

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

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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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 David Westerfield, Laurel County Judge/Executive
Members of the Laurel County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Laurel County Fiscal Court, for the year ended June 30, 2021, and the related notes to the financial statement, which collectively comprise the Laurel 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 did not audit the financial statements of the Financial Commission for Appalachia High Intensity Drug Trafficking Areas (HIDTA) Fund, an unbudgeted fund of the Laurel County Fiscal Court, which the financial statement reflects 17 percent of receipts and 19 percent of disbursements for the year ended June 30, 2021, or the Laurel County Section 8 Housing Fund, an unbudgeted fund of the Laurel County Fiscal Court, which the financial statement reflects 3 percent of receipts and 3 percent of disbursements for the year ended June 30, 2021. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Financial Commission for Appalachia HIDTA Fund and the Laurel County Section 8 Housing Fund, is based solely on the report of the other auditors. We have applied audit procedures on the conversion adjustments to the financial statement of the Laurel County Fiscal Court, which conform the financial statement to accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

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.



To the People of Kentucky
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Auditor's Responsibility (Continued)

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.

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 Laurel 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 Laurel 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, based on our audit and the report of the other auditors, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Laurel County Fiscal Court as of June 30, 2021, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government as described in Note 1.

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

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 Laurel 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.

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 23, 2022, on our consideration of the Laurel County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Laurel County Fiscal Court's internal control over financial reporting and compliance.

To the People of Kentucky
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Members of the Laurel County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

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 High Intensity Drug Trafficking Areas (HIDTA) Fund Should Be Treated As A Fund Of The Laurel County Fiscal Court
- 2021-002 The Laurel County Section 8 Housing Fund Should Be Treated As A Fund Of The Laurel County Fiscal Court
- 2021-003 The Laurel County Fiscal Court Lacks Adequate Segregation Of Duties Over Occupational Tax Collections And Net Profit Tax Collections
- 2021-004 The Laurel County Fiscal Court Did Not Accurately Report Financial Information Related To Debt
- 2021-005 The Laurel County Fiscal Court Failed To Implement Internal Controls To Ensure Costs Submitted For Reimbursement Were For Eligible Expenses

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

June 23, 2022

LAUREL COUNTY OFFICIALS**For The Year Ended June 30, 2021****Fiscal Court Members:**

David Westerfield	County Judge/Executive
John Crawford	Magistrate
Danny Smith	Magistrate
Bobby Overbey	Magistrate
Jeff Book	Magistrate
Billy Oakley	Magistrate
Richard Bales	Magistrate

Other Elected Officials:

Jodi L. Albright	County Attorney
Jamie Mosley	Jailer
Tony Brown	County Clerk
Roger Schott	Circuit Court Clerk
John Root	Sheriff
Joyce Parker	Property Valuation Administrator
Doug Bowling	Coroner

Appointed Personnel:

Karen Montgomery	County Treasurer
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LAUREL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2021

LAUREL 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	\$ 4,216,827	\$	\$	\$
In Lieu Tax Payments		78,028		
Excess Fees	864,723			
Licenses and Permits	568,439			
Intergovernmental	3,770,771	1,923,577	9,242,702	1,632
Charges for Services	10,375		273,071	
Miscellaneous	1,814,307	93,311	62,195	
Interest	7,283	1,797	1,623	133
Total Receipts	11,252,725	2,096,713	9,579,591	1,765
DISBURSEMENTS				
General Government	4,497,785			
Protection to Persons and Property	2,980,291		6,280,048	
General Health and Sanitation	551,452			
Social Services	45,293			
Recreation and Culture	512,520			
Transportation Facility and Services	48,793			
Roads		4,241,853		57,000
Debt Service	588,517		1,475,410	
Capital Projects	6,747			
Administration	6,354,116	547,987	1,589,402	
Total Disbursements	15,585,514	4,789,840	9,344,860	57,000
Excess (Deficiency) of Receipts Over Disbursements Before Other				
Adjustments to Cash (Uses)	(4,332,789)	(2,693,127)	234,731	(55,235)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	7,752,206	2,620,320	2,748,960	
Transfers To Other Funds	(3,127,990)			
Total Other Adjustments to Cash (Uses)	4,624,216	2,620,320	2,748,960	
Net Change in Fund Balance	291,427	(72,807)	2,983,691	(55,235)
Fund Balance - Beginning (Restated)	911,186	245,375	286,915	78,306
Fund Balance - Ending	\$ 1,202,613	\$ 172,568	\$ 3,270,606	\$ 23,071
Composition of Fund Balance				
Bank Balance	\$ 680,528	\$ 174,416	\$ 3,315,826	\$ 23,071
Less: Outstanding Checks	(11,743)	(1,848)	(45,220)	
Certificates of Deposit	533,828			
Fund Balance - Ending	\$ 1,202,613	\$ 172,568	\$ 3,270,606	\$ 23,071

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

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

Budgeted Funds					
Federal Grant Fund	Forest Fire Fund	Jail Construction Fund	Occupational Tax Fund	Local Government Economic Development Fund	Chemical Stockpile Emergency Preparedness Program Fund
\$	\$ 1,489	\$	\$ 12,273,296	\$	\$
				15,000	301,185
			299		
	3	58	3,706	1	
	1,492	58	12,277,301	15,001	301,185
	3,339		413,084		
				15,000	
		140,720			
			94,833		
	3,339	140,720	507,917	15,000	
	(1,847)	(140,662)	11,769,384	1	301,185
	2,000				
			(9,693,290)		(302,206)
	2,000		(9,693,290)		(302,206)
	153	(140,662)	2,076,094	1	(1,021)
5	1,522	1,069,431	2,445,868	515	11,429
\$ 5	\$ 1,675	\$ 928,769	\$ 4,521,962	\$ 516	\$ 10,408
\$ 5	\$ 1,675	\$ 928,769	\$ 3,021,260	\$ 516	\$ 10,408
			(1,568)		
			1,502,270		
\$ 5	\$ 1,675	\$ 928,769	\$ 4,521,962	\$ 516	\$ 10,408

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

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

	Unbudgeted Funds			
	Public Properties Corporation Bond Fund	Financial Commission For Appalachia HIDTA Fund	Jail Commissary Fund	Laurel County Section 8 Housing Fund
RECEIPTS				
Taxes	\$	\$	\$	\$
In Lieu Tax Payments				
Excess Fees				
Licenses and Permits				
Intergovernmental	1,792,950	8,578,576		1,424,632
Charges for Services			608,690	
Miscellaneous				
Interest	2	27		309
Total Receipts	<u>1,792,952</u>	<u>8,578,603</u>	<u>608,690</u>	<u>1,424,941</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property		8,578,625		1,386,041
General Health and Sanitation				
Social Services				
Recreation and Culture			414,199	
Transportation Facility and Services				
Roads				
Debt Service	1,792,952			
Capital Projects				
Administration				
Total Disbursements	<u>1,792,952</u>	<u>8,578,625</u>	<u>414,199</u>	<u>1,386,041</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(22)	194,491	38,900
Other Adjustments to Cash (Uses)				
Transfers From Other Funds				
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance		(22)	194,491	38,900
Fund Balance - Beginning (Restated)	6,019	50	35,419	93,340
Fund Balance - Ending	<u>\$ 6,019</u>	<u>\$ 28</u>	<u>\$ 229,910</u>	<u>\$ 132,240</u>
Composition of Fund Balance				
Bank Balance	\$ 6,019	\$ 28	\$ 247,000	\$ 132,240
Less: Outstanding Checks			(17,090)	
Certificates of Deposit				
Fund Balance - Ending	<u>\$ 6,019</u>	<u>\$ 28</u>	<u>\$ 229,910</u>	<u>\$ 132,240</u>

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

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

<u>Unbudgeted Fund</u>	
Laurel County	
General	
Obligation Bond	
(Nursing Home)	Total
Fund	Funds
\$	\$ 16,491,612
	78,028
	864,723
	568,439
1,776,443	28,827,468
	892,136
	1,970,112
5	14,947
<u>1,776,448</u>	<u>49,707,465</u>
	4,497,785
	19,641,428
	551,452
	60,293
	926,719
	48,793
	4,298,853
1,778,693	5,635,572
	147,467
	8,586,338
<u>1,778,693</u>	<u>44,394,700</u>
<u>(2,245)</u>	<u>5,312,765</u>
	13,123,486
	<u>(13,123,486)</u>
(2,245)	5,312,765
67,209	5,252,589
<u>\$ 64,964</u>	<u>\$ 10,565,354</u>
\$ 64,964	\$ 8,606,725
	(77,469)
	2,036,098
<u>\$ 64,964</u>	<u>\$ 10,565,354</u>

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

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TO THE FINANCIAL STATEMENT**

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**LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2021

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

Laurel Housing, Inc. would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis it is no longer a required component of the reporting entity. Audits of the entity can be obtained from the Laurel County Fiscal Court, 101 South Main Street, London, KY 40741.

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.

LAUREL 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)

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

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

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

Forest Fire Fund - The primary purpose of this fund is to provide emergency fire protection to the forestry regions of the county. The primary source of receipts for this fund is local taxes collected by the sheriff.

Jail Construction Fund - The primary purpose of this fund is to account for the bond proceeds and construction costs of the new Laurel County Detention Center.

Occupational Tax Fund - The primary purpose of this fund is to account for occupational taxes collected by the county.

Local Government Economic Development Fund - The primary purpose of this fund is to account for receipts from the state and federal governments for the purpose of economic development.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund - The primary purpose of this fund is to account for the receipts and disbursements of the Chemical Stockpile Emergency Preparedness Program. These funds are received from the Department of Homeland Security and are to be used solely for the purpose of providing emergency preparedness in case of an accident involving the stockpile of chemical weapons at the Bluegrass Army Depot in Madison County. In no event shall these funds be used for expenses related to the administration of the government. The Department for Local Government requires fiscal court to maintain these receipts and disbursements separately from the general fund.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Bond Fund - The primary purpose of this fund is to account for debt service requirements of the first mortgage revenue bonds issued by the Laurel County, Kentucky, Judicial Center Public Properties Corporation to fund construction of a judicial center.

Financial Commission For Appalachia HIDTA Fund - The primary purpose of this fund is to account for the receipts and disbursements for the Appalachia High Intensity Drug Trafficking Areas (HIDTA) program. This program was created for specifically designated counties of Kentucky, Tennessee, and West Virginia. The program strives to provide new and intense efforts to reduce and eliminate the distribution, demand for, and growth of marijuana, as well as investigation and prosecution of those dealing in illegal drugs.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Unbudgeted Funds (Continued)

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

Laurel County Section 8 Housing Fund - The Laurel County Section 8 Housing Agency (Section 8 Agency) was established by the Laurel County Fiscal Court to operate a Section 8 Housing Assistance Payments program. The Agency provides rental assistance to low-income families under a contract with the U.S. Department of Housing and Urban Development. This fund is used to account for the receipts and disbursements of the Agency.

Laurel County General Obligation Bond (Nursing Home) Fund - This fund was established by the Laurel County Fiscal Court for the purpose of financing and refinancing the acquisition and construction of a nursing home and other facilities designed to meet the needs of the elderly.

D. Budgetary Information

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

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

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

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

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

E. Laurel County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Laurel 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 Laurel County Fiscal Court.

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Laurel County Elected Officials (Continued)

- 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.

Note 2. Deposits

A. Deposits - Fiscal Court

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.

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

Note 2. Deposits (Continued)

B. Deposits - Detention Center

The Laurel County Detention Center 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 jailer 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 not met, as the Laurel County Detention Center did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The Laurel County Detention Center 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*. On June 30, 2021, the Laurel County Detention Center bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$487,105

Note 3. Transfers

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

	General Fund	Occupational Tax Fund	CSEPP Fund	Total Transfers In
General Fund	\$	\$ 7,450,000	\$ 302,206	\$ 7,752,206
Road Fund	1,179,030	1,441,290		2,620,320
Jail Fund	1,948,960	800,000		2,748,960
Forest Fire Fund		2,000		2,000
Total Transfers Out	<u>\$ 3,127,990</u>	<u>\$ 9,693,290</u>	<u>\$ 302,206</u>	<u>\$ 13,123,486</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.

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

Note 4. Custodial Funds

Custodial funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. In accordance with the regulatory basis of accounting, custodial funds are not presented on the financial statement.

The fiscal court has the following custodial funds:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2021, was \$54,090.

FSA/HRA Fund - This fund accounts for employee and employer contributions to reimburse employees for health care expenses. The flexible spending account balance as of June 30, 2021, was \$15,000.

Medicare Supplement Plan - This fund accounts for employee and employer contributions for health insurance supplemental. The medicare supplement plan account balance as of June 30, 2021 was \$719.

Note 5. Long-term Debt

A. Direct Borrowings and Direct Payments

1. KACoLT Lease - Infrastructure Activities

In September 2005, the Laurel County Fiscal Court entered into a \$2,280,000, 20-year lease purchase agreement with the Kentucky Association of Counties Leasing Trust for the purpose of providing financing for the purchase of land adjacent to the Laurel County Detention Center, construction of roads, sewer and water lines for the Laurel County Economic Development Authority, and construction of water lines for the Wood Creek, East Laurel, West Laurel, and Laurel #2 water districts. Interest related to the lease is payable on the 20th day of each month and principal payments are due on December 20 of each year. The lease bears interest at an average rate of 3.9 percent over the term of the agreement.

The fiscal court may elect to pay interest annually at a discounted amount less than the sum of monthly payments. In the event of default, the Kentucky Association of Counties Leasing Trust may, without any further demand or notice, take one or any combination of the following remedial steps: (a) terminate the lease term and give notice to the lessee to vacate or surrender the project within 60 days from the date of such notice, (b) sell or release the project or any portion thereof, (c) recover from the lessee, or take whatever action at law or in equity may appear necessary. As of June 30, 2021, the principal balance was \$680,000. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 130,000	\$ 15,852
2023	130,000	23,382
2024	135,000	17,228
2025	140,000	10,828
2026	145,000	3,798
Totals	<u>\$ 680,000</u>	<u>\$ 71,088</u>

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

Note 5. Long-term Debt (Continued)

B. Other Debt

1. General Obligation Improvement Bonds, Series 2012B - Courthouse

During fiscal year 2012, the fiscal court issued general obligation refunding bonds, series 2012B, which refunded a portion of the series 2004 bonds which were issued for the purpose of financing the improvement and renovation of the courthouse, including reimbursing the fiscal court. In the event of default, the bond is continually secured by the full faith, credit, revenue, and taxes of the county. The series 2012B bonds are payable in 13 annual installments beginning June 30, 2013, and semi-annual interest payments on December 1 and June 1, with a variable interest rate of 2.5% to 3.0 %. As of June 30, 2021, Series 2012B bonds outstanding were \$1,605,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2022	\$ 385,000	\$ 46,200
2023	395,000	35,613
2024	405,000	24,750
2025	<u>420,000</u>	<u>12,600</u>
Totals	<u>\$ 1,605,000</u>	<u>\$ 119,163</u>

2. General Obligation Bonds, Series 2017A and Taxable Series 2017B - Detention Center

The Laurel County Fiscal Court issued series 2017A and taxable series 2017B obligations in order to construct a new detention center. The series 2017A bonds of \$24,155,000 are dated July 5, 2017. Interest rates on the obligation range from 3.0% to 5.0%. Principal and interest payments are due semi-annually on November 1 and May 1. Interest payments begin November 1, 2017 and principal payments begin May 1, 2026. The semi-annual payments continue through May 1, 2042. In the event of default, the bond is continually secured by the full faith, credit, revenue, and taxes of the county. As of June 30, 2021, series 2017A bonds outstanding were \$24,155,000. Future interest and principal payments are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2022	\$	\$ 926,425
2023		926,425
2024		926,425
2025		926,425
2026	360,000	926,425
2027-2031	5,935,000	3,988,825
2032-2036	7,230,000	2,702,425
2037-2041	8,710,000	1,219,575
2042	<u>1,920,000</u>	<u>64,800</u>
Totals	<u>\$ 24,155,000</u>	<u>\$ 12,607,750</u>

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

Note 5. Long-term Debt (Continued)

B. Other Debt (Continued)

2. General Obligation Bonds, Series 2017A and Taxable Series 2017B - Detention Center (Continued)

The taxable series 2017B bonds of \$3,210,000 are dated July 5, 2017, with an interest rate of 3.24%. The obligation is payable in semi-annual installments due on November 1 and May 1. Interest payments begin November 1, 2017 and principal payments begin May 1, 2020. The semi-annual payments continue through May 1, 2026. In the event of default, the bond is continually secured by the full faith, credit, revenue, and taxes of the county. As of June 30, 2021, taxable series 2017B bonds outstanding were \$2,305,000. Future interest and principal payments are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2022	\$ 475,000	\$ 74,682
2023	490,000	59,292
2024	505,000	43,416
2025	525,000	27,054
2026	310,000	10,044
Totals	<u>\$ 2,305,000</u>	<u>\$ 214,488</u>

3. General Obligation Refunding Bonds, Series 2019 - Laurel Heights Project

During the fiscal year 2020, the Laurel County Fiscal Court issued series 2019 bonds. The proceeds from the series 2019 bonds were used to refinance general obligation refunding bonds, series 2010 (Laurel Heights Project). On September 26, 2019, Laurel County Fiscal Court issued \$2,840,080 of tax-exempt bonds "Laurel County, Kentucky General Obligation Refunding Bonds, Series 2019 (Laurel Heights Project)". The bonds are general obligations of the Laurel County Fiscal Court, and the purpose of the bonds was to refinance the tax-exempt bonds "County of Laurel, Kentucky General Obligation Refunding Bonds, Series 2010 (Laurel Housing, Inc. Project)". The bonds require semi-annual interest payments on November 1 and May 1 with an interest rate of 1.68%. The semi-annual payments continue through November 1, 2027. In the event of default, the bond is continually secured by the full faith, credit, revenue, and taxes of the county. As of June 30, 2021, Series 2019 bonds outstanding were \$2,465,250. Future principal and interest payments are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2022	\$ 336,552	\$ 38,589
2023	341,440	32,894
2024	345,662	27,122
2025	354,115	21,244
2026	356,320	15,277
2027-2028	731,161	12,332
Totals	<u>\$ 2,465,250</u>	<u>\$ 147,458</u>

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

Note 5. Long-term Debt (Continued)

B. Other Debt (Continued)

4. General Obligation Refunding Bonds, Series 2012A - Laurel Heights Project

On April 25, 2012, the Laurel County Fiscal Court issued \$6,665,000 of tax-exempt bonds "Laurel County, Kentucky General Obligation Refunding Bonds, Series 2012A (Laurel Heights Project)." The bonds are general obligations of the Laurel County Fiscal Court, and the purpose of the bonds was to refinance the City of Ewing, Kentucky, remarketed \$8,125,000 of tax exempt bonds "City of Ewing, Kentucky, Kentucky Area Development Districts Financing Trust Lease Acquisition Program Revenue Bonds, Fixed Rate Series 2000AB." Effective with this bond issuance, the bond proceeds were transferred to Laurel Housing, Inc., to refinance the 2000AB bonds, which were repaid in full on June 1, 2013.

Revenues generated from Laurel Housing, Inc. will be equal to the debt service requirements due in accordance with the bond issue and will be paid directly to the paying agent to the account of the issuer. Interest payments are due June 1 and December 1 of each year and principal payments are due annually on June 1, beginning June 1, 2015, with a variable interest rate of 2.75% to 3.375%. The land, building and any future improvements serve as collateral for the bonds. Also, as general obligations of the Laurel County Fiscal Court, the full faith credit and taxing power of the fiscal court are irrevocably pledged as security for the payment of the bonds, and under the bond ordinance, the fiscal court pledges to apply the revenues from Laurel Housing, Inc. to the payment of the bonds.

The 2012A series were sold at a premium generating an additional \$161,264 in proceeds. The premium is amortized over the life of the bond using the effective interest rate. As of June 30, 2021, series 2012A bonds outstanding were \$3,935,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2022	\$ 445,000	\$ 120,444
2023	455,000	108,206
2024	470,000	95,694
2025	485,000	81,594
2026	495,000	67,044
2027-2029	<u>1,585,000</u>	<u>106,206</u>
Totals	<u>\$ 3,935,000</u>	<u>\$ 579,188</u>

5. General Obligation Refunding Bonds, Series 2013A - Laurel Heights Project

On April 3, 2013, the Laurel County Fiscal Court issued \$4,910,000 of tax-exempt bonds "Laurel County, Kentucky General Obligation Refunding Bonds, Series 2013A (Laurel Heights Project)." The bonds are general obligations of the Laurel County Fiscal Court, and the purpose of the bonds was to refinance the \$3,625,000 of tax-exempt bonds "County of Laurel, Kentucky General Obligation Improvements Bonds, Series 2004B (Laurel Housing, Inc. Project)" and the \$1,875,000 of tax-exempt bonds "County of Laurel, Kentucky General Obligation Improvement Bonds, Series 2006 (Laurel Heights Project)." Effective with the issuance of the bonds, the bond proceeds were transferred to Laurel Housing, Inc., to refinance the series 2004B and series 2006 Bonds. The series 2004B bonds were paid in full during fiscal year 2016 and the series 2006 bonds were paid in full during fiscal year 2017.

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

Note 5. Long-term Debt (Continued)

B. Other Debt (Continued)

5. General Obligation Refunding Bonds, Series 2013A - Laurel Heights Project (Continued)

Revenues generated from Laurel Housing, Inc. will be equal to the debt service requirements due in accordance with the bond issue and will be paid directly to the paying agent to the account of the issuer. Interest payments are due January 1 and July 1 of each year and principal payments are due annually on January 1, beginning January 1, 2017, with a variable interest rate of 2.125% to 3.50%. The land, building and any future improvements serve as collateral for the bonds. Also, as general obligations of the Laurel County Fiscal Court, the full faith credit and taxing power of the fiscal court are irrevocably pledged as security for the payment of the bonds, and under the bond ordinance, the fiscal court pledges to apply the revenues from Laurel Housing, Inc. to the payment of the bonds. In the event of default by the county to comply with any provision of this agreement the bondholder of any bond may seek specific performance by court order to cause the county to comply with its obligations under this agreement. The sole remedy under this agreement in the event of any failure of the county to comply with this agreement shall be an action to compel performance. As of June 30, 2021, Series 2013A bonds outstanding were \$3,960,000. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 230,000	\$ 117,156
2023	235,000	112,269
2024	235,000	106,981
2025	240,000	101,400
2026	245,000	95,400
2027-2031	1,330,000	366,844
2032-2036	1,335,000	144,506
2037	110,000	3,850
Totals	<u>\$ 3,960,000</u>	<u>\$ 1,048,406</u>

6. First Mortgage Revenue Bonds, Series 2015 and Series 2018 - Judicial Center

The Laurel County Public Properties Corporation (PPC), an agency and instrumentality of the Laurel County Fiscal Court, issued during fiscal year 2016, \$9,295,000 first mortgage refunding revenue bonds, series 2015, which refunded a portion of the series 2008 bonds which were issued for the purpose of constructing the Laurel County Judicial Center. The series 2015 bonds require principal payments beginning March 1, 2021, and semi-annual interest payments beginning March 1, 2016, and due semi-annually on March 1 and September 1 at varying interest rates from 2.10 percent to 3 percent. During fiscal year 2018, another portion of the series 2008 bonds were refunded by first mortgage revenue bonds, series 2018 bonds of \$3,670,000 dated March 14, 2018. The series 2018 bonds require three annual principal payments beginning March 1, 2020 and semi-annual interest payments beginning September 1, 2018 and ending March 1, 2022 at the rate of 4 percent. The PPC has entered into an agreement to lease the Laurel County Judicial Center to the Laurel County Fiscal Court for the amount of the bond payments. The fiscal court has a sublease with the Administrative Office of the Courts (AOC), Commonwealth of Kentucky for approximately 100 percent of the Laurel County Judicial Center, whereby AOC makes semi-annual payments directly to the paying agent to fund the debt service for these bond issues.

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

Note 5. Long-term Debt (Continued)

B. Other Debt (Continued)

6. First Mortgage Revenue Bonds, Series 2015 and Series 2018 - Judicial Center (Continued)

In the event of default, PPC may take appropriate court action to enforce the pledge of the full faith, credit, and revenue of the fiscal court so that during the remaining lease term the fiscal court levies on all taxable property, in addition to other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to pay the rental payments; 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 agreement or to enforce performance by the fiscal court of the applicable covenants and agreements of the fiscal court under this agreement and to recover damages for the breach of the agreement. As of June 30, 2021, series 2015 outstanding bonds were \$9,255,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2022	\$ 40,000	\$ 378,510
2023	1,190,000	377,650
2024	1,470,000	318,150
2025	1,530,000	259,350
2026	1,605,000	182,850
2027-2028	<u>3,420,000</u>	<u>154,650</u>
Totals	<u>\$ 9,255,000</u>	<u>\$ 1,671,160</u>

As of June 30, 2021, series 2018 bonds outstanding were \$1,320,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2022	\$ 1,320,000	\$ 52,800
Totals	<u>\$ 1,320,000</u>	<u>\$ 52,800</u>

C. Changes In Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Direct Borrowings and					
Direct Placements	\$ 805,000	\$	\$ 125,000	\$ 680,000	\$ 130,000
Other Debt -					
Fiscal Court	28,900,000		835,000	28,065,000	860,000
Laurel Heights Project	11,351,080		990,830	10,360,250	1,011,552
Public Properties Corporation	<u>11,885,000</u>		<u>1,310,000</u>	<u>10,575,000</u>	<u>1,360,000</u>
Total Long-term Debt	<u>\$ 52,941,080</u>	<u>\$ 0</u>	<u>\$ 3,260,830</u>	<u>\$ 49,680,250</u>	<u>\$ 3,361,552</u>

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

Note 5. Long-term Debt (Continued)

D. Aggregate Debt Schedule

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

Fiscal Year Ended June 30	Direct Borrowings and Direct Placements		Other Debt	
	Principal	Interest	Principal	Interest
2022	\$ 130,000	\$ 15,852	\$ 3,231,552	\$ 1,754,806
2023	130,000	23,382	3,106,440	1,652,349
2024	135,000	17,228	3,430,662	1,542,538
2025	140,000	10,828	3,554,115	1,429,667
2026	145,000	3,798	3,371,320	1,297,040
2027-2031			13,001,161	4,628,857
2032-2036			8,565,000	2,846,931
2037-2041			8,820,000	1,223,425
2042			1,920,000	64,800
Totals	<u>\$ 680,000</u>	<u>\$ 71,088</u>	<u>\$ 49,000,250</u>	<u>\$ 16,440,413</u>

Note 6. Commitments and Contingencies

The Financial Commission for Appalachia HIDTA (Commission) has entered into various lease agreements for facilities and office equipment. All the leases are operating leases. For the year ended June 30, 2021, the Commission incurred lease expenditures in the amount of \$167,569. These leases vary in original length from thirty-six months to sixty months. The continuance of the leases is contingent upon the availability of grant revenue. The leases are cancelable by the lessee if grant funding ceases. Following is a summary of future minimum lease payments assuming grant funding continues:

Fiscal Year Ending June 30	
2022	\$ 84,117
2023	165,043
2024	145,670
2025	<u>133,133</u>
	<u>\$ 527,963</u>

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

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 Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Effective April 1, 2021, the Kentucky Public Pensions Authority (KPPA) was created by KRS 61.505 to provide staffing and daily administrative needs for CERS and KRS. The nine (9) member board of trustees is responsible for the governance of the CERS pension and insurance plans.

The county's contribution for FY 2019 was \$1,447,423 FY 2020 was \$1,700,843 and FY 2021 was \$1,805,947.

Nonhazardous

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

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

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.

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

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

Note 7. Employee Retirement System (Continued)

Hazardous (Continued)

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute 8 percent of their annual creditable compensation and also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for hazardous employees was 39.58 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.

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

Benefits are covered under KRS 78.5536.

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

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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 78.5536. Tier 3 members are not covered by the same provisions.

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

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

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

D. Cost of Living Adjustments - Tier 1

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

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

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

F. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, 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.

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

Note 7. Employee Retirement System (Continued)

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

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

Note 8. Deferred Compensation

The Laurel 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.

Note 9. Health Reimbursement Account/Flexible Spending Account

The Laurel County Fiscal Court has provided their full-time employees with a Health Saving Account and Flex Savings Account since January 2010. The Health Savings Account for fiscal year 2021 was approved to be funded at a rate of \$1,200 annually per employee. The Health Savings Account was funded on a monthly basis and is allowed to roll over into the next fiscal year. Full time employees who do not qualify for the Health Savings Account were provided a Flex Spending Account at a rate of \$1,200 annually. The individual balances at the end of the insurance year do not roll over into the next fiscal year. The Flex Spending Accounts are funded annually at the start of the insurance year. Employees are allowed to withhold additional funds for the Health Savings Account which is deposited into their account each pay period.

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

Note 10. Insurance

For the fiscal year ended June 30, 2021, the Laurel 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 Waste Management of Kentucky, LLC for the purpose of financing the cost of improving the Laurel Ridge Landfill, a solid waste disposal facility owned by Waste Management of Kentucky, LLC. 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 the Laurel 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 was 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.

Note 12. Subsequent Events

- A. The Laurel County Fiscal Court refinanced the Laurel County, Kentucky General Obligation Bond, Series 2012A and 2012B with the Laurel County, Kentucky General Obligation Refunding Bond, Series 2021A, in the amount of \$3,986,623 and the Laurel County, Kentucky General Obligation Refunding Bond, Series 2021B, in the amount of \$1,626,264, on December 9, 2021. The bonds are for the Laurel County Housing which operates the Laurel Heights Nursing Home.
- B. The Laurel County Fiscal Court entered into a lease agreement for a road grader. The lease is for a minimum of six months to a maximum of twelve months with payments of \$6,758 per month with an option to purchase at the end of the lease. The fiscal court subsequently purchased the grader on December 21, 2021 by paying off the remaining lease balance of \$210,677.

Note 13. Prior Period Adjustments

	<u>Fund Balance - Beginning</u>	<u>Add: Prior Year Voided Checks</u>	<u>Add: Fund Not Included In Prior Year</u>	<u>Fund Balance - Beginning (Restated)</u>
General Fund	\$ 909,378	\$ 1,808	\$	\$ 911,186
Road Fund	245,157	218		245,375
Jail Fund	286,855	60		286,915
Federal Grant Fund		5		5
Occupational Tax Fund	2,445,312	556		2,445,868
Local Government Economic Development Fund	514	1		515
Laurel County General Obligation Bond (Nursing Home) Fund			67,209	67,209

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LAUREL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2021

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LAUREL 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	\$ 3,789,650	\$ 3,971,650	\$ 4,216,827	\$ 245,177
Excess Fees	379,200	842,200	864,723	22,523
Licenses and Permits	498,500	498,500	568,439	69,939
Intergovernmental	660,550	3,432,283	3,770,771	338,488
Charges for Services	9,000	9,000	10,375	1,375
Miscellaneous	50,000	1,429,030	1,814,307	385,277
Interest	2,000	2,000	7,283	5,283
Total Receipts	<u>5,388,900</u>	<u>10,184,663</u>	<u>11,252,725</u>	<u>1,068,062</u>
DISBURSEMENTS				
General Government	3,457,463	4,625,140	4,497,785	127,355
Protection to Persons and Property	3,375,192	3,353,048	2,980,291	372,757
General Health and Sanitation	518,700	584,042	551,452	32,590
Social Services	64,000	69,000	45,293	23,707
Recreation and Culture	580,600	525,920	512,520	13,400
Transportation Facilities and Services	29,800	52,468	48,793	3,675
Debt Service	588,517	588,517	588,517	
Capital Projects		6,747	6,747	
Administration	5,816,929	8,543,052	6,354,116	2,188,936
Total Disbursements	<u>14,431,201</u>	<u>18,347,934</u>	<u>15,585,514</u>	<u>2,762,420</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(9,042,301)</u>	<u>(8,163,271)</u>	<u>(4,332,789)</u>	<u>3,830,482</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	9,042,301	9,042,301	7,752,206	(1,290,095)
Transfers To Other Funds		(1,179,030)	(3,127,990)	(1,948,960)
Total Other Adjustments to Cash (Uses)	<u>9,042,301</u>	<u>7,863,271</u>	<u>4,624,216</u>	<u>(3,239,055)</u>
Net Change in Fund Balance		(300,000)	291,427	591,427
Fund Balance - Beginning (Restated)		<u>300,000</u>	<u>911,186</u>	<u>611,186</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,202,613</u>	<u>\$ 1,202,613</u>

LAUREL 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	\$ 80,000	\$ 80,000	\$ 78,028	\$ (1,972)
Intergovernmental	2,411,651	2,590,329	1,923,577	(666,752)
Miscellaneous		37,000	93,311	56,311
Interest	1,800	1,800	1,797	(3)
Total Receipts	2,493,451	2,709,129	2,096,713	(612,416)
DISBURSEMENTS				
Roads	3,338,741	4,377,060	4,241,853	135,207
Administration	596,000	1,197,546	547,987	649,559
Total Disbursements	3,934,741	5,574,606	4,789,840	784,766
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,441,290)	(2,865,477)	(2,693,127)	172,350
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,441,290	2,620,320	2,620,320	
Total Other Adjustments to Cash (Uses)	1,441,290	2,620,320	2,620,320	
Net Change in Fund Balance		(245,157)	(72,807)	172,350
Fund Balance - Beginning (Restated)		245,157	245,375	218
Fund Balance - Ending	\$ 0	\$ 0	\$ 172,568	\$ 172,568

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 7,436,000	\$ 7,886,000	\$ 9,242,702	\$ 1,356,702
Charges for Services	245,000	245,000	273,071	28,071
Miscellaneous	146,000	1,146,000	62,195	(1,083,805)
Interest	100	100	1,623	1,523
Total Receipts	7,827,100	9,277,100	9,579,591	302,491
DISBURSEMENTS				
Protection to Persons and Property	5,726,688	6,770,727	6,280,048	490,679
Debt Service	1,476,011	1,476,011	1,475,410	601
Administration	1,790,989	2,483,805	1,589,402	894,403
Total Disbursements	8,993,688	10,730,543	9,344,860	1,385,683
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,166,588)	(1,453,443)	234,731	1,688,174
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,166,588	1,166,588	2,748,960	1,582,372
Total Other Adjustments to Cash (Uses)	1,166,588	1,166,588	2,748,960	1,582,372
Net Change in Fund Balance		(286,855)	2,983,691	3,270,546
Fund Balance - Beginning (Restated)		286,855	286,915	60
Fund Balance - Ending	\$ 0	\$ 0	\$ 3,270,606	\$ 3,270,606

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 54,000	\$ 54,000	\$ 1,632	\$ (52,368)
Interest	50	50	133	83
Total Receipts	54,050	54,050	1,765	(52,285)
DISBURSEMENTS				
Roads		57,000	57,000	
Administration	124,050	67,050		67,050
Total Disbursements	124,050	124,050	57,000	67,050
Net Change in Fund Balance	(70,000)	(70,000)	(55,235)	14,765
Fund Balance - Beginning	70,000	70,000	78,306	8,306
Fund Balance - Ending	\$ 0	\$ 0	\$ 23,071	\$ 23,071

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

FEDERAL GRANT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Administration	\$ 5	\$ 5	\$	\$ 5
Total Disbursements	5	5		5
Net Change in Fund Balance	(5)	(5)		5
Fund Balance - Beginning (Restated)	5	5	5	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 5</u>

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

	FOREST FIRE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,395	\$ 1,395	\$ 1,489	\$ 94
Interest	5	5	3	(2)
Total Receipts	1,400	1,400	1,492	92
DISBURSEMENTS				
Protection to Persons and Property	3,400	3,400	3,339	61
Administration	1,400	1,400		1,400
Total Disbursements	4,800	4,800	3,339	1,461
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(3,400)	(3,400)	(1,847)	1,553
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,000	2,000	2,000	
Total Other Adjustments to Cash (Uses)	2,000	2,000	2,000	
Net Change in Fund Balance	(1,400)	(1,400)	153	1,553
Fund Balance - Beginning	1,400	1,400	1,522	122
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,675	\$ 1,675

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

JAIL CONSTRUCTION FUND			
	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	
RECEIPTS			
Interest	\$	\$	\$ 58
Total Receipts			58
DISBURSEMENTS			
Capital Projects		1,069,431	140,720
Total Disbursements		1,069,431	140,720
Net Change in Fund Balance		(1,069,431)	(140,662)
Fund Balance - Beginning		1,069,431	1,069,431
Fund Balance - Ending	\$ 0	\$ 0	\$ 928,769

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

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 9,800,000	\$ 9,800,000	\$ 12,273,296	\$ 2,473,296
Miscellaneous			299	299
Interest	1,200	1,200	3,706	2,506
Total Receipts	9,801,200	9,801,200	12,277,301	2,476,101
DISBURSEMENTS				
Protection to Persons and Property	527,820	527,807	413,084	114,723
Administration	121,200	121,213	94,833	26,380
Total Disbursements	649,020	649,020	507,917	141,103
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	9,152,180	9,152,180	11,769,384	2,617,204
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(11,652,180)	(11,652,180)	(9,693,290)	1,958,890
Total Other Adjustments to Cash (Uses)	(11,652,180)	(11,652,180)	(9,693,290)	1,958,890
Net Change in Fund Balance	(2,500,000)	(2,500,000)	2,076,094	4,576,094
Fund Balance - Beginning (Restated)	2,500,000	2,500,000	2,445,868	(54,132)
Fund Balance - Ending	\$ 0	\$ 0	\$ 4,521,962	\$ 4,521,962

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

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT 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	\$	\$ 15,000	\$ 15,000	\$
Interest	1	1	1	
Total Receipts	1	15,001	15,001	
DISBURSEMENTS				
Social Services		15,000	15,000	
Administration	501	501		501
Total Disbursements	501	15,501	15,000	501
Net Change in Fund Balance	(500)	(500)	1	501
Fund Balance - Beginning (Restated)	500	500	515	15
Fund Balance - Ending	\$ 0	\$ 0	\$ 516	\$ 516

LAUREL 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 Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,000,000	\$ 1,000,000	\$ 301,185	\$ (698,815)
Total Receipts	1,000,000	1,000,000	301,185	(698,815)
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(1,000,000)	(1,000,000)	(302,206)	697,794
Total Other Adjustments to Cash (Uses)	(1,000,000)	(1,000,000)	(302,206)	697,794
Net Change in Fund Balance			(1,021)	(1,021)
Fund Balance - Beginning			11,429	11,429
Fund Balance - Ending	\$ 0	\$ 0	\$ 10,408	\$ 10,408

LAUREL 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.

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**LAUREL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2021

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LAUREL 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>				
Chemical Stockpile Emergency Preparedness	97.040	N/A	\$	\$ 491,273
Emergency Management Performance Grants	97.042	N/A		38,946
Total U.S. Department of Homeland Security			<u>\$</u>	<u>\$ 530,219</u>
<u>U. S. Department of Transportation</u>				
<i>Passed-Through Kentucky Department for Local Government</i>				
<i>Highway Planning and Construction Cluster</i>				
Recreational Trails Program	20.219	538-16	\$	\$ 6,747
Total U.S. Department of Transportation			<u>\$</u>	<u>\$ 6,747</u>
<u>U. S. Department of Treasury</u>				
<i>Passed-Through Kentucky Department for Local Government</i>				
COVID-19 - Coronavirus Relief Fund	21.019	C327	\$	\$ 657,182
COVID-19 - Coronavirus Relief Fund	21.019	C2-156		701,282
Total U.S. Department of Treasury			<u>\$</u>	<u>\$ 1,358,464</u>
Total Expenditures of Federal Awards			<u>\$ 0</u>	<u>\$ 1,895,430</u>

The accompanying notes are an integral part of this schedule.

LAUREL 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 (the "Schedule") includes the federal award activity of Laurel 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 Laurel County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Laurel 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

Laurel County has not adopted an indirect cost rate and has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Pertaining to Novel Coronavirus Pandemic Relief

In order to identify COVID-19 funds on the Schedule of Expenditures of Federal Awards, the prefix will precede the Program Title on the Grantor Schedule.

COVID-19 – Coronavirus Relief Fund

LAUREL COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2021

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LAUREL 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	\$ 4,807,623	\$	\$	\$ 4,807,623
Buildings	65,357,327			65,357,327
Vehicles	3,707,724	387,783	198,040	3,897,467
Equipment	3,909,071	397,099		4,306,170
Infrastructure	119,816,036	2,767,076		122,583,112
Total Capital Assets	\$197,597,781	\$ 3,551,958	\$ 198,040	\$200,951,699

The Laurel County Kentucky Public Properties Corporation reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 245,549	\$	\$	\$ 245,549
Building Improvements	2,884,034			2,884,034
Movable Equipment	129,430			129,430
Total Capital Assets	\$ 3,259,013	\$ 0	\$ 0	\$ 3,259,013

The Laurel County Section 8 Agency reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 65,000	\$	\$	\$ 65,000
Construction In Progress	15,265		15,265	
Buildings	156,432			156,432
Equipment	33,417	8,607		42,024
Site Improvements	21,816	15,265		37,081
Total Capital Assets	\$ 291,930	\$ 23,872	\$ 15,265	\$ 300,537

LAUREL 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.

	Capitalization Threshold	Useful Life (Years)
Land	\$ 25,000	Unlimited
Buildings	25,000	15-50
Building Improvements	25,000	1-25
Leasehold Improvements	1	Determine by lease term
Machinery & Equipment	5,000	5-15
Vehicles	5,000	1-5
Infrastructure	25,000	10-50

Laurel County, Kentucky Public Properties Corporation

	Capitalization Threshold	Useful Life (Years)
Buildings and Improvements	\$ 500	5-40
Fixed Equipment	500	5-20
Movable Equipment	500	3-20

Laurel County Section 8 Agency

	Capitalization Threshold	Useful Life (Years)
Buildings and Site Improvements	\$ 1,000	20-40
Vehicles	1,000	5
Furniture & Equipment	1,000	5-10

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Westerfield, Laurel County Judge/Executive
Members of the Laurel 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 Laurel County Fiscal Court for the fiscal year ended June 30, 2021, and the related notes to the financial statement which collectively comprise the Laurel County Fiscal Court's financial statement and have issued our report thereon dated June 23, 2022. Our report includes a reference to other auditors who audited the financial statements of the Financial Commission for Appalachia HIDTA Fund and the Laurel County Section 8 Housing Fund, as listed in our report on the Laurel County Fiscal Court's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and 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 2021-003 and 2021-004 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Laurel County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001, 2021-002, and 2021-004.

Views of Responsible Officials and Planned Corrective Action

Laurel 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 "Mike H", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

June 23, 2022

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Westerfield, Laurel County Judge/Executive
Members of the Laurel County Fiscal Court

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

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited the Laurel 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 Laurel County Fiscal Court's major federal programs for the year ended June 30, 2021. The Laurel 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.

The Laurel County Fiscal Court's basic financial statements include the operations of amounts included for the Financial Commission for Appalachia HIDTA Fund and the Laurel County Section 8 Housing Fund, which expended \$8,578,625 and \$1,368,169, respectively, in federal awards which is not included in the Laurel County Fiscal Court's schedule of expenditures of federal awards for the year ended June 30, 2021. Our audit, described below, did not include the operations of the Financial Commission for Appalachia HIDTA Fund and the Laurel County Section 8 Housing Fund because other auditors were engaged to perform the audits of compliance.

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 Laurel 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 Laurel County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



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

Auditor's Responsibility (Continued)

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 Laurel County Fiscal Court's compliance.

Opinion on Each Major Federal Program

In our opinion, the Laurel 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2021-005. Our opinion on each major federal program is not modified with respect to these matters.

Laurel County Fiscal Court's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Laurel County Fiscal Court's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Laurel 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 Laurel 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 to determine the auditing 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 Laurel 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 a 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.

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

Report on Internal Control over Compliance (Continued)

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as 2021-005, that we consider to be a significant deficiency.

Laurel County Fiscal Court's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Laurel County Fiscal Court's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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,

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Mike Harmon
Auditor of Public Accounts

June 23, 2022

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LAUREL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2021

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**LAUREL 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 the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: 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 checked="" type="checkbox"/> Yes	<input 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 checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
21.019	COVID-19 – Coronavirus Relief Fund

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

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

Section II: Financial Statement Findings

2021-001 The High Intensity Drug Trafficking Areas (HIDTA) Fund Should Be Treated As A Fund Of The Laurel County Fiscal Court

The Financial Commission for Appalachia High Intensity Drug Trafficking Areas (HIDTA) fund is not being properly monitored or reported by the Laurel County Fiscal Court. The fund is used to account for the receipts and disbursements of the Appalachia HIDTA program. The fund is being administered by a financial commission, which was established by the Laurel County Fiscal Court, but the activities of this commission are not monitored by the fiscal court itself. The financial commission was created by the fiscal court to administer grant revenues. It is a special revenue fund and an integral part of the overall governmental reporting entity of the Laurel County Fiscal Court. The Laurel County Fiscal Court does not prepare a budget for this fund nor does it include it on its quarterly financial report.

It is the opinion of the Laurel County Attorney that “with the size and its operating budget, Laurel County Fiscal Court could not offer adequate oversight and to follow auditor’s recommendations would result in a degradation of said oversight.” The county treasurer stated that it was not feasible to include the HIDTA fund as a fund of the fiscal court. She stated that in order for this to happen, all disbursements would have to be approved by fiscal court and due to the nature of the disbursements (undercover drug related), fiscal court could not risk the disbursements being public record. She further stated if HIDTA is made a fund of the fiscal court and made public record, the fiscal court would probably stop receiving the federal funds altogether.

Based upon the opinions of the county attorney and the county treasurer, the Laurel County Fiscal Court has not included the HIDTA fund as a fund of the fiscal court. As a result, the fund is added as an adjustment to the financial statement to properly present the financial activity of the fiscal court to avoid a material misstatement of the financial statement.

The HIDTA Program Policy and Budget Guidance states, “HIDTAs are not legal entities under Federal law, but rather a coalition joined together to receive HIDTA funds to coordinate drug-related law enforcement activities of Federal, state, local, and tribal law enforcement agencies in designated areas.” It states further, “[c]onsequently, ONDCP [Office of National Drug Control Policy] must provide HIDTA Program funds to one or more legal entities, such as a state, local, or tribal agency...to act as the grantee(s) for agencies participating in the HIDTA program. In this role, the grantee is accountable for the use of HIDTA funds and must comply with all applicable Federal statutes and regulations and with its own regulations and policies.” “ONDCP awards HIDTA Program funds to state, local, and tribal government agency, ... in the form of two-year grants....” Per the HIDTA grant agreements, the grant recipient is the Laurel County Fiscal Court and since HIDTA is not legally separate, it should be considered a fund of the fiscal court.

KRS 68.020(4) states, in part, the county treasurer “...shall keep an accurate detailed account of all money received and disbursed by him for the county and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer.” In addition, 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 all money received and paid to be reflected in the county budget and be properly reflected on the financial report as a receipt as well as an “expenditure.” Furthermore, all funds disbursed on the fiscal court’s behalf by third parties should be recorded in receipts and appropriations ledgers.

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

Section II: Financial Statement Findings (Continued)

2021-001 The High Intensity Drug Trafficking Areas (HIDTA) Fund Should Be Treated As A Fund Of The Laurel County Fiscal Court (Continued)

We recommend the fiscal court consider the HIDTA fund like other funds of the fiscal court by budgeting for this fund and including it on the quarterly financial report. In addition, the fiscal court should approve all claims of the HIDTA fund and the county treasurer should receive, receipt, and record all HIDTA funds. Both the county judge/executive and the county treasurer should sign all disbursements from the HIDTA fund.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Judge Westerfield contacted DLG [names redacted] after speaking with DLG they have given me very helpful input into how this can be corrected. Going forward Hidta and Section 8 will be included in Laurel County Budget.

2021-002 The Laurel County Section 8 Housing Fund Should Be Treated As A Fund Of The Laurel County Fiscal Court

The Laurel County Section 8 Housing fund is not being properly monitored or reported by the Laurel County Fiscal Court. The Laurel County Section 8 Housing Agency (Agency) was formed by the Laurel County Fiscal Court to operate a Section 8 Housing Assistance Payments program. The fund is used to account for the receipts and disbursements of the Agency. The Laurel County Fiscal Court is the local board for the Housing and Urban Development (HUD) office and the county judge/executive is the board chairperson for the Laurel County Housing Authority. The Laurel County Fiscal Court does not prepare a budget for this fund nor do they include it on their quarterly financial reports even though fiscal court created the Agency, administers their retirement costs, signs the disbursements for rental assistance, and serves as the Agency's local board.

The county treasurer stated that it was not feasible to include the Section 8 Housing fund as a fund of the fiscal court. She stated that in order for this to happen, all disbursements would have to be approved by fiscal court and due to the nature of the disbursements (low-income data), fiscal court could not risk the disbursements being public record.

Based upon the opinions of the fiscal court and the county treasurer, the Laurel County Fiscal Court has not included the Section 8 Housing fund as a fund of the fiscal court. As a result, this fund is being added as an adjustment to the financial statement to properly present the financial activity of the fiscal court to avoid a material misstatement of the financial statement.

The Section 8 Housing does not have powers granted to it in a corporate charter or enabling legislation. Since it is not legally separate, then accounting standards state it belongs to the primary government, which is the Laurel County Fiscal Court. In addition, the governing board is substantively the same as the primary government's governing board: The fiscal court is the local board for the HUD office and the county judge/executive is the board chairperson for the Laurel County Housing Authority. Therefore, the Section 8 Housing Fund should be included as a fund of the fiscal court.

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

Section II: Financial Statement Findings (Continued)

2021-002 The Laurel County Section 8 Housing Fund Should Be Treated As A Fund Of The Laurel County Fiscal Court (Continued)

KRS 68.020(4) states, in part, the county treasurer "...shall keep an accurate detailed account of all money received and disbursed by him for the county and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer." In addition, 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 all money received and paid to be reflected in the county budget and be properly reflected on the financial report as a receipt as well as an "expenditure." Furthermore, all funds disbursed on the fiscal court's behalf by third parties should be recorded in receipts and appropriations ledgers.

We recommend the fiscal court determine whether to continue to operate the Section 8 Housing Agency as an entity of the fiscal court or as a legally separate entity. As a legally separate entity, the fiscal court may choose to pass-through Section 8 federal funds it receives and establish appropriate subrecipient monitoring procedures, but still report the funds in the financial statement as pass-through disbursements. If it is not a legally separate entity, the fiscal court should consider the Section 8 Housing fund like other funds of the fiscal court by budgeting for this fund and including it on the quarterly financial report. In addition, the fiscal court should approve all claims of the Section 8 Housing fund and the county treasurer should receive, receipt, and record all Section 8 Housing funds.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Refer to response 2021-001 Section 8 will be in Laurel Co budget in 2022-2023.

2021-003 The Laurel County Fiscal Court Lacks Adequate Segregation Of Duties Over Occupational Tax Collections And Net Profit Tax Collections

The Laurel County Fiscal Court collects occupational taxes and net profit tax collections as established per local ordinance. These payments are collected either by walk-in or by mail-in payments in the occupational tax administrator's office. The occupational tax administrator and his employees are all responsible for collection of payments, processing payments, and deposit preparation. There is no documented secondary review of these collections.

A limited budget places restrictions on the number of employees the fiscal court can hire to process payments. Without adequate segregation of duties in place over receipt processing, assets could be misappropriated, or errors could occur without detection. Segregation of duties over various accounting functions, such as opening mail, collecting receipts, preparing bank deposits, preparing reports, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

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

Section II: Financial Statement Findings (Continued)

2021-003 The Laurel County Fiscal Court Lacks Adequate Segregation Of Duties Over Occupational Tax Collections And Net Profit Tax Collections (Continued)

We recommend the fiscal court strengthen internal controls by segregating duties over occupational tax and net profit tax collections. If segregation is not possible, strong oversight should be implemented. We also recommend the receipts listing be compared to the daily deposit by an individual not involved in the receipt collection process. The employee providing this oversight should document his or her review by initialing all source documentation.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Segregation of duties have been addressed.

2021-004 The Laurel County Fiscal Court Did Not Accurately Report Financial Information Related To Debt

The Laurel County Fiscal Court has not budgeted or incorporated funds paid for debt service by a third party on their behalf on the fourth quarter financial statement resulting in the financial statement being materially misstated. The fiscal court issued three separate bonds on behalf of Laurel Housing, which has not been previously recorded on the fiscal court's financial statement or financial records. The bond accounts had a beginning balance of \$67,209, receipts totaling \$1,779,448, and disbursements of \$1,778,693 to pay the debt payments for the fiscal year. The remaining balance as of June 30, 2021 of the bond accounts was \$64,964.

The county judge and county treasurer were unaware the debt service payments made directly by Laurel Housing needed to be processed through the fiscal court's financial records. The fiscal court has helped Laurel Housing obtain funds through bond issues for several years. The financial information for this debt has never been included in the fiscal court's budget or financial statement and the debt has always been paid directly by Laurel Housing. They thought they were handling it correctly since it has not been previously addressed with them.

This deficiency resulted in inaccurate financial reporting to the fiscal court and Department for Local Government (DLG). Misstatements of receipts and disbursements were noted due to errors requiring adjustments on the fourth quarter financial statement as noted above

Strong internal controls over the reporting process are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court.

KRS 68.020(4) states, in part, the county treasurer "...shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer."

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

Section II: Financial Statement Findings (Continued)

2021-004 The Laurel County Fiscal Court Did Not Accurately Report Financial Information Related To Debt (Continued)

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 DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires all money received and paid to be reflected in the county budget and be properly reflected on the financial report as a receipt as well as an "expenditure." Furthermore, all funds disbursed on the fiscal court's behalf by third parties should be recorded in receipts and appropriations ledgers.

We recommend the fiscal court implement stronger internal controls over the reporting process to ensure receipts, disbursements, and cash balances from all bank accounts are properly recorded to the fiscal court's ledgers and to the financial statements submitted to the Department for Local Government.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This will be corrected on the 2021-2022 financial report.

Section III: Federal Award Findings And Questioned Costs

2021-005 The Laurel County Fiscal Court Failed To Implement Internal Controls To Ensure Costs Submitted For Reimbursement Were For Eligible Expenses

Federal Program: 21.019 – COVID-19 - Coronavirus Relief Fund

Award Number and Year: C327 2020 and C2-156 2020

Name of Federal Agency: U.S. Department of Treasury

Pass-Through Agency: Commonwealth of Kentucky, Department for Local Government – Office of Grants

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs; Period of Performance

Type of Finding: Significant Deficiency; Noncompliance

Amount of Questioned Costs: \$41,665

COVID Related - Yes

The Laurel County Fiscal Court submitted payroll expenses that did not qualify for reimbursement from the Coronavirus Relief Fund (CRF) administered by the Commonwealth of Kentucky's Department for Local Government (DLG). Reimbursement requests submitted to DLG included accrued vacation leave pay outs totaling \$41,665.

The fiscal court did not have controls in place to ensure expenditures submitted for reimbursement from the CRF were allowable and incurred during the period of availability. The deputy county judge/executive stated she was unaware that some of the payroll expenditures submitted for reimbursement were not allowable.

As a result, the Laurel County Fiscal Court submitted payroll expenses that did not qualify for reimbursement from the CRF administered by DLG. This resulted in \$41,665 of questioned costs. In addition, the fiscal court could be required to repay the questioned costs back to the granting agency.

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

Section III: Federal Award Findings And Questioned Costs (Continued)

2021-005 The Laurel County Fiscal Court Failed To Implement Internal Controls To Ensure Costs Submitted For Reimbursement Were For Eligible Expenses (Continued)

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) established the Coronavirus Relief Fund (the “Fund”) and appropriated \$150 billion for payments by Treasury to States, tribal governments, and certain local governments. The CARES Act provides that payments from the Fund may only be used to cover costs that—

1. are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
2. were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
3. were incurred during the period that begins on March 1, 2020 and ends on December 31, 2021.

Initial guidance released on April 22, 2020, provided that the cost of an expenditure is incurred when the recipient has expended funds to cover the cost. Upon further consideration and informed by an understanding of State, local, and tribal government practices, Treasury is clarifying that for a cost to be considered to have been incurred, performance or delivery must occur during the covered period, but payment of funds need not be made during that time (though it is generally expected that this will take place within 90 days of a cost being incurred).

Additionally, 2 CFR § 200.303 requires a non-federal entity to “[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

Total known questioned costs are \$41,665. Questioned costs were computed by comparing requests for reimbursement to payroll earnings reports to determine the total amount of paid out vacation time included on the requests.

Not a repeat finding.

We recommend the fiscal court strengthen internal controls over federal awards to ensure expenditures submitted for reimbursement are allowable and incurred during the period of availability. We also recommend that the fiscal court contact the Department for Local Government to determine if questioned costs should be repaid or if they can resubmit requests with eligible expenditures.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The fiscal court will send additional payroll expenses for actual time worked when this program was implemented, we were told by DLG that the coverage included all time. However the court will send additional payroll records so we will comply. In addition, we contacted [name redacted], Executive Director, office of grants @ DLG. She instructed us to submit additional eligible expenditures in the 2021 year to account for the questioned costs totaling \$41,665.00. Our original submission only encompassed 2020-year data. She approved our addition submission See attached email correspondence.

Section IV: Summary Schedule of Prior Audit Findings

None.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

LAUREL COUNTY FISCAL COURT

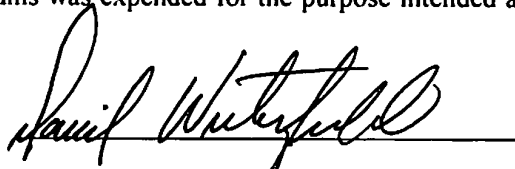
For The Year Ended June 30, 2021

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
LAUREL COUNTY FISCAL COURT

For The Year Ended June 30, 2021

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



County Judge/Executive



County Treasurer