255)</u>	<u>(303,255)</u>	<u>(180,000)</u>	<u>123,255</u>
Net Change in Fund Balance	(71,755)	(26,996)	98,847	125,843
Fund Balance - Beginning	<u>71,755</u>	<u>26,996</u>	<u>26,996</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 125,843</u>	<u>\$ 125,843</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

FOREST FIRE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 5,000	\$ 5,000	\$ 3,933	\$ (1,067)
Total Receipts	<u>5,000</u>	<u>5,000</u>	<u>3,933</u>	<u>(1,067)</u>
DISBURSEMENTS				
Protection to Persons and Property	5,000	5,125	4,000	1,125
Total Disbursements	<u>5,000</u>	<u>5,125</u>	<u>4,000</u>	<u>1,125</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(125)</u>	<u>(67)</u>	<u>58</u>
Net Change in Fund Balance		(125)	(67)	58
Fund Balance - Beginning		<u>125</u>	<u>125</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 58</u>	<u>\$ 58</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,500,000	\$ 1,534,068	\$ 1,541,653	\$ 7,585
Miscellaneous		1,690	1,750	60
Interest	800	800	247	(553)
Total Receipts	<u>1,500,800</u>	<u>1,536,558</u>	<u>1,543,650</u>	<u>7,092</u>
DISBURSEMENTS				
General Government	2,500	2,500		2,500
Protection to Persons and Property	1,252,600	1,556,033	1,175,520	380,513
General Health and Sanitation	134,700	166,830	138,111	28,719
Social Services	8,000	8,000	8,000	
Administration	600,700	(23,221)	452,361	(475,582)
Total Disbursements	<u>1,998,500</u>	<u>1,710,142</u>	<u>1,773,992</u>	<u>(63,850)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(497,700)</u>	<u>(173,584)</u>	<u>(230,342)</u>	<u>(56,758)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		150,000	305,000	155,000
Transfers To Other Funds	(200,000)	(200,000)	(55,000)	145,000
Total Other Adjustments to Cash (Uses)	<u>(200,000)</u>	<u>(50,000)</u>	<u>250,000</u>	<u>300,000</u>
Net Change in Fund Balance	(697,700)	(223,584)	19,658	243,242
Fund Balance - Beginning (Restated)	<u>697,700</u>	<u>73,584</u>	<u>73,584</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (150,000)</u>	<u>\$ 93,242</u>	<u>\$ 243,242</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

SPECIAL WATER LINE EXTENSION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 50,000	\$ 132,692	\$ 132,692	\$
Total Receipts	50,000	132,692	132,692	
DISBURSEMENTS				
General Health and Sanitation	56,676	147,293	132,692	14,601
Total Disbursements	56,676	147,293	132,692	14,601
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(6,676)	(14,601)		14,601
Net Change in Fund Balance	(6,676)	(14,601)		14,601
Fund Balance - Beginning	6,676	14,601	14,601	
Fund Balance - Ending	\$ 0	\$ 0	\$ 14,601	\$ 14,601

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	SPECIAL RESERVE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 5,000	\$ 5,000	\$ 3,690	\$ (1,310)
Total Receipts	<u>5,000</u>	<u>5,000</u>	<u>3,690</u>	<u>(1,310)</u>
DISBURSEMENTS				
Administration	856,600	508,527		508,527
Total Disbursements	<u>856,600</u>	<u>508,527</u>		<u>508,527</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(851,600)</u>	<u>(503,527)</u>	<u>3,690</u>	<u>507,217</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(350,000)	(350,000)
Total Other Adjustments to Cash (Uses)			<u>(350,000)</u>	<u>(350,000)</u>
Net Change in Fund Balance	(851,600)	(503,527)	(346,310)	157,217
Fund Balance - Beginning	<u>851,600</u>	<u>853,527</u>	<u>853,527</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 350,000</u>	<u>\$ 507,217</u>	<u>\$ 157,217</u>

CLAY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2017

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

General fund debt service disbursements exceeded budgeted appropriations by \$153,490.

General fund administration disbursements exceeded budgeted appropriations by \$231,150.

Jail fund debt services disbursements exceeded budgeted appropriations by \$2,484,667.

LGEA fund administration disbursements exceeded budgeted appropriations by \$5,081.

Occupational tax fund administration disbursements exceeded budgeted appropriations by \$475,582.

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CLAY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

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CLAY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land	\$ 1,041,727	\$	\$	\$ 1,041,727
Buildings	18,732,378			18,732,378
Vehicles and Equipment	4,432,554	37,350		4,469,904
Infrastructure	8,652,781	548,546		9,201,327
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 32,859,440</u>	<u>\$ 585,896</u>	<u>\$ 0</u>	<u>\$ 33,445,336</u>

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

June 30, 2017

Note 1. Capital Assets

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

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

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clay County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Clay County Fiscal Court's financial statement and have issued our report thereon dated May 21, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-003, and 2017-005 to be material weaknesses.

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 2017-006, 2017-009, and 2017-012 to be significant deficiencies.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clay County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-003, 2017-004, 2017-006, 2017-007, 2017-008, 2017-009, 2017-010, 2017-011, 2017-012, and 2017-013.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

May 21, 2018

**CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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**CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Clay County Fiscal Court Lacks Internal Controls Over The Environment Of The County Road Department

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The Clay County Fiscal Court lacks internal controls over the environment of the county road department. During most of the fiscal year ending June 30, 2017, the fiscal court did not have internal controls in place to mitigate risks in several areas of the road department including labor, the use of equipment and vehicles, the use of fuel, and the use of materials such as gravel, steel, and pipe. Road department employees were not required to maintain documentation for the type of work performed, location of projects, where work was performed, or materials used in completing projects. Additionally, fuel logs were not maintained to document the use and addition of fuel. However, auditors performed an onsite review on April 18, 2017, and controls had been implemented to correct this finding for the latter part of the fiscal year.

The fiscal court did not require those charged with management of the road department to implement internal controls. By not having proper controls in place, the county is at risk for misuse and misappropriation of the use of labor, equipment and vehicles, fuel, and materials at the road department.

Strong internal controls would mitigate the risk associated with the use of fiscal court labor and assets.

We recommend the Clay County Fiscal Court continue with the internal controls they have implemented at the road department over the use of equipment, vehicles, fuel, and materials such as gravel, steel, and pipe.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Related information is now being documented by the County Road Foreman.

2017-002 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts

This is a repeat finding and was included in the prior year audit report as finding 2016-003. The Clay County Fiscal Court does not have adequate segregation of duties over receipts. The county treasurer opens mail, prepares all deposits, posts to receipt ledgers, and prepares bank reconciliations.

A limited budget places restrictions on the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been implemented to offset the lack of segregation of duties

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

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

CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts (Continued)

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Two employees are now recording receipts.

2017-003 The Clay County Fiscal Court Lacks Internal Controls Over Community Center Receipts

This is a repeat finding and was included in the prior year audit report as finding 2016-004. The Clay County Fiscal Court lacks internal controls over community center receipts. No supporting documentation was available for money collected for the reservation of the community center during the fiscal year ended June 30, 2017. Money was either collected in the county judge/executive's office, or by an employee at the community center. Citizens who paid for reservation of the community center at the county judge/executive's office were issued a receipt. However, no receipts were issued to citizens who paid directly to an employee at the community center. Daily checkout sheets were not maintained at either the county judge/executive's office or the community center. Per the receipts ledger, the recorded community center reservation receipts totaled \$11,850 for the fiscal year ending June 30, 2017.

A former county employee was responsible for the collection of funds and scheduling reservations of the community center. The fiscal court did not require supporting documentation to be maintained. Without supporting documentation, the fiscal court cannot determine if the proper amount of receipts were collected from the use of the community center. This could result in undetected misappropriation of assets and incorrect reporting.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* establishes several procedures to institute a strong internal control environment, including issuing pre-numbered three-part receipts, utilization of daily check-out sheets, and ensuring that deposits are made intact daily.

KRS 64.840(1) states, "all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer[.]"

We recommend the Clay County Fiscal Court issue a receipt for all money collected for use of the community center.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All receipts for the community Building now come thru the County Judge's Office.

CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Clay County Fiscal Court Did Not Properly Collect Past Due Ambulance Service Bills

This is a repeat finding and was included in the prior year audit report as finding 2016-005. The Clay County Fiscal Court did not attempt to collect past due ambulance service accounts. After six billing statements the county no longer attempts to collect receivables for the ambulance service. The following amounts have been written off as “adjustments” to receivables:

- Fiscal Year Ending June 30, 2013: \$698,531
- Fiscal Year Ending June 30, 2014: \$671,092
- Fiscal Year Ending June 30, 2015: \$394,749
- Fiscal Year Ending June 30, 2016: \$221,721
- Fiscal Year Ending June 30, 2017: \$271,647

The total amount of ambulance service receivables that have been written off from fiscal year 2013 to fiscal year 2017 is \$2,257,740.

When an ambulance service bill becomes delinquent, the fiscal court sends a letter to the patient stating that the account will be turned over to collections. However, after six billing statements, the patient is not rebilled and the fiscal court does not turn over any accounts to collections.

The practice of forgiving delinquent ambulance bills not only results in lost revenue for the ambulance service but results in preferential management of those accounts. Section 52 of the Kentucky Constitution prohibits the fiscal court from forgiving debt in which the amount can be precisely determined and which is not in dispute, as is the case with these ambulance bills.

We recommend the Clay County Fiscal Court implement procedures in order to collect past due ambulance service billings and discontinue the practice of forgiving debts owed.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Clay County Fiscal Court has contracted with a company for collections.

2017-005 The Clay County Fiscal Court Did Not Have Sufficient Internal Controls Over Credit Card Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2016-006. The Clay County Fiscal Court has not implemented proper internal control procedures over credit card disbursements. The fiscal court approved payment of two invoices for ambulance service fuel purchases that were missing 43 original receipts totaling \$2,051.

The lack of internal controls over credit card disbursements allowed for the payment of invoices without sufficient supporting documentation. According to the county treasurer, receipts for fuel were not always properly maintained by employees who made credit card purchases.

The fiscal court disbursed funds without supporting documentation that the disbursement is valid expense of the county and a proper use of county funds.

Good internal controls require proper supporting documentation to be maintained to support disbursements.

CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Clay County Fiscal Court Did Not Have Sufficient Internal Controls Over Credit Card Disbursements (Continued)

We recommend the Clay County Fiscal Court strengthen internal controls over credit card disbursements to ensure all credit card purchases are supported by original receipts to ensure that disbursements are proper.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: County Judge/Executive has notified supervisors and County Jailer, that all receipts are to be turned into the office.

2017-006 The Clay County Fiscal Court Does Not Have Adequate Internal Controls Over The Purchase Order System

This is a repeat finding and was included in the prior year audit report as finding 2016-008. The Clay County Fiscal Court is not properly utilizing a purchase order system. The purchasing procedures in place do not comply with the required purchase order system required by the State Local Finance Officer. In addition, the internal controls over the purchase order system allowed the system to be circumvented. As a result, the following occurred:

- Thirty-nine disbursements were paid without a purchase order.
- Three disbursements had a purchase order issued after the date of the invoice.
- The encumbrance list was misstated because a list of outstanding purchase orders was not available to compile an accurate listing of encumbrances.

Internal controls over purchase orders were not operating as intended during fiscal year 2017. The county treasurer stated that each department has been given guidelines for making purchases; however, some still fail to follow guidelines and will make purchases without receiving a purchase order.

As a result of not monitoring controls, the deficiencies above occurred. In addition, encumbrances were misstated. These deficiencies could result in inaccurate financial reporting and misappropriation of assets.

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

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

Views of Responsible Official and Planned Corrective Action:

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

**CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-007 The Clay County Fiscal Court Did Not Obtain Bids When Required

This is a repeat finding and was included in the prior year audit report as finding 2016-009. The Clay County Fiscal Court did not properly bid fuel disbursements totaling \$111,112 to one vendor. Additionally, for fiscal year 2017, fiscal court orders documented that multiple bids were accepted and approved on bids for contracts for steel drilling and road pipe instead of choosing one bid.

Sufficient internal controls were not in place over the bidding process to ensure items were not purchased from vendors without first advertising or receiving bids when necessary on all purchases required to be bid. There were two bidders for road materials and the bids were close. The fiscal court accepted both bids.

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

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

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

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Fuel was bid for 2017-2018 fiscal year.

2017-008 The Clay County Fiscal Court Paid An Employee As A Salaried And Hourly Employee

This is a repeat finding and was included in the prior year audit report as finding 2016-010. One county employee is receiving wages as a salaried employee while also receiving hourly and overtime pay for another position; however, the time sheet only reflects hours for the position that was considered hourly.

The Clay County Fiscal Court is paying this employee under the same budgeted line item title attributed to the employee’s salary. This line item has the budget to pay for both positions. The fiscal court and employees responsible were unaware of labor laws prohibiting the practice of an employee holding both a salaried and hourly position in concurrence.

The Clay County Fiscal Court is not in compliance with U.S. Department of Labor 29 CFR Part 541.

**CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-008 The Clay County Fiscal Court Paid An Employee As A Salaried And Hourly Employee (Continued)

U.S. Department of Labor Fact Sheet #17G states “[b]eing paid on a ‘salary basis’ means an employee regularly receives a predetermined amount of compensation each pay period on a weekly, or less frequent, basis. The predetermined amount cannot be reduced because of variations in the quality or quantity of the employee’s work. Subject to exceptions listed below, an exempt employee must receive the full salary for any week in which the employee performs any work, regardless of the number of days or hours worked.”

Section 13(a)(1) of the Fair Labor Standards Act provides an exemption from both the minimum wage and overtime pay requirements for employees employed as bona fide executive, administrative, and professional employees (including teachers and academic administrative personnel in elementary and secondary schools), outside sales employees, and certain skilled computer professionals (as defined in the Department of Labor’s regulations).

U.S. Department of Labor Fact Sheet #17C states:

To qualify for the administrative employee exemption, all of the following tests must be met:

- The employee must be compensated on a salary or fee basis (as defined in the regulations) at a rate not less than \$455 per week;
- The employee’s primary duty must be the performance of office or non-manual work directly related to the management or general business operations of the employer or the employer’s customers; and
- The employee’s primary duty includes the exercise of discretion and independent judgment with respect to matters of significance.

We recommend the Clay County Fiscal Court seek guidance from the Clay County Attorney to determine if the employee is qualified as an hourly or salaried employee. In addition, we recommend the timesheet reflect actual hours worked in each position.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Additional compensation was given, monthly, when the employee took on the additional duties of the County Treasurer. Change to wages were approved 6/29/17 court meeting.

2017-009 The Clay County Fiscal Court Lacks Internal Control Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2016-011. The Clay County Fiscal Court does not have proper internal controls over the payroll process. During the fiscal year ending June 30, 2017, the following issues were noted:

- Three employees listed additional hours for on-call and at-home work without specification of when hours were worked.
- Nine timecards were approved without employee signatures.
- Eleven timecards were processed without supervisor approval.
- Three employees were paid without timecard documentation.
- Five employees are paid as salary regardless of the hours worked.
- Leave balances are not maintained for two of the salaried employees.

CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-009 The Clay County Fiscal Court Lacks Internal Control Over Payroll (Continued)

Weak internal controls over payroll have allowed these issues to go undetected.

The fiscal court is not in compliance with federal and state labor regulations or the county's administrative code.

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

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

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

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

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: We have notified salaried employees concerning their documentation of time worked. Supervisors will be notified again concerning the signing and documentation of hours called out. Will begin record of sick and vacation time.

2017-010 The Clay County Fiscal Court Incorrectly Amended The Budget Of The General Fund, Local Governmental Economic Assistance Fund, And Occupational Tax Fund

This is a repeat finding and was included in the prior year audit report as finding 2016-013. The general fund, LGFA fund, and occupational tax fund exceeded the administration line item budget by \$231,150; \$5,081; and \$475,581, respectively. The budget line items should not show a negative balance. Since the amendment created a negative line item, it created the impression that the county did not have funds to transfer although transfers had been made within the available funds. Neither the fiscal court nor the Department for Local Government (DLG) should approve an amendment indicating a negative line item budget.

The fiscal court followed usual protocol and used the account to balance its budget. There was a transfer account also budgeted; however, there were not sufficient funds to make the budgeted transfers and they were not made.

**CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-010 The Clay County Fiscal Court Incorrectly Amended The Budget Of The General Fund, Local Governmental Economic Assistance Fund, And Occupational Tax Fund (Continued)

Both the fiscal court and DLG approved the budget amendments. No funds were transferred beyond those available and there was no ending deficit in the fund balance. Although the overall budget variance was not affected, the amendment did affect line items.

The negative budget line item gives the impression that no funds were available for transfer and that the transferred funds were not actually available and the budget was exceeded. The county made the actual cash transfers properly.

The *County Budget Preparation and State Local Officer Policy Manual*, issued by DLG, states, “[t]he fiscal court should be constantly monitoring receipts and expenditures.”

KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.”

We recommend the Clay County Fiscal Court not approve budget amendments that create negative line items.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: This was the result of over estimating income, not due to over spending of the budget. Will try to estimate more closely.

2017-011 The Clay County Jail Commissary Used A Debit Card For Purchases During Fiscal Year 2017

This is a repeat finding and was included in the prior year report as finding 2016-015. The Clay County Jail used a debit card to make some purchases for the jail commissary. During fiscal year 2017, disbursements totaling \$204 were made using a debit card.

Jail management was unaware that use of a debit card which allows immediate electronic payment of expenses was an unacceptable form of disbursement. The jailer stated that after the prior year exit conference that she stopped using a debit card and applied for a credit card for the jail.

Ineffective internal controls increase the risk of misappropriation of funds from the jail commissary account. The lack of supporting documentation does not permit auditors to confirm funds were used consistent with state law.

The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, disbursements are to be made by check only.

We recommend the Clay County Jailer ensure that disbursements are made by check only, in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

**CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-011 The Clay County Jail Commissary Used A Debit Card For Purchases During Fiscal Year 2017
(Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Jailer to respond.

County Jailer's Response: The use of debit card was a prior year finding in the 2016-2015 audit. After the prior year exit conference we stopped using debit card and applied for a credit card. The issue was resolved.

2017-012 The Clay County Fiscal Court Did Not Adequately Identify Federal Grants Or Maintain An Accurate Schedule Of Expenditures Of Federal Awards (SEFA)

This is a repeat finding and was included in the prior year audit report as finding 2016-016. The Clay County Fiscal Court did not adequately identify federal grants or accurately maintain a Schedule of Expenditures of Federal Awards (SEFA). The original SEFA provided to auditors was incorrect. Several adjustments totaling \$82,071 were made to correctly document federal expenditures for fiscal year 2017.

The accounting personnel are not always informed of federal expenditures and do not appear to have been properly trained to maintain an accurate SEFA with the required information such as the Catalog of Federal Domestic Assistance (CFDA) numbers. Inadequate controls over properly maintaining the SEFA form has contributed to inaccurate reporting.

Failure to maintain an accurate SEFA could result in a failure to properly obtain a single audit in accordance with Uniform Guidance. This could endanger future federal funding.

Per 2 CFR 200.501(a), "[a] non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part." Good internal controls dictate the fiscal court prepare a materially accurate SEFA and include total federal awards expended for each individual federal program. Completeness and accuracy are critical to the SEFA preparation.

We recommend the Clay County Fiscal Court implement internal controls to immediately recognize all federal awards and keep track of the federal grant information including the identifying CFDA number. An employee should be assigned to track federal expenditures while maintaining an accurate SEFA.

County Judge/Executive's Response: Working with DES Coordinator and County Treasurer to try and maintain better Schedule of Expenditures.

2017-013 An Emergency Budget Amendment Was Declared For A Non-Emergency Situation

On June 21, 2017, the Clay County Fiscal Court accepted an emergency budget amendment for a non-emergency situation. The budget for fiscal year 2016-2017 was amended to increase occupational tax and water line funds by \$236,536.

An emergency budget amendment was declared because there was not time to publish and advertise before the end of the fiscal year. Time constraints do not meet the definition of a legitimate emergency.

CLAY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-013 An Emergency Budget Amendment Was Declared For A Non-Emergency Situation (Continued)

By declaring an emergency for a non-emergency situation, proper procedures for amendments to the county budget were not followed.

The *County Budget Preparation and State Local Finance Officer Policy Manual* states, “[a] budget amendment is an ordinance and must be approved by the fiscal court in the statutorily prescribed manner including advertising and publishing requirements. All amendments to a county budget must be approved by the State Local Finance Officer as mandated by KRS 68.280.” It further states, “[a]ny amendments to a county budget submitted to the State Local Finance Officer on an emergency basis must strictly adhere to the provisions of KRS 67.078 and a photocopy of the fiscal court order naming and describing the emergency must accompany the budget amendment pursuant to KRS 68.280.”

We recommend the Clay County Fiscal Court follow proper procedures for adopting budget amendments. If an emergency budget amendment is to be adopted, the Clay County Fiscal Court must first declare an emergency and describe the nature of the emergency. We further recommend the Clay County Fiscal Court submit all budget amendments to the State Local Finance Officer.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The meeting was identified as an emergency meeting in order to get the funds amended into the 2016-17 budget. This was the procedure we were advised to do by the Department of Local Government. DLG was sent a copy of the amendment after the first reading, however they are not required to sign off on the amendment, since there is no second reading.

Auditor’s Reply: Emergency budget amendments are intended to be for true emergencies and not for modification to a fiscal court’s budget.

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

CLAY COUNTY FISCAL COURT

For The Year Ended June 30, 2017

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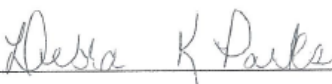
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
CLAY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

The Clay County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer