

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

**For The Year Ended  
June 30, 2021**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
CLAY COUNTY OFFICIALS.....	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT.....	10
BUDGETARY COMPARISON SCHEDULES.....	23
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	33
SCHEDULE OF CAPITAL ASSETS.....	37
NOTES TO OTHER INFORMATION - REGULATORY BASIS SCHEDULE OF CAPITAL ASSETS.....	38
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	41
SCHEDULE OF FINDINGS AND RESPONSES.....	45
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

THIS PAGE LEFT BLANK INTENTIONALLY



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

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clay County Fiscal Court, for the year ended June 30, 2021, and the related notes to the financial statement, which collectively comprise the Clay County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

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

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



To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Johnny W. Johnson, Clay County Judge/Executive  
Members of the Clay County Fiscal Court

### **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, 2021, 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, 2021, 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 as 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 Clay 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  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Johnny W. Johnson, Clay County Judge/Executive  
Members of the Clay County Fiscal Court

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2022, on our consideration of the Clay County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Clay County Fiscal Court's internal control over financial reporting and compliance.

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

- 2021-001 The Clay County Fiscal Court Does Not Have Adequate Segregation Of Duties Over Occupational Tax Receipts
- 2021-002 The Kentucky Infrastructure Authority Debt Payments Were Not Paid As Required By The Debt Agreement
- 2021-003 The Detention Center Bonds, Refinanced With Kentucky Association Of Counties Finance Corporation Were Not Paid As Required By The Debt Agreement

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

February 25, 2022

**CLAY COUNTY OFFICIALS**  
**For The Year Ended June 30, 2021**

**Fiscal Court Members:**

Johnny W. Johnson	County Judge/Executive
Price C. Hoskins	Magistrate
Ray Brown	Magistrate
Russell Smith	Magistrate
Hugh Lunsford, Jr.	Magistrate
Christopher Smith	Magistrate
William Warren	Magistrate

**Other Elected Officials:**

Joseph C. White	County Attorney
Linda Smallwood	Jailer
Michael Baker (July 1, 2020 to August 31, 2020)	County Clerk
Beverly Craft (September 1, 2020 to June 30, 2021)	County Clerk
Leslie Phillips	Circuit Court Clerk
Patrick Robinson	Sheriff
Paul Durham	Property Valuation Administrator
Jarrold Becknell	Coroner

**Appointed Personnel:**

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



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

**For The Year Ended June 30, 2021**

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

**For The Year Ended June 30, 2021**

	<b>Budgeted Funds</b>			<b>Local Government Economic Assistance Fund</b>
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	
<b>RECEIPTS</b>				
Taxes	\$ 632,383	\$	\$	\$
In Lieu Tax Payments	163,552	107,344		
Excess Fees	114,056			
Licenses and Permits	22,268			
Intergovernmental	746,749	3,297,927	1,570,098	173,046
Charges for Services	1,472,470		163,338	
Miscellaneous	188,393	16,710	110,558	
Interest	493	1,181	224	114
Total Receipts	<u>3,340,364</u>	<u>3,423,162</u>	<u>1,844,218</u>	<u>173,160</u>
<b>DISBURSEMENTS</b>				
General Government	1,703,623	21,600		
Protection to Persons and Property			1,844,569	34,216
General Health and Sanitation				
Social Services	3,500			
Recreation and Culture	46,169			
Roads		2,814,748		39,149
Debt Service			28,671	
Administration	1,443,398	370,758	661,002	
Total Disbursements	<u>3,196,690</u>	<u>3,207,106</u>	<u>2,534,242</u>	<u>73,365</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>143,674</u>	<u>216,056</u>	<u>(690,024)</u>	<u>99,795</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	284,883	50,000	601,303	
Transfers To Other Funds	<u>(351,303)</u>	<u>(284,883)</u>		<u>(150,000)</u>
Total Other Adjustments to Cash (Uses)	<u>(66,420)</u>	<u>(234,883)</u>	<u>601,303</u>	<u>(150,000)</u>
Net Change in Fund Balance	77,254	(18,827)	(88,721)	(50,205)
Fund Balance - Beginning (Restated)	<u>460,276</u>	<u>248,496</u>	<u>122,704</u>	<u>107,789</u>
Fund Balance - Ending	<u>\$ 537,530</u>	<u>\$ 229,669</u>	<u>\$ 33,983</u>	<u>\$ 57,584</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 577,062	\$ 239,978	\$ 50,792	\$ 57,584
Plus: Deposits In Transit				
Less: Outstanding Checks	(39,532)	(10,309)	(16,809)	
Certificates of Deposit				
Fund Balance - Ending	<u>\$ 537,530</u>	<u>\$ 229,669</u>	<u>\$ 33,983</u>	<u>\$ 57,584</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, 2021**  
**(Continued)**

<b>Budgeted Funds</b>					
<b>Forest Fire Fund</b>	<b>Occupational Tax Fund</b>	<b>Special Water Line Extension Fund</b>	<b>Special ARPA Fund</b>	<b>Special Reserve Fund</b>	<b>Debt Service Fund</b>
\$ 3,999	\$ 1,777,053	\$	\$	\$	\$
	510,400		1,932,768		84,000
	989				
	654		7	1,044	
<u>3,999</u>	<u>2,289,096</u>		<u>1,932,775</u>	<u>1,044</u>	<u>84,000</u>
5,491	1,319,682				
	151,447	6,600			
	4,000				
					84,000
	532,324		9		
<u>5,491</u>	<u>2,007,453</u>	<u>6,600</u>	<u>9</u>		<u>84,000</u>
(1,492)	281,643	(6,600)	1,932,766	1,044	
	75,000				
	(225,000)				
	(150,000)				
(1,492)	131,643	(6,600)	1,932,766	1,044	
1,607	28,244	17,595		520,664	
<u>\$ 115</u>	<u>\$ 159,887</u>	<u>\$ 10,995</u>	<u>\$ 1,932,766</u>	<u>\$ 521,708</u>	<u>\$ 0</u>
\$ 115	\$ 186,227	\$ 10,995	\$ 1,932,766	\$	\$
	(26,340)				
				521,708	
<u>\$ 115</u>	<u>\$ 159,887</u>	<u>\$ 10,995</u>	<u>\$ 1,932,766</u>	<u>\$ 521,708</u>	<u>\$ 0</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, 2021**  
**(Continued)**

	<u>Unbudgeted Funds</u>		<u>Total Funds</u>
	<u>Clay County Kentucky Justice Center Corporation Fund</u>	<u>Jail Commissary Fund</u>	
<b>RECEIPTS</b>			
Taxes	\$	\$	\$ 2,413,435
In Lieu Tax Payments			270,896
Excess Fees			114,056
Licenses and Permits			22,268
Intergovernmental	591,463		8,822,451
Charges for Services			1,719,808
Miscellaneous		462,477	779,127
Interest	7	433	4,157
Total Receipts	<u>591,470</u>	<u>462,910</u>	<u>14,146,198</u>
<b>DISBURSEMENTS</b>			
General Government			1,725,223
Protection to Persons and Property			3,203,958
General Health and Sanitation			158,047
Social Services			7,500
Recreation and Culture		567,463	613,632
Roads			2,853,897
Debt Service	589,463		702,134
Administration	2,000		3,009,491
Total Disbursements	<u>591,463</u>	<u>567,463</u>	<u>12,273,882</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>7</u>	<u>(104,553)</u>	<u>1,872,316</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds			1,011,186
Transfers To Other Funds			<u>(1,011,186)</u>
Total Other Adjustments to Cash (Uses)			
Net Change in Fund Balance	7	(104,553)	1,872,316
Fund Balance - Beginning (Restated)	<u>74,919</u>	<u>472,166</u>	<u>2,054,460</u>
Fund Balance - Ending	<u>\$ 74,926</u>	<u>\$ 367,613</u>	<u>\$ 3,926,776</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 74,926	\$ 371,209	\$ 3,501,654
Plus: Deposits In Transit		865	865
Less: Outstanding Checks		(4,461)	(97,451)
Certificates of Deposit			<u>521,708</u>
Fund Balance - Ending	<u>\$ 74,926</u>	<u>\$ 367,613</u>	<u>\$ 3,926,776</u>

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

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	10
NOTE 2.	DEPOSITS .....	13
NOTE 3.	TRANSFERS.....	13
NOTE 4.	LONG-TERM DEBT .....	13
NOTE 5.	EMPLOYEE RETIREMENT SYSTEM .....	17
NOTE 6.	HEALTH REIMBURSEMENT ACCOUNT .....	19
NOTE 7.	INSURANCE.....	19
NOTE 8.	PRIOR PERIOD ADJUSTMENTS .....	19

**CLAY COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2021**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

**B. Basis of Accounting**

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

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

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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

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

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

**CLAY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

**Budgeted Funds (Continued)**

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

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

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

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

Special American Rescue Plan Act (ARPA) Fund - The primary purpose of this fund is to account for federal receipts and disbursements associated with ARPA.

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

Debt Service Fund - The primary purpose of this fund is to account for debt payments to the Kentucky Infrastructure Authority. The primary sources of receipts for this fund are payments from the North Manchester Water Association.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Clay County Kentucky Justice Center Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

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

**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, 2021**  
**(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 Clay County Kentucky Justice Center Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**E. Clay County Elected Officials**

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

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

**F. Deposits and Investments**

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

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, 2021**  
**(Continued)**

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2021.

	General Fund	Road Fund	LGEA Fund	Occupational Tax Fund	Total Transfers In
General Fund	\$	\$ 284,883	\$	\$	\$ 284,883
Road Fund	50,000				50,000
Jail Fund	276,303		100,000	225,000	601,303
Occupational Tax Fund	25,000		50,000		75,000
Total Transfers Out	<u>\$ 351,303</u>	<u>\$ 284,883</u>	<u>\$ 150,000</u>	<u>\$ 225,000</u>	<u>\$ 1,011,186</u>

Reason for transfers:

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

**Note 4. Long-term Debt**

**A. Direct Borrowings and Direct Placements**

**1. Kentucky Infrastructure Authority (KIA) Loan**

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

**CLAY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

**1. Kentucky Infrastructure Authority (KIA) Loan (Continued)**

During the fiscal year ending June 30, 2021, the North Manchester Water Association remitted total payments of \$84,000 to the fiscal court to pay towards the KIA loan. The payment schedule required 12 monthly payments of \$12,582, totaling \$150,984, to be made the first of each month. At the end of the term of the lease, the county will convey title of the assets to the North Manchester Water Association. In the event of default, the agency shall bear interest per annum equal to the default rate as set forth in the project specifics. Whenever any event of default has occurred, KIA may demand one or any combination of the following: (a) all payments due immediately, (b) exercise all rights and remedies of the KIA, (c) take whatever action at law or in equity that may appear necessary. As of June 30, 2021, the principal balance is \$997,484. Future lease principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019-2021 Loan Default	\$ 296,410	\$ 15,740
2022	132,076	20,187
2023	136,026	15,970
2024	140,093	11,627
2025	144,282	7,154
2026	<u>148,597</u>	<u>2,546</u>
Totals	<u>\$ 997,484</u>	<u>\$ 73,224</u>

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

On May 9, 2017, the Clay County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Finance Corporation (KACo), using Financing Program Revenue Bonds, 2017 First Series A, to refund the outstanding County of Clay, Kentucky, General Obligation Public Project Refunding Bonds, Series 2006, dated January 12, 2006. The bonds are general obligations of the county and the full faith, credit and taxing power of the county is irrevocably pledged to the payment of principal of and interest on the bonds when due. The 2006 refunding bonds were paid in full in June 2017 with the refinance. In the event of default KACO may take any of the following steps: (a) take appropriate court action to enforce the pledge, (b) take legal title to and sell or release the project or any portion thereof, (c) take whatever action at law or in equity that may appear necessary or desirable to enforce the rights of this lease.

**CLAY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

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

As of June 30, 2021, the principal balance of the lease agreement is \$1,055,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021 Loan Default	\$ 520,000	\$
2022	<u>535,000</u>	<u>14,271</u>
Totals	<u>\$ 1,055,000</u>	<u>\$ 14,271</u>

**B. Other Debt**

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

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

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

The Clay County Fiscal Court (the county) and the Clay County Kentucky Justice Center Corporation are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Clay County Justice Center. The Clay County Kentucky Justice Center Corporation and the county expect annual rentals for the use of the building to be in the amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, AOC has agreed to pay directly to paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable on July 1 of each year for another biennial period of two years. The county and the Clay County Kentucky Justice Center Corporation are dependent upon the use allowance payment in order to meet the debt service for the bonds. The use allowance payment commenced with occupancy of the Justice Center Building by AOC. AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until November 1, 2023, but the lease does not legally obligate AOC to do so.

**CLAY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Other Debt (Continued)**

**1. Clay County Kentucky Justice Center Corporation First Revenue Refunding Bonds, Series 2012 (Continued)**

As of June 30, 2021, the principal balance remaining was \$1,700,000. Future bond payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 550,000	\$ 33,168
2023	570,000	20,913
2024	580,000	7,250
Totals	<u>\$ 1,700,000</u>	<u>\$ 61,331</u>

**C. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 2,127,942	\$	\$ 75,458	\$ 2,052,484	\$ 1,483,486
Revenue Bonds	2,245,000		545,000	1,700,000	550,000
Total Long-term Debt	<u>\$ 4,372,942</u>	<u>\$ 0</u>	<u>\$ 620,458</u>	<u>\$ 3,752,484</u>	<u>\$ 2,033,486</u>

**D. Aggregate Debt Schedule**

The amount of required principal and interest payments on long-term obligations at June 30, 2021, were as follows:

Fiscal Year Ended June 30	Other Debt		Direct Placements	
	Principal	Interest	Principal	Interest
2019-2021 Loan Default	\$	\$	\$ 816,410	\$ 15,740
2022	550,000	33,168	667,076	34,458
2023	570,000	20,913	136,026	15,970
2024	580,000	7,250	140,093	11,627
2025			144,282	7,154
2026			148,597	2,546
Totals	<u>\$ 1,700,000</u>	<u>\$ 61,331</u>	<u>\$ 2,052,484</u>	<u>\$ 87,495</u>

**CLAY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**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. Effective April 1, 2021, the Kentucky Retirement Systems as an agency of the Commonwealth is now known as the Kentucky Public Pensions Authority (KPPA). The governance of CERS has been transferred to a separate 9-member board of trustees that is responsible for the governance of the CERS pension and insurance plans.

The county's contribution for FY 2019 was \$835,847, FY 2020 was \$977,145 and FY 2021 \$1,001,718.

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

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

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

The county's contribution rate for nonhazardous employees was 24.06 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:

**CLAY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 5. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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

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

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

Once members reach a minimum vesting period of 15 years, 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.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 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.

**CLAY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 5. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

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

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

E. Death Benefit

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

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

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

**Note 6. 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. The balance in the health reimbursement account as of June 30, 2021, was \$163,902.

**Note 7. Insurance**

For the fiscal year ended June 30, 2021, the Clay County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Prior Period Adjustments**

The county treasurer voided prior year outstanding checks totaling \$2,125 for being outstanding for more than one year. After auditor adjustment of -\$1 to offset rounding this resulted in an increase to the beginning balance of the general fund by \$2,124.

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 jail fund by \$1,192.

THIS PAGE LEFT BLANK INTENTIONALLY



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

**For The Year Ended June 30, 2021**

THIS PAGE LEFT BLANK INTENTIONALLY

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

**For The Year Ended June 30, 2021**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 590,000	\$ 632,243	\$ 632,383	\$ 140
In Lieu Tax Payments	1,230	1,230	163,552	162,322
Excess Fees	160,300	160,300	114,056	(46,244)
Licenses and Permits	20,000	20,453	22,268	1,815
Intergovernmental	340,300	773,457	746,749	(26,708)
Charges for Services	1,600,100	1,600,100	1,472,470	(127,630)
Miscellaneous	116,100	171,645	188,393	16,748
Interest	500	500	493	(7)
Total Receipts	<u>2,828,530</u>	<u>3,359,928</u>	<u>3,340,364</u>	<u>(19,564)</u>
<b>DISBURSEMENTS</b>				
General Government	1,353,733	1,817,920	1,703,623	114,297
Protection to Persons and Property	3,600	3,600		3,600
Social Services		3,500	3,500	
Recreation and Culture	73,500	95,000	46,169	48,831
Administration	1,378,000	1,694,951	1,443,398	251,553
Total Disbursements	<u>2,808,833</u>	<u>3,614,971</u>	<u>3,196,690</u>	<u>418,281</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>19,697</u>	<u>(255,043)</u>	<u>143,674</u>	<u>398,717</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	233,870	233,870	284,883	51,013
Transfers To Other Funds	<u>(439,103)</u>	<u>(439,103)</u>	<u>(351,303)</u>	<u>87,800</u>
Total Other Adjustments to Cash (Uses)	<u>(205,233)</u>	<u>(205,233)</u>	<u>(66,420)</u>	<u>138,813</u>
Net Change in Fund Balance	(185,536)	(460,276)	77,254	537,530
Fund Balance - Beginning (Restated)	<u>185,536</u>	<u>460,276</u>	<u>460,276</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 537,530</u>	<u>\$ 537,530</u>

**CLAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
In Lieu Tax Payments	\$ 50,000	\$ 107,344	\$ 107,344	\$
Intergovernmental	2,703,122	3,504,955	3,297,927	(207,028)
Miscellaneous	100	16,810	16,710	(100)
Interest	1,500	1,500	1,181	(319)
Total Receipts	<u>2,754,722</u>	<u>3,630,609</u>	<u>3,423,162</u>	<u>(207,447)</u>
<b>DISBURSEMENTS</b>				
General Government	21,600	21,600	21,600	
Roads	2,352,847	3,839,179	2,814,748	1,024,431
Administration	397,900	523,288	370,758	152,530
Total Disbursements	<u>2,772,347</u>	<u>4,384,067</u>	<u>3,207,106</u>	<u>1,176,961</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(17,625)</u>	<u>(753,458)</u>	<u>216,056</u>	<u>969,514</u>
<b>Other Adjustments to Cash (Uses)</b>				
Borrowed Money		738,832		(738,832)
Transfers From Other Funds			50,000	50,000
Transfers To Other Funds	<u>(233,870)</u>	<u>(233,870)</u>	<u>(284,883)</u>	<u>(51,013)</u>
Total Other Adjustments to Cash (Uses)	<u>(233,870)</u>	<u>504,962</u>	<u>(234,883)</u>	<u>(739,845)</u>
Net Change in Fund Balance	(251,495)	(248,496)	(18,827)	229,669
Fund Balance - Beginning	<u>251,495</u>	<u>248,496</u>	<u>248,496</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 229,669</u>	<u>\$ 229,669</u>

**CLAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,900,000	\$ 2,901,472	\$ 1,570,098	\$ (1,331,374)
Charges for Services	35,000	35,000	163,338	128,338
Miscellaneous	225,000	238,014	110,558	(127,456)
Interest	300	300	224	(76)
Total Receipts	<u>3,160,300</u>	<u>3,174,786</u>	<u>1,844,218</u>	<u>(1,330,568)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	1,996,032	2,125,394	1,844,569	280,825
Debt Service	548,671	548,671	28,671	520,000
Administration	841,900	849,728	661,002	188,726
Total Disbursements	<u>3,386,603</u>	<u>3,523,793</u>	<u>2,534,242</u>	<u>989,551</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(226,303)</u>	<u>(349,007)</u>	<u>(690,024)</u>	<u>(341,017)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>226,303</u>	<u>226,303</u>	<u>601,303</u>	<u>375,000</u>
Total Other Adjustments to Cash (Uses)	<u>226,303</u>	<u>226,303</u>	<u>601,303</u>	<u>375,000</u>
Net Change in Fund Balance		(122,704)	(88,721)	33,983
Fund Balance - Beginning (Restated)		<u>122,704</u>	<u>122,704</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 33,983</u>	<u>\$ 33,983</u>

**CLAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Licenses and Permits	\$ 100	\$ 100	\$	\$ (100)
Intergovernmental	199,176	208,278	173,046	(35,232)
Interest	200	200	114	(86)
Total Receipts	199,476	208,578	173,160	(35,418)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	38,500	38,500	34,216	4,284
Roads	30,000	60,000	39,149	20,851
Administration	976	87,867		87,867
Total Disbursements	69,476	186,367	73,365	113,002
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	130,000	22,211	99,795	77,584
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(130,000)	(130,000)	(150,000)	(20,000)
Total Other Adjustments to Cash (Uses)	(130,000)	(130,000)	(150,000)	(20,000)
Net Change in Fund Balance		(107,789)	(50,205)	57,584
Fund Balance - Beginning		107,789	107,789	
Fund Balance - Ending	\$ 0	\$ 0	\$ 57,584	\$ 57,584

**CLAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>FOREST FIRE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 5,500	\$ 5,500	\$ 3,999	\$ (1,501)
Total Receipts	<u>5,500</u>	<u>5,500</u>	<u>3,999</u>	<u>(1,501)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	5,500	7,107	5,491	1,616
Total Disbursements	<u>5,500</u>	<u>7,107</u>	<u>5,491</u>	<u>1,616</u>
Net Change in Fund Balance		(1,607)	(1,492)	115
Fund Balance - Beginning		<u>1,607</u>	<u>1,607</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 115</u>	<u>\$ 115</u>

**CLAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>OCCUPATIONAL TAX FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,550,000	\$ 1,558,384	\$ 1,777,053	\$ 218,669
Intergovernmental		510,400	510,400	
Miscellaneous	200	987	989	2
Interest	1,000	1,001	654	(347)
Total Receipts	<u>1,551,200</u>	<u>2,070,772</u>	<u>2,289,096</u>	<u>218,324</u>
<b>DISBURSEMENTS</b>				
General Government	2,500	2,500		2,500
Protection to Persons and Property	1,232,400	1,403,000	1,319,682	83,318
General Health and Sanitation	166,700	178,900	151,447	27,453
Social Services	8,000	8,000	4,000	4,000
Administration	484,400	849,535	532,324	317,211
Total Disbursements	<u>1,894,000</u>	<u>2,441,935</u>	<u>2,007,453</u>	<u>434,482</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(342,800)</u>	<u>(371,163)</u>	<u>281,643</u>	<u>652,806</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	342,800	342,800	75,000	(267,800)
Transfers To Other Funds			(225,000)	(225,000)
Total Other Adjustments to Cash (Uses)	<u>342,800</u>	<u>342,800</u>	<u>(150,000)</u>	<u>(492,800)</u>
Net Change in Fund Balance		(28,363)	131,643	160,006
Fund Balance - Beginning		<u>28,363</u>	<u>28,244</u>	<u>(119)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 159,887</u>	<u>\$ 159,887</u>



**CLAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

**SPECIAL WATER LINE EXTENSION FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Miscellaneous	\$	\$ 158,000	\$	\$ (158,000)
Total Receipts		158,000		(158,000)
<b>DISBURSEMENTS</b>				
General Health and Sanitation	17,594	175,594	6,600	168,994
Administration		1		1
Total Disbursements	17,594	175,595	6,600	168,995
Net Change in Fund Balance	(17,594)	(17,595)	(6,600)	10,995
Fund Balance - Beginning	17,594	17,595	17,595	
Fund Balance - Ending	\$ 0	\$ 0	\$ 10,995	\$ 10,995

**CLAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>SPECIAL ARPA FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$	\$	\$ 1,932,768	\$ 1,932,768
Interest			7	7
Total Receipts			<u>1,932,775</u>	<u>1,932,775</u>
<b>DISBURSEMENTS</b>				
Administration			9	(9)
Total Disbursements			<u>9</u>	<u>(9)</u>
Net Change in Fund Balance			1,932,766	1,932,766
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,932,766</u>	<u>\$ 1,932,766</u>

**CLAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>SPECIAL RESERVE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Interest	\$ 5,000	\$ 5,000	\$ 1,044	\$ (3,956)
Total Receipts	<u>5,000</u>	<u>5,000</u>	<u>1,044</u>	<u>(3,956)</u>
<b>DISBURSEMENTS</b>				
Administration	524,500	525,664		525,664
Total Disbursements	<u>524,500</u>	<u>525,664</u>		<u>525,664</u>
Net Change in Fund Balance	(519,500)	(520,664)	1,044	521,708
Fund Balance - Beginning	<u>519,500</u>	<u>520,664</u>	<u>520,664</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 521,708</u>	<u>\$ 521,708</u>

**CLAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>DEBT SERVICE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Charges for Services	\$ 152,524	\$ 152,524	\$ 84,000	\$ (68,524)
Total Receipts	<u>152,524</u>	<u>152,524</u>	<u>84,000</u>	<u>(68,524)</u>
<b>DISBURSEMENTS</b>				
Debt Service	152,524	152,524	84,000	68,524
Total Disbursements	<u>152,524</u>	<u>152,524</u>	<u>84,000</u>	<u>68,524</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**CLAY COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2021**

**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**

Special ARPA fund, administration line item, exceeded budgeted appropriations by \$9.

THIS PAGE LEFT BLANK INTENTIONALLY

**CLAY COUNTY  
SCHEDULE OF CAPITAL ASSETS  
Other Information - Regulatory Basis**

**For The Year Ended June 30, 2021**

THIS PAGE LEFT BLANK INTENTIONALLY



**CLAY COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Other Information - Regulatory Basis**

**For The Year Ended June 30, 2021**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
Land	\$ 1,041,727	\$	\$	\$ 1,041,727
Buildings and Improvements	18,732,377			18,732,377
Equipment & Vehicles*	4,941,489	148,776		5,090,265
Infrastructure	10,054,941	932,298		10,987,239
 Total Capital Assets	 <u>\$ 34,770,534</u>	 <u>\$ 1,081,074</u>	 <u>\$ 0</u>	 <u>\$ 35,851,608</u>

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

**June 30, 2021**

**Note 1. Capital Assets**

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

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

**Note 2. Restatement of Capital Assets Beginning Balance**

The prior year capital assets schedule failed to include one acquisition. This resulted in an increase in the beginning balance of \$19,000 in equipment and vehicles.

**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***

THIS PAGE LEFT BLANK INTENTIONALLY



**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clay County Fiscal Court for the fiscal year ended June 30, 2021, 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 February 25, 2022.

**Internal Control Over Financial Reporting**

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

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

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 deficiency described in the accompanying Schedule of Findings as item 2021-001 to be a material weakness.



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 financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2021-002 and 2021-003.

**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

February 25, 2022

**CLAY COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2021**

THIS PAGE LEFT BLANK INTENTIONALLY



**CLAY COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2021**

INTERNAL CONTROL - MATERIAL WEAKNESS:

2021-001    The Clay County Fiscal Court Does Not Have Adequate Segregation Of Duties Over Occupational Tax Receipts

---

This is a repeat finding and was included in the prior year audit report as finding 2020-002. The Clay County Fiscal Court does not have adequate segregation of duties over occupational tax receipts. The tax administrator opens the mail, matches the checks to the occupational tax bill, stamps checks for deposit only, makes a list of checks and runs a tape on the checks. The occupational tax clerk prepares and sends out occupational tax bills, makes copies of the checks, posts receipt to the tax manager program and compares the deposits to the receipt list and the report produced by the tax manager program. The deposit is taken to the bank by the occupational tax clerk or the tax administrator. The original deposit slip is provided to the county treasurer who compares the deposit slip to the bank statement and prepares bank reconciliations. No documented review of the receipt process was noted.

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

We recommend the fiscal court separate the duties involving mailing of the bills, opening of mail, preparing the receipt list, collecting and depositing of receipts, and preparation of the deposit. If this is not feasible due to a limited budget, strong oversight over these areas should occur and involve an employee that is not currently performing any of those functions and this oversight should be documented by dating, and signing or initialing the documentation.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The official did not provide a response.*

STATE LAWS AND REGULATIONS:

2021-002    The Kentucky Infrastructure Authority Debt Payments Were Not Paid As Required By The Debt Agreement

---

This is a repeat finding and was included in the prior year audit report as finding 2020-001. The Kentucky Infrastructure Authority (KIA) debt payments were not made in accordance with the debt schedule as required by the agreement with KIA. The schedule requires 12 monthly payments of \$12,582 plus varying monthly servicing fees to be made the first of each month; however, payments were not made in accordance with the amortization schedule during the fiscal year. Total payments of \$84,000, comprised of prior year outstanding principal payments of \$75,459 and interest and fee payments of \$8,541, were made during the fiscal year.

**CLAY COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2021**  
**(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2021-002 The Kentucky Infrastructure Authority Debt Payments Were Not Paid As Required By The Debt Agreement (Continued)

---

The debt schedule required total payments of \$152,524, comprised of principal payments of \$128,242 and interest payments of \$22,740. In addition, servicing fees of \$1,542 were required to be paid. The total past due principal balance is \$296,410 and the total past due interest is \$15,740 as of June 30, 2021, based upon county records.

The Clay County Fiscal Court entered into the debt with KIA in order to obtain funding for waterlines on behalf of North Manchester Water Association. The fiscal court further entered into a lease agreement with North Manchester Water Association where they would make lease payments equaling the debt service payments directly to KIA. North Manchester made payments up through January 2018 but then failed to make the required monthly payments. The Clay County Fiscal Court now requires North Manchester Water Association to make payments to the fiscal court and they in turn make the payments to KIA. However, the county is not receiving the payments from North Manchester in accordance with the amortization schedule; therefore, the proper payment amount is not being submitted to KIA by the fiscal court.

The county is in default on the debt agreement with KIA by not ensuring proper debt payments were made in accordance with their agreement. The loan agreement the county entered into with KIA requires monthly loan payments to be made the first of each month in accordance with the debt schedule.

We recommend the Clay County Fiscal Court comply with the terms of the KIA agreement by making all required debt payments in the future. We further recommend the county should consult with the county attorney for legal guidance on this issue.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The official did not provide a response.*

2021-003 The Detention Center Bonds, Refinanced With Kentucky Association of Counties Finance Corporation Were Not Paid As Required By The Debt Agreement

---

The debt payments with the Kentucky Association of Counties Finance Corporation (KACo) were not made in accordance with the debt schedule as required by the agreement with KACo. The schedule required one principal payment of \$520,000 and two interest payments totaling \$28,671; however the County only made the interest payments, totaling \$28,671.

Through inquiry with the county judge/executive, it was noted that the county did not have the funds to pay the principal amount due for the fiscal year ending June 30, 2021. The county had the appropriate funds to pay the interest, however as a result of COVID-19, the county had not received enough funds to pay for the principal amount due. The county judge/executive further stated that he is currently working with KACo to come to a new agreement.

**CLAY COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2021**  
**(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2021-003 The Detention Center Bonds, Refinanced With Kentucky Association of Counties Finance Corporation Were Not Paid As Required By The Debt Agreement (Continued)

---

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

We recommend the Clay County Fiscal Court comply with the terms of the KACo agreement by making all required debt payments in the future. We further recommend the county should consult with the county attorney for legal guidance on this issue.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The official did not provide a response.*

THIS PAGE LEFT BLANK INTENTIONALLY

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

**CLAY COUNTY FISCAL COURT**

**For The Year Ended June 30, 2021**

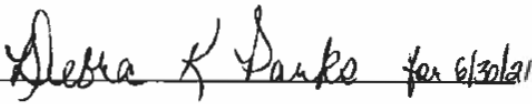
THIS PAGE LEFT BLANK INTENTIONALLY

CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
CLAY COUNTY FISCAL COURT

For The Year Ended June 30, 2021

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