

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

The enclosed report prepared by Teddy Michael Prater, CPA, PLLC presents the financial statement of Estill County, Kentucky, for the year ended June 30, 2021.

We engaged Teddy Michael Prater, CPA, PLLC to perform the audit of this financial statement. We worked closely with the firm during our report review process; Teddy Michael Prater, CPA, PLLC evaluated the Estill County Fiscal Court's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

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Mike Harmon
Auditor of Public Accounts

Enclosure



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To the People of Kentucky
The Honorable Andy Beshear, Governor
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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 Estill County Fiscal Court, for the year ended June 30, 2021, and the related notes to the financial statement which collectively comprise the Estill County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

To the People of Kentucky
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Estill 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 Estill 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 Estill 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 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 Estill County Fiscal Court. The Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards (supplementary information), as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky
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Other Matters (Continued)

Supplementary and Other Information (Continued)

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.

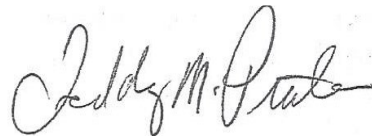
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2022, on our consideration of the Estill 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 Estill 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 Questioned Costs included herein, which discusses the following report findings:

- 2021-001 The Estill County Fiscal Court Failed To Implement Adequate Internal Controls And Oversight For Disbursements And Transfers
- 2021-002 Internal Controls Over Occupational Tax Collections Are Not Adequate
- 2021-003 Internal Controls, Review Procedures, And Oversight For Payroll Processing Are Not Adequate
- 2021-004 The Estill County Fiscal Court Did Not Provide The Same Level Of Health Insurance Coverage To All County Employees
- 2021-005 Remaining Balance Of The Line Of Credit Was Not Paid By The End Of The Fiscal Year
- 2021-006 Draws On CSEPP Line Of Credit Were Posted To The Incorrect Line Item On The Quarterly Report
- 2021-007 The Estill County Fiscal Court's Schedule Of Expenditures Of Federal Awards Submitted To The Department For Local Government Was Not Accurate

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Teddy M. Prater". The signature is fluid and cursive, with the first name "Teddy" being more prominent.

Teddy Michael Prater, CPA, PLLC

June 27, 2022

ESTILL COUNTY OFFICIALS
For The Year Ended June 30, 2021

Fiscal Court Members:

Donnie Watson	County Judge/Executive
Mike Abney	Magistrate
Paul Tipton	Magistrate
Gerry Flannery	Magistrate

Other Elected Officials:

Jason Riley	County Attorney
Beverly "Bo" Morris	Jailer
Brian Crowe	County Clerk
Stephanie Brinegar-Cassidy	Circuit Court Clerk
Chris Flynn	Sheriff
Jeff Hix	Property Valuation Administrator
Tony Murphy	Coroner (July 1, 2020 - August 31, 2020)
Jimmie Wise	Coroner (September 1, 2020 - June 30, 2021)

Appointed Personnel:

Freida Lancaster	County Treasurer
Amber Flynn	Finance Officer
Teresa McKinley	Occupational Tax (July 27, 2020 - June 30, 2021)

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

For The Year Ended June 30, 2021

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

For The Year Ended June 30, 2021

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 2,907,489	\$	\$	\$
In Lieu Tax Payments	11,492	8,484		
Excess Fees	42,624			
Licenses and Permits	17,786			
Intergovernmental	102,536	1,628,045	99,220	15,536
Charges for Services	277,386			
Miscellaneous	580,120	171		1,216
Interest			28	25
Total Receipts	<u>3,939,433</u>	<u>1,636,700</u>	<u>99,248</u>	<u>16,777</u>
DISBURSEMENTS				
General Government	892,123			
Protection to Persons and Property	540,086		688,701	11,825
General Health and Sanitation	74,546			
Social Services	95,969			
Recreation and Culture	28,150			
Roads		1,474,061		
Debt Service	209,746	753,261		
Capital Projects		19,038		
Administration	792,226	272,740	106,571	
Total Disbursements	<u>2,632,846</u>	<u>2,519,100</u>	<u>795,272</u>	<u>11,825</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,306,587</u>	<u>(882,400)</u>	<u>(696,024)</u>	<u>4,952</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		714,084		
Transfers From Other Funds	435,285		706,701	
Transfers To Other Funds	(706,701)			
Total Other Adjustments to Cash (Uses)	<u>(271,416)</u>	<u>714,084</u>	<u>706,701</u>	
Net Change in Fund Balance	1,035,171	(168,316)	10,677	4,952
Fund Balance - Beginning	308,606	413,755	2,208	18,832
Fund Balance - Ending	<u>\$ 1,343,777</u>	<u>\$ 245,439</u>	<u>\$ 12,885</u>	<u>\$ 23,784</u>
Composition of Fund Balance				
Bank Balance	\$ 1,412,139	\$ 305,354	\$ 13,338	\$ 29,184
Plus: Deposits In Transit	36,317		46,700	
Less: Outstanding Checks	(104,679)	(59,915)	(47,153)	(5,400)
Fund Balance - Ending	<u>\$ 1,343,777</u>	<u>\$ 245,439</u>	<u>\$ 12,885</u>	<u>\$ 23,784</u>

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

ESTILL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2021
(Continued)

Budgeted Funds						
State Grants Fund	Federal Grants Fund	Emergency Service Communications Fund	Chemical Stockpile Emergency Preparedness Program Fund	CMRS 911 Fund	Emergency Management Fund	Total Funds
\$	\$	\$	\$	\$	\$	\$ 2,907,489
						19,976
						42,624
						17,786
63,067	642,876		2,004,128			4,555,408
2,500		8,013		154,473		442,372
						581,507
						53
<u>65,567</u>	<u>642,876</u>	<u>8,013</u>	<u>2,004,128</u>	<u>154,473</u>		<u>8,567,215</u>
						892,123
10,000			2,118,305	31,062		3,399,979
76,410						150,956
						95,969
						28,150
						1,474,061
			1,181,752			2,144,759
						19,038
	207,591		178,300			1,557,428
<u>86,410</u>	<u>207,591</u>		<u>3,478,357</u>	<u>31,062</u>		<u>9,762,463</u>
(20,843)	435,285	8,013	(1,474,229)	123,411		(1,195,248)
			1,547,594			2,261,678
						1,141,986
	(435,285)					(1,141,986)
	<u>(435,285)</u>		<u>1,547,594</u>			<u>2,261,678</u>
(20,843)		8,013	73,365	123,411		1,066,430
117,714		109,506	14,622	95,568	1,289	1,082,100
<u>\$ 96,871</u>	<u>\$ 0</u>	<u>\$ 117,519</u>	<u>\$ 87,987</u>	<u>\$ 218,979</u>	<u>\$ 1,289</u>	<u>\$ 2,148,530</u>
\$ 100,455	\$	\$ 117,519	\$ 179,914	\$ 218,979	\$ 1,289	\$ 2,378,171
						83,017
(3,584)			(91,927)			(312,658)
<u>\$ 96,871</u>	<u>\$ 0</u>	<u>\$ 117,519</u>	<u>\$ 87,987</u>	<u>\$ 218,979</u>	<u>\$ 1,289</u>	<u>\$ 2,148,530</u>

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

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**ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2021

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

ESTILL 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.

State Grants Fund - The primary purpose of this fund is to account for state grants. The primary source of revenue for this fund is state grants.

Federal Grants Fund - The primary purpose of this fund is to account for federal grants. The primary source of revenue for this fund is federal grants.

Emergency Service Communications Fund - The primary purpose of this fund is to account for surcharges received from the emergency management communication tower. The Department of Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund - The primary purpose of this fund is to account for federal CSEPP grant monies, which is the only source of revenue for this fund. Estill County is part of a ten-county region in Kentucky that receives federal grant monies to improve their capacity to plan for and respond to accidents associated with the Bluegrass Army Depot's chemical warfare materials located in neighboring Madison County. The U.S. Congress appropriates funding for reimbursement of CSEPP disbursements. CSEPP funds may not be commingled with other funds, therefore the Department of Local Government and the federal government require the fiscal court to maintain these receipts and disbursements separately from the general fund.

CMRS 911 Fund - The primary purpose of this fund is to account for the surcharge taxes for Commercial Mobile Radio Systems (CMRS). The state distributes CMRS monies to counties to supplement 911 operations. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Emergency Management Fund - The primary purpose of this fund is to account for emergency management grant money, which is the only source of revenue for this 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.

ESTILL 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.

E. Estill County Elected Officials

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

ESTILL 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. However, as of June 30, 2021, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$440,044

Note 3. Transfers

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

	General Fund	Jail Fund	Total Transfers Out
General Fund	\$	\$ 706,701	\$ 706,701
Federal Grants Fund	435,285		435,285
Total Transfers In	<u>\$ 435,285</u>	<u>\$ 706,701</u>	<u>\$ 1,141,986</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. Short-Term Debt

A. Lines of Credit

1. On August 23, 2019, the Estill County Fiscal Court entered into a line of credit agreement not to exceed \$500,000. The purpose of this line of credit was to provide funding for Chemical Stockpile Emergency Preparedness Program (CSEPP) funded projects and subsequently seek financial reimbursement from the Kentucky Division of Emergency Management (KyEM). The financial reimbursements received by the Estill County Fiscal Court from KyEM through CSEPP were used to pay off the line of credit. The operating line of credit by Citizens Guaranty Bank was for one year and the interest rate for this period of time was five percent. In addition to the five percent interest rate, there was a minimal origination fee. The line of credit was renewable on an annual basis. As of June 30, 2021, this line of credit was paid off and closed with no outstanding principal.

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

Note 4. Short-Term Debt (Continued)

A. Lines of Credit (Continued)

2. In FY 2021, the Estill County Fiscal Court entered into a line of credit agreement for \$714,084. The purpose of this line of credit was to provide funding for road projects to be subsequently reimbursed by the Federal Emergency Management Agency (FEMA). The financial reimbursements received by the Estill County Fiscal Court from FEMA were used to pay off the line of credit. The operating line of credit by Citizens Guaranty Bank was for one year and the interest rate for this period of time was 3.84 percent. In addition to the interest rate, there was a minimal origination fee. The line of credit was renewable on an annual basis. As of June 30, 2021, this line of credit was paid off and closed with no outstanding principal.
3. On June 7, 2021, the Estill County Fiscal Court entered into a line of credit agreement not to exceed \$1,000,000. The purpose of this line of credit is to provide funding for Chemical Stockpile Emergency Preparedness Program (CSEPP) funded projects and subsequently seek financial reimbursement from the Kentucky Division of Emergency Management (KyEM). The financial reimbursements received by the Estill County Fiscal Court from KyEM through CSEPP are used to pay off the line of credit. The operating line of credit by Citizens Guaranty Bank is for one year and the interest rate for this period of time was 3.84 percent. In addition to the interest rate, there was a minimal origination fee. The line of credit is renewable on an annual basis. As of June 30, 2021, unused funds in the amount of \$547,072 remain to be drawn down on the line of credit and the outstanding principal was \$452,928. Future principal payments are as follows:

Fiscal Year Ending June 30	Principal
2022	\$ 452,928
Totals	<u>\$ 452,928</u>

B. Changes in Short-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lines of Credit - CSEPP	\$ 131,866	\$1,547,594	\$1,226,532	\$ 452,928	\$ 452,928
Line of Credit - FEMA		714,084	714,084		
Total Short-term Debt	<u>\$ 131,866</u>	<u>\$ 2,261,678</u>	<u>\$ 1,940,616</u>	<u>\$ 452,928</u>	<u>\$ 452,928</u>

Note 5. Leases

A. Tractor

On September 1, 2018, the Estill County Fiscal Court entered into an operating lease in the amount of \$28,742 to lease a tractor for the road department. The lease term is monthly payments of \$798 for 36 months. As of June 30, 2021, the remaining lease payments were \$1,597. Future payment requirements are:

Fiscal Year Ending June 30	Amount
2022	\$ 1,597
Total Minimum Lease Payments	<u>\$ 1,597</u>

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

Note 5. Leases (Continued)

B. Tractor

On October 1, 2018, the Estill County Fiscal Court entered into an operating lease in the amount of \$43,023 to lease a tractor for the road department. The lease term is monthly payments \$896 for 48 months. As of June 30, 2021, the remaining lease payments were \$13,444. Future payment requirements are:

Fiscal Year Ending June 30	Amount
2022	\$ 10,756
2023	2,688
Total Minimum Lease Payments	<u>\$ 13,444</u>

Note 6. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Road Projects

On July 5, 2018, the Estill County Fiscal Court entered into a \$1,410,000 lease agreement with the Kentucky Association of Counties. The purpose of this lease was to retire a portion of the county's outstanding debt and requires monthly principal and interest payments, with the final payment due on February 1, 2028. The obligation of the lessee created by the lease shall be a full general obligation of the lessee and, for the prompt payment of the lease rental payments, the full faith, credit and revenue of the lessee are pledged. In case of default, the lessor may, without any further demand or notice, take one or any combination of the following remedial steps: enforce the pledge set forth so that during the remaining lease term there is levied on all the taxable property in the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to pay the lease rental payments when and as due; take legal title to, and sell or re-lease the project or any portion thereof; or take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreements under this lease and to recover damages for the breach thereof. As of June 30, 2021, the principal outstanding was \$1,047,500. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest & Fees
2022	\$ 140,000	\$ 52,021
2023	147,500	44,067
2024	155,000	36,928
2025	162,500	28,790
2026	170,000	20,259
2027-2028	272,500	14,733
Totals	<u>\$ 1,047,500</u>	<u>\$ 196,798</u>

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

Note 6. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

2. Commercial Building and Lot

On August 29, 2019, Estill County Fiscal Court entered into a \$245,850 business loan agreement with Citizens Guaranty Bank. The purpose of this loan was to purchase a commercial building and lot and requires monthly principal and interest payments, with the final payment due on August 29, 2039. In case of default, all commitments and obligations will immediately terminate, and all indebtedness immediately will become due and payable, all without notice of any kind to the borrower, except that in the case of an event of default due to insolvency. In addition, the lender shall have all the rights and remedies provided or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of the lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of borrower or of any grantor shall not affect lender's right to declare a default and to exercise its rights and remedies. As of June 30, 2021, the principal outstanding was \$ 230,970. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2022	\$ 8,619	\$ 9,650
2023	8,993	9,276
2024	9,370	8,899
2025	9,801	8,468
2026	10,213	8,056
2027-2031	58,101	33,244
2032-2036	71,827	19,528
2037-2040	54,046	3,812
Totals	<u>\$ 230,970</u>	<u>\$ 100,933</u>

B. 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	<u>\$ 1,419,246</u>	<u>\$</u>	<u>\$ 140,776</u>	<u>\$ 1,278,470</u>	<u>\$ 148,619</u>
Total Long-term Debt	<u>\$ 1,419,246</u>	<u>\$ 0</u>	<u>\$ 140,776</u>	<u>\$ 1,278,470</u>	<u>\$ 148,619</u>

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

Note 6. Long-term Debt (Continued)

C. Aggregate Debt Schedule

The aggregate debt schedule is as follows:

Fiscal Year Ending June 30	Direct Borrowings and Direct Placements	
	Principal	Interest
2022	\$ 148,619	\$ 61,671
2023	156,493	53,343
2024	164,370	45,827
2025	172,301	37,258
2026	180,213	28,315
2027-2031	330,601	47,977
2032-2036	71,827	19,528
2037-2040	54,046	3,812
Totals	<u>\$ 1,278,470</u>	<u>\$ 297,731</u>

Note 7. 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 Kentucky Public Pension Authority (KPPA). 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 \$324,289, FY 2020 was \$449,244, and FY 2021 was \$418,592.

Nonhazardous

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

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

Note 7. Employee Retirement System (Continued)

Nonhazardous (Continued)

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

The county's contribution rate for nonhazardous employees was 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:

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

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

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

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

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

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

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KPPA 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.

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.

KPPA Annual Financial Report and Proportionate Share Audit Report

KPPA 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 Pension 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 8. Deferred Compensation

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

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

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

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

Note 9. Health Reimbursement Account

The Estill County Fiscal Court has an HRA account for employees to participate in for their health care needs. The plan is administered through the county's insurance company. The plan provides \$500 for each employee to offset their medical expenses.

Note 10. Insurance

For the fiscal year ended June 30, 2021, the Estill 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 11. Conduit Debt

From time to time, the county has issued bonds to provide financial assistance to Berea College for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear Estill County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2021, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

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ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2021

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ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2021

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 3,002,675	\$ 3,002,675	\$ 2,907,489	\$ (95,186)
In Lieu Tax Payments	9,399	9,399	11,492	2,093
Excess Fees	67,000	67,000	42,624	(24,376)
Licenses and Permits	26,850	26,850	17,786	(9,064)
Intergovernmental	156,830	156,830	102,536	(54,294)
Charges for Services	255,900	255,900	277,386	21,486
Miscellaneous	416,248	416,248	580,120	163,872
Interest	100	100		(100)
Total Receipts	3,935,002	3,935,002	3,939,433	4,431
DISBURSEMENTS				
General Government	963,342	970,819	892,123	78,696
Protection to Persons and Property	627,567	645,774	540,086	105,688
General Health and Sanitation	85,194	85,535	74,546	10,989
Social Services	128,625	123,209	95,969	27,240
Recreation and Culture	82,350	87,766	28,150	59,616
Debt Service	206,366	209,979	209,746	233
Administration	1,152,970	1,123,332	792,226	331,106
Total Disbursements	3,246,414	3,246,414	2,632,846	613,568
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	688,588	688,588	1,306,587	617,999
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds	120,000	120,000		(120,000)
Transfers From Other Funds	198,000	198,000	435,285	237,285
Transfers To Other Funds	(1,206,588)	(1,206,588)	(706,701)	499,887
Total Other Adjustments to Cash (Uses)	(888,588)	(888,588)	(271,416)	617,172
Net Change in Fund Balance	(200,000)	(200,000)	1,035,171	1,235,171
Fund Balance - Beginning	200,000	200,000	308,606	108,606
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,343,777	\$ 1,343,777

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

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 10,124	\$ 10,124	\$ 8,484	\$ (1,640)
Intergovernmental	2,560,135	2,560,135	1,628,045	(932,090)
Miscellaneous	1,000	1,000	171	(829)
Interest	100	100		(100)
Total Receipts	2,571,359	2,571,359	1,636,700	(934,659)
DISBURSEMENTS				
Roads	1,001,840	1,011,742	1,474,061	(462,319)
Debt Service	736,000	756,000	753,261	2,739
Capital Projects	27,500	29,038	19,038	10,000
Administration	1,286,149	1,254,709	272,740	981,969
Total Disbursements	3,051,489	3,051,489	2,519,100	532,389
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(480,130)	(480,130)	(882,400)	(402,270)
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds	714,000	714,000	714,084	84
Transfers To Other Funds	(233,870)	(233,870)		233,870
Total Other Adjustments to Cash (Uses)	480,130	480,130	714,084	233,954
Net Change in Fund Balance			(168,316)	(168,316)
Fund Balance - Beginning			413,755	413,755
Fund Balance - Ending	\$ 0	\$ 0	\$ 245,439	\$ 245,439

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

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 117,100	\$ 117,100	\$ 99,220	\$ (17,880)
Miscellaneous	1,000	1,000		(1,000)
Interest	100	100	28	(72)
Total Receipts	118,200	118,200	99,248	(18,952)
DISBURSEMENTS				
Protection to Persons and Property	1,214,556	1,198,564	688,701	509,863
Administration	110,232	126,224	106,571	19,653
Total Disbursements	1,324,788	1,324,788	795,272	529,516
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,206,588)	(1,206,588)	(696,024)	510,564
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,206,588	1,206,588	706,701	(499,887)
Total Other Adjustments to Cash (Uses)	1,206,588	1,206,588	706,701	(499,887)
Net Change in Fund Balance			10,677	10,677
Fund Balance - Beginning			2,208	2,208
Fund Balance - Ending	\$ 0	\$ 0	\$ 12,885	\$ 12,885

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
RECEIPTS				
Intergovernmental	\$ 19,235	\$ 19,235	\$ 15,536	\$ (3,699)
Miscellaneous	1,000	1,000	1,216	216
Interest	50	50	25	(25)
Total Receipts	<u>20,285</u>	<u>20,285</u>	<u>16,777</u>	<u>(3,508)</u>
DISBURSEMENTS				
General Government	11,000	11,000		11,000
Protection to Persons and Property	15,234	17,974	11,825	6,149
Social Services	500	500		500
Administration	3,240	500		500
Total Disbursements	<u>29,974</u>	<u>29,974</u>	<u>11,825</u>	<u>18,149</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(9,689)</u>	<u>(9,689)</u>	<u>4,952</u>	<u>14,641</u>
Net Change in Fund Balance	(9,689)	(9,689)	4,952	14,641
Fund Balance - Beginning	<u>9,689</u>	<u>9,689</u>	<u>18,832</u>	<u>9,143</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,784</u>	<u>\$ 23,784</u>

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

STATE GRANTS FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 141,000	\$ 141,000	\$ 63,067	\$ (77,933)
Charges for Services	5,000	5,000	2,500	(2,500)
Total Receipts	146,000	146,000	65,567	(80,433)
DISBURSEMENTS				
Protection to Persons and Property	11,000	11,000	10,000	1,000
General Health and Sanitation	95,000	125,027	76,410	48,617
Recreation and Culture	30,000	30,000		30,000
Administration	65,000	34,973		34,973
Total Disbursements	201,000	201,000	86,410	114,590
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(55,000)	(55,000)	(20,843)	34,157
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(5,000)	(5,000)		5,000
Total Other Adjustments to Cash (Uses)	(5,000)	(5,000)		5,000
Net Change in Fund Balance	(60,000)	(60,000)	(20,843)	39,157
Fund Balance - Beginning	60,000	60,000	117,714	57,714
Fund Balance - Ending	\$ 0	\$ 0	\$ 96,871	\$ 96,871

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

FEDERAL GRANTS FUND				
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	500,000	980,256	642,876	(337,380)
Total Receipts	500,000	980,256	642,876	(337,380)
DISBURSEMENTS				
Recreation and Culture	500,000	500,000		500,000
Administration		480,256	207,591	272,665
Total Disbursements	500,000	980,256	207,591	772,665
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			435,285	435,285
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(435,285)	(435,285)
Total Other Adjustments to Cash (Uses)			(435,285)	(435,285)
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

EMERGENCY SERVICE COMMUNICATIONS FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Charges for Services	\$ 15,000	\$ 15,000	\$ 8,013	\$ (6,987)
Total Receipts	15,000	15,000	8,013	(6,987)
DISBURSEMENTS				
Protection to Persons and Property	23,245	23,245		23,245
Administration	91,755	91,755		91,755
Total Disbursements	115,000	115,000		115,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(100,000)	(100,000)	8,013	108,013
Net Change in Fund Balance	(100,000)	(100,000)	8,013	108,013
Fund Balance - Beginning	100,000	100,000	109,506	9,506
Fund Balance - Ending	\$ 0	\$ 0	\$ 117,519	\$ 117,519

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

CHEMICAL STOCKPILE EMERGENCY PREPAREDNESS PROGRAM FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 5,641,874	\$ 6,090,874	\$ 2,004,128	\$ (4,086,746)
Miscellaneous	500,000			
Total Receipts	6,141,874	6,090,874	2,004,128	(4,086,746)
DISBURSEMENTS				
Protection to Persons and Property	5,410,624	4,953,624	2,118,305	2,835,319
Debt Service	500,000	1,400,000	1,181,752	218,248
Administration	231,250	237,250	178,300	58,950
Total Disbursements	6,141,874	6,590,874	3,478,357	3,112,517
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(500,000)	(1,474,229)	(974,229)
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		500,000	1,547,594	1,047,594
Total Other Adjustments to Cash (Uses)		500,000	1,547,594	1,047,594
Net Change in Fund Balance			73,365	73,365
Fund Balance - Beginning			14,622	14,622
Fund Balance - Ending	\$ 0	\$ 0	\$ 87,987	\$ 87,987

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

CMRS 911 FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 43,241	\$ 43,241	\$	\$ (43,241)
Charges for Services	120,000	120,000	154,473	34,473
Total Receipts	163,241	163,241	154,473	(8,768)
DISBURSEMENTS				
Protection to Persons and Property	116,418	116,418	31,062	85,356
Administration	146,823	146,823		146,823
Total Disbursements	263,241	263,241	31,062	232,179
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(100,000)	(100,000)	123,411	223,411
Net Change in Fund Balance	(100,000)	(100,000)	123,411	223,411
Fund Balance - Beginning	100,000	100,000	95,568	(4,432)
Fund Balance - Ending	\$ 0	\$ 0	\$ 218,979	\$ 218,979

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

EMERGENCY MANAGEMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 10,000	\$ 10,000	\$	\$ (10,000)
Total Receipts	10,000	10,000		(10,000)
DISBURSEMENTS				
General Government	17,000	17,000		17,000
Total Disbursements	17,000	17,000		17,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(7,000)	(7,000)		7,000
Net Change in Fund Balance	(7,000)	(7,000)		7,000
Fund Balance - Beginning	7,000	7,000	1,289	(5,711)
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,289	\$ 1,289

ESTILL 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. Budget Line Item Overspent

The line item for road expenditures in the road fund was overspent by \$462,319. This occurred due to a software error when entering the budget and budget amendments into the quarterly report. The road fund budget was not overspent in total.

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ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2021

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ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<u>U. S. Department of Homeland Security</u>				
<i>Passed-Through Kentucky Department of Military Affairs</i>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4428	\$	\$ 434,132
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4358		162,766
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4592		87,441
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4595		52,201
Total CFDA 97.036				736,540
Chemical Stockpile Emergency Preparedness Program	97.040	EMA-2020-CA-5820		2,296,605
Total U.S. Department of Homeland Security				3,033,145
<u>U. S. Department of Treasury</u>				
<i>Passed-Through Kentucky Department for Local Government</i>				
COVID-19 Coronavirus Relief Fund	21.019	C246		128,027
Total U.S. Department of Treasury				128,027
Total Expenditures of Federal Awards			\$ 0	\$ 3,161,172

The accompanying notes are an integral part of this schedule.

ESTILL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2021

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Estill County, Kentucky under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Estill County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Estill County, Kentucky.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

The Estill County Fiscal Court has not adopted an indirect cost rate and has not elected to use the ten percent de minimus indirect cost rate allowed under the Uniform Guidance.

ESTILL COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2021

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ESTILL 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	Additions	Deletions	Ending Balance
Land	\$ 603,227	\$	\$ 10,000	\$ 593,227
Construction In Progress	188,680	398,934		587,614
Land Improvements	76,071			76,071
Buildings	5,768,813		50,000	5,718,813
Equipment	4,556,935	34,340	1,283,647	3,307,628
Vehicles	1,614,012	560,673	267,736	1,906,949
Infrastructure	6,534,821	975,905		7,510,726
	<u>6,534,821</u>	<u>975,905</u>	<u></u>	<u>7,510,726</u>
Total Capital Assets	<u>\$ 19,342,559</u>	<u>\$ 1,969,852</u>	<u>\$ 1,611,383</u>	<u>\$ 19,701,028</u>

ESTILL 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	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 10,000	3-25
Vehicles	\$ 10,000	5-10
Infrastructure	\$ 20,000	10-50

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

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TEDDY MICHAEL PRATER, CPA, PLLC
724 Gifford Road
Salyersville, KY 41465
Telephone (606) 349-8042

The Honorable Donnie Watson, Estill County Judge/Executive
Members of the Estill 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 Estill County Fiscal Court for the fiscal year ended June 30, 2021, and the related notes to the financial statement which collectively comprise the Estill County Fiscal Court's financial statement and have issued our report thereon dated June 27, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Estill 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 Estill County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Estill 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 Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001, 2021-002, 2021-003, 2021-004, and 2021-007 to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Estill 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 Questioned Costs as items 2021-001, 2021-004, 2021-005, 2021-006, and 2021-007.

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)

Views of Responsible Official and Planned Corrective Action

Estill County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. 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 "Teddy M. Prater". The signature is fluid and cursive, with the first name "Teddy" being the most prominent part.

Teddy Michael Prater, CPA, PLLC

June 27, 2022

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH UNIFORM GUIDANCE**

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TEDDY MICHAEL PRATER, CPA, PLLC
724 Gifford Road
Salyersville, KY 41465
Telephone (606) 349-8042

The Honorable Donnie Watson, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited the Estill County Fiscal Court's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Estill County Fiscal Court's major federal programs for the year ended June 30, 2021. The Estill County Fiscal Court's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Estill County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Estill County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Estill County Fiscal Court's compliance.

Opinion on Each Major Federal Program

In our opinion, the Estill County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance
(Continued)

Report on Internal Control over Compliance

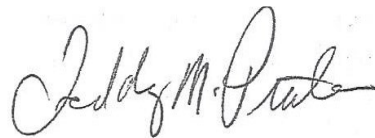
Management of the Estill County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Estill County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Estill County Fiscal Court's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Teddy M. Prater", is written over a light gray circular stamp.

Teddy Michael Prater, CPA, PLLC

June 27, 2022

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2021

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ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2021

Section I: Summary of Auditor's Results

Financial Statement

Type of report auditor issued: Adverse on GAAP and Unmodified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any noncompliances material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs: Unmodified		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Federal Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
97.040	Chemical Stockpile Emergency Preparedness Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Section II: Financial Statement Findings

2021-001 The Estill County Fiscal Court Failed To Implement Adequate Internal Controls And Oversight For Disbursements And Transfers

This is a partial repeat of a finding and was included in the prior year audit report as finding 2020-002.

- Seven disbursements totaling \$823,067 were not paid timely (within 30 working days of receiving the invoice or bill).
- The unencumbered cash balance of the jail and CSEPP funds on the fourth quarter financial statement reflected negative balances of \$45,571 and \$107,469.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2021
(Continued)

Section II: Financial Statement Findings (Continued)

2021-001 The Estill County Fiscal Court Failed To Implement Adequate Internal Controls And Oversight For Disbursements And Transfers (Continued)

The fiscal court did not implement adequate procedures and oversight regarding the documentation, preparation, and authorization of disbursements and transfers. The county's administrative code outlines proper procedures for disbursements. The absence of significant review procedures or oversight also allowed numerous invoices to not be processed timely and this occurred without detection or knowledge of the fiscal court. Some invoices were not paid timely simply because the funds were not available when the invoice was received. In addition to this, when encumbrances were taken into consideration at fiscal year end the jail fund and CSEPP fund reflected negative unencumbered cash balances. The negative unencumbered cash balances reflected were due to cash transfers from other funds not being completed as expenditures were encumbered.

The fiscal court's failure to establish effective internal controls over disbursements and transfers resulted in numerous instances of noncompliance, violations of statutes, negative unencumbered cash balances, and violations of the county's administrative code as reflected above. The lack of proper accounting practices, internal controls, and oversight increases the risk that undetected misstatements and fraud will occur.

Failure to pay obligations timely is indicative of poor financial management practices and can result in late fees and finance charges, which are a wasteful use of taxpayer resources. It is also a violation of statute for failure to pay invoices within 30 working days of receipt of the invoice or bill.

The risk of overspending the budget or spending in excess of funds available increases significantly without effective internal controls over transfers in place.

Effective internal controls provide for adequate segregation of duties and prevent the same person from having a significant role in incompatible functions. Segregation of duties and proper oversight helps prevent fraud or misappropriation of assets and protects employees in the normal course of performing their daily responsibilities. Effective internal controls and proper oversight also help ensure compliance with laws, regulations, grant agreements, etc.

KRS 65.140(2) stipulates timely payments to vendors by stating, "[u]nless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor."

Effective internal controls also provide effective monitoring of the encumbering of expenditures and the need for cash transfers to ensure that negative unencumbered cash balances do not occur.

Purchase order requirements are outlined by the Department for Local Government. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual*, page 57, requires purchasing procedures include the following:

1. Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head.
2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
3. Purchase requests shall not be approved in an amount that exceeds the available line-item appropriation unless the necessary and appropriate line item and cash transfers have been made.
4. Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2021
(Continued)

Section II: Financial Statement Findings (Continued)

2021-001 The Estill County Fiscal Court Failed To Implement Adequate Internal Controls And Oversight For Disbursements and Transfers (Continued)

We recommend the fiscal court implement adequate, effective internal control procedures for disbursements and transfers, including segregation of duties, to address each of the areas previously discussed. Additionally, strong management oversight and review procedures should be implemented to prevent and detect errors or fraud. Effective review procedures could be achieved if performed by an employee independent of the person or department initially performing those functions. All oversight and review procedures must be properly documented by initialing source documents, ledgers, reports, or other supporting documentation.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Disbursements in question were for emergency road work under a FEMA project. The Judge explained to the vendor that payment could not be made until funds were available from FEMA. Being fully informed, the vendor came anyway and was very efficient and quick about getting the repairs made to twenty-six (26) road breaks throughout the county. The FEMA funds still had not been received and the county felt like this vendor should be paid. Therefore, the necessary funds were borrowed on short-term loan, paid to vendor and loan paid off when FEMA funding was received. It is the practice of the fiscal court to pay invoices timely, unless something is in question or there is an understanding with the vendor.

The negative balances reflected on Jail and CSEPP were unencumbered cash balances and were due to P.O.'s being issued, not actual negative cash in the bank. The Jail is supported by the General Fund and CSEPP is reimbursed from federal funding. When claims are presented to Fiscal Court, interfund transfers and/or line of credit draws would have been approved to cover said balances. The necessary funds were available to be transferred at that time. It is the practice of the Fiscal Court to approve transfers before claims are paid, not when encumbered for both the Jail and CSEPP funds.

2021-002 Internal Controls Over Occupational Tax Collections Are Not Adequate

This is a repeat finding and was included in the prior year audit report as finding 2020-003. Occupational tax collections comprise about 51% of the county's general fund operating revenue – by far the single biggest source of revenue for this fund. Internal controls over occupational taxes are not adequate to ensure amounts reported are complete, accurate, and free of material misstatement due to the following issues:

- Occupational taxes were not reconciled to the ledgers by someone independent of receiving and posting occupational tax receipts.
- Deposits for occupational taxes received were not reviewed and agreed to the detailed daily tax form register.
- Delinquent occupational tax notices are not sent out with any regularity or consistency.
- There are no effective review or oversight procedures for occupational tax collections.

The fiscal court failed to adequately assess risk associated with occupational tax collections and has not implemented effective internal controls, review procedures, or oversight for occupational tax collections.

Failure to implement adequate controls over occupational tax collections increases the risk that material misstatements and fraud will occur and go undetected, especially considering occupational taxes comprise such a large portion of general fund revenues.

Proper segregation of duties, internal controls and maintaining documentation of control procedures completed is essential to protect the Fiscal Court against misappropriation of assets and inaccurate financial reporting, while also protecting employees in the normal course of performing their job responsibilities.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2021
(Continued)

Section II: Financial Statement Findings (Continued)

2021-002 Internal Controls Over Occupational Tax Collections Are Not Adequate (Continued)

In order for internal controls to be effective in preventing and detecting errors, misstatements, and fraud, the functions of any significant area should be separated. If segregation is not possible or practical, the fiscal court could implement and document compensating controls to reduce the risk associated with inadequate segregation of duties. A strong compensating control could include review of deposit tickets, tax returns, and occupational tax ledger by someone independent of occupational tax collections. This could be documented by initialing all supporting documentation after the review is complete.

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for occupational tax collections and document the procedures performed that ensure recorded amounts are complete, accurate, and free of material misstatement.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Occupational taxes are entered daily by the occupational tax administrator. Treasurer then reviews, posts and deposits said taxes. Deposits are reconciled to daily receipts. In addition to reviewing, we will document doing so. At this time, notices are sent for late filing and incorrect tax payments as returns are received. Once accounts have been reconciled from prior years delinquent notices will be sent with regularity.

2021-003 Internal Controls, Review Procedures, And Oversight For Payroll Processing Are Not Adequate

This is a repeat finding and was included in the prior year audit report as finding 2020-004. The following issues were noted for payroll processing:

- The fiscal court did not provide the same level of health insurance coverage to all employees (see finding 2021-004 for additional detail).
- Pay rates were not properly implemented and documented. The fiscal court approved a salary schedule for all employees on August 20, 2018, but the pay rates and ranges approved were not implemented and applied to all employees and these wage rate changes were not documented in personnel files.
- Payroll was not properly supported six employees did not have a supervisor signature or approval.

The fiscal court failed to adequately assess the risk associated with payroll processing and failed to implement adequate internal controls regarding the documentation, preparation, and authorization of payroll. There were no significant review procedures in place nor adequate oversight for the majority of the audit period to ensure the completeness and accuracy of payroll information.

Failure to implement adequate controls over payroll increases the risk that material misstatements and fraud will occur and go undetected, especially considering payroll accounts for a large portion of the county's budget. Numerous undetected errors were noted for payroll processing and the fiscal court is in violation of various statutes.

In order for internal controls to be effective in preventing and detecting errors, misstatements, and fraud, the functions of any significant area should be separated. If segregation is not possible or practical, the fiscal court could implement and document compensating controls to reduce the risk associated with inadequate segregation of duties. A strong compensating control could include review of payroll reports, review of payroll payments, comparison of payroll documentation to amounts recorded, and reconciliation of withholding and matching reports to supporting documentation. Further, review procedures and oversight should be exercised consistently to detect errors and to reconcile payroll to supporting documentation.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2021
(Continued)

Section II: Financial Statement Findings (Continued)

2021-003 Internal Controls, Review Procedures, And Oversight For Payroll Processing Are Not Adequate
 (Continued)

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for payroll processing to ensure the completeness and accuracy of all payroll information.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Timecards are approved by department heads and reviewed by both the payroll clerk and treasurer. Any questions arising are discussed with department heads. When necessary, these are referred to the Judge for review and any additional action needed. Currently the Judge signs off on time cards. These reviews will start being documented by reviewer initialing document.

Notations are made in payroll system for pay rate changes, copies of fiscal court minutes are kept for all pay rate changes. Copies are also being filed in personnel files at this time.

Payroll reports, pay rates and benefits are reviewed and reconciled by treasurer on regular basis. Treasurer will start documenting the review by initialing reports.

The pay rates approved August 2018 by prior administration were not implemented at that time. Current administration approved and implemented the pay rate in FY 20. Pay rates were adjusted and back-pay was paid to all employees entitled to adjustment. All pay rates have been approved by fiscal court since that time and notations are made.

We are continuing to make improvements in this area. Also, in addition to reviewing, we will document doing so.

2021-004 The Estill County Fiscal Court Did Not Provide The Same Level Of Health Insurance Coverage To All County Employees

This is similar to a repeat finding and was included in the prior year audit report as finding 2020-005. Three county employees received health insurance coverage that was not made available to all other county employees. County employees are provided individual health insurance coverage. If the employee chooses to elect additional coverage for a spouse, children, or family coverage they may do so but are responsible for the cost of the health insurance premium that exceeds the individual coverage premium. For fiscal year 2021, the cost of an individual health insurance premium was \$500. Three employees elected to add coverage for dependents, which was an additional amount per month per employee. This additional cost was not paid by the employees via payroll deduction.

The fiscal court did not have adequate internal controls in place to ensure health insurance benefits were applied equally among all classes of employees and that proper wage deductions were applied to employees that requested coverage in excess of standard county employee coverage.

The fiscal court has applied employee benefits in an unequitable manner. Additionally, county funds are being spent for the personal benefit of select employees that could have been expended on other items to benefit the entire county.

Since the local procedure for health insurance benefits provides single/individual coverage, the amount in excess of that is not an allowable expense of the program. OAG 94-15 states, "The basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute."

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2021
(Continued)

Section II: Financial Statement Findings (Continued)

2021-004 The Estill County Fiscal Court Did Not Provide The Same Level Of Health Insurance Coverage To All County Employees (Continued)

We recommend management ensure that employee benefits are applied equally among all employees and that proper amounts are withheld from employees' wages for elective/optional employee benefits.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This is the way health insurance has been handled for many years prior to the current administration. As soon as the exit conference for the fiscal year 2019 audit was conducted in June 2021, the current administration took steps to correct this issue. This issue has been corrected as of the present date.

2021-005 Remaining Balance Of The Line Of Credit Was Not Paid By The End Of The Fiscal Year

This is a repeat finding and was included in the prior year audit report as finding 2020-006. On June 7, 2021, the fiscal court closed the existing line of credit account for CSEPP and opened up a new line of credit in the amount of \$1,000,000. This line of credit provides the fiscal court a mechanism to pay for the CSEPP funded projects and subsequently seek financial reimbursement from the Kentucky Division of Emergency Management (KyEM). The line of credit was for one year and renewable on an annual basis. As of the fiscal year end the fiscal court owed \$452,928.

The treasurer was waiting on reimbursement from CSEPP and was unaware that the loan had to be paid off at the end of the fiscal year.

As a result, the fiscal court is not in compliance with requirements set by the Department for Local Government when entering into financial obligations.

Per KRS 65.7701 - 65.7721 and the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* allows notes, however, they must be paid off before the end of the fiscal year in which they are borrowed.

We recommend the fiscal court seek guidance from the Department of Local Government before entering into any financial obligation of any nature, to ensure they are in compliance with the State and Local Debt Officer.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Due to disclaimed audits of the county for prior administration, the CSEPP funding went from being paid in advance of an expenditure to being on a reimbursement basis. Therefore, a line of credit was necessary in order to pay CSEPP expenditures while awaiting reimbursement. Approval and guidance were requested from DLG regarding this issue. Once invoices have been paid, reimbursements are received, and line of credit is paid back. If a draw is made near the end of the fiscal year, federal funds may not be received in time to pay the line of credit off before year-end. In this case, a draw was made on June 24, 2021, and reimbursement of funds were not received prior to June 31, 2021.

No draw will be made near FY 22 end, and pay off will be made prior to FY end. We have received our first advance pay this year and hope to eliminate the need for line of credit in future.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2021
(Continued)

Section II: Financial Statement Findings (Continued)

2021-006 Draws On CSEPP Line Of Credit Were Posted To The Incorrect Line Item On The Quarterly Report

Estill County has a line of credit with the local bank that provides the fiscal court a mechanism to pay for CSEPP funded projects until they can subsequently seek financial reimbursement from the Kentucky Division of Emergency Management (KyEM). During fiscal year 2021, Estill County drew down \$1,547,594 on the line of credit and posted those draws they received to account code 4732 Revolving Loan Revenue according to the Department for Local Government's Budget Manual. However, since the money is drawn down on a loan, the amounts received should have been posted to account code 4911 Borrowed Money. As a result, a material adjusting journal entry had to be made to reclassify this amount from account code 75-4732 to 75-4911.

The draws on this line of credit have been posted to account code 4732 since it began and the county was never made aware that it should have been posted elsewhere.

As a result, the fiscal court is not in compliance with requirements set by the Department for Local Government when recording proceeds from financial obligations.

Per KRS 68.210, the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* specifies a uniform system of accounts to be followed by county governments. This manual designates account code 4911 as the proper code for borrowed money proceeds.

We recommend the fiscal court start recording draws on lines of credit to account code 4911 to ensure they are in compliance with the Department for Local Government's Uniform System of Accounts.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Draws received from revolving line of credit were posted to account code 75-4732 Revolving Loan Revenue since first revolving loan originated in 2019. This account was used from the County Budget Manual.

Line of credit draws will be reclassified to revenue code 75-4911 Borrowed Money as recommended in this audit.

2021-007 The Estill County Fiscal Court's Schedule Of Expenditures Of Federal Awards Submitted To The Department For Local Government Was Not Accurate

The Estill County schedule of expenditures of federal awards (SEFA) submitted to the Department for Local Government did not accurately report federal grant disbursements for fiscal year ended June 30, 2021. The county treasurer tracks federal grant activity receipts and disbursements to prepare the SEFA each fiscal year based on her records and information provided from the various department heads. The treasurer prepared the SEFA for fiscal year ending June 30, 2021 and submitted it to the Department for Local Government with her fourth quarter report as required. After the exit conference for the fiscal year ending June 30, 2020 audit, the treasurer realized some adjustments needed to be made to the SEFA she had submitted. The total amount of federal expenditures changed from \$3,666,567 on the original submission to \$3,161,172 on the revised copy. This is a material difference of \$505,395. The treasurer made those changes and had a revised SEFA available for auditors upon the start of the fiscal year 2021 audit; however, she did not resubmit a revised SEFA to the Department for Local Government.

The current administration was new starting in fiscal year 2019. The treasurer was just not aware that she needed to submit a revised SEFA to the Department for Local Government if changes were made subsequent to submission.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2021
(Continued)

Section II: Financial Statement Findings (Continued)

2021-007 The Estill County Fiscal Court's Schedule Of Expenditures Of Federal Awards Submitted To The Department For Local Government Was Not Accurate (Continued)

The fiscal court is not in compliance with Department for Local Government reporting requirements for federal awards.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the county treasurer to prepare a schedule of expenditures of federal awards and submit this schedule with the fourth quarter report to the Department for Local Government.

Additionally, *OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements For Federal Awards* 2 CFR 200.508(b) requires the auditee to "[p]repare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with 200.510 Financial statements." 2 CFR 200.510(b) states, in part, "The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with CFR 200.502 Basis for determining Federal awards expended." In addition, good internal controls dictate the SEFA be complete and accurate.

We recommend the Estill County Fiscal Court ensure the SEFA is complete and accurately prepared for each fiscal year federal monies are expended. This will be best achieved by the treasurer preparing the SEFA and having the department heads double check the numbers reported to ensure the correct amount of the federal portion of expenditures is being reported.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Guidance was requested from Department for Local Government and from auditors before completion of the SEFA report. The report was submitted with total expenditures reported for all federal projects that were worked on during the fiscal year. After submission and further discussion with auditors, adjustments were made to reflect only federal portion of total expenditures.

We will continue to seek guidance from Department for Local Government and auditors. Any adjusted reports will be forwarded to Department for Local Government.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2021
(Continued)

Section III: Federal Award Findings And Questioned Costs

None.

Section IV: Summary Schedule of Prior Audit Findings

<u>Finding Number</u>	<u>Title of Finding</u>	<u>Status</u>	<u>Corrective Action</u>
2020-001	The Estill County Fiscal Court Does Not Have Adequate Controls Over Financial Accounting Program Software	Corrected	N/A
2020-002	The Estill County Fiscal Court Failed To Implement Adequate Internal Controls And Oversight For Disbursements	This finding is repeated in the current year audit as finding number 2021-001	Current administration states they have taken steps to correct these issues to date.
2020-003	Internal Controls Over Occupational Tax Collections Are Not Adequate	This finding is repeated in the current year audit as finding number 2021-002	Current administration states that current collections are corrected and prior administration outstanding collections are being reconciled currently.
2020-004	Internal Controls, Review Procedures, And Oversight For Payroll Processing Are Not Adequate	This finding is repeated in the current year audit as finding number 2021-003	Current administration states they have taken steps to correct these issues to date.
2020-005	The Estill County Fiscal Court Did Not Provide The Same Level Of Health Insurance Coverage To All County Employees	This finding is repeated in the current year audit as finding number 2021-004	Current administration states that this was corrected on 7/1/2021.
2020-006	The Remaining Balance Of The Line Of Credit Was Not Paid By The End Of The Fiscal Year	This finding is repeated in the current year audit as finding number 2021-005	Current administration states that steps will be taken to be sure this does not happen at the end of fiscal year 2022.

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

ESTILL COUNTY FISCAL COURT

For The Year Ended June 30, 2021

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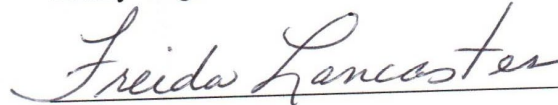
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
ESTILL COUNTY FISCAL COURT

For The Year Ended June 30, 2021

The Estill 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