

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

**For The Year Ended
June 30, 2023**



**ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS
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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

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

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis of the Letcher County Fiscal Court, for the year ended June 30, 2023, and the related notes to the financial statement, which collectively comprise the Letcher County Fiscal Court's financial statement as listed in the table of contents.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and changes in fund balances – regulatory basis of the Letcher County Fiscal Court, for the year ended June 30, 2023, in accordance with accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Letcher County Fiscal Court, for the year ended June 30, 2023, or the changes in financial position and cash flows thereof for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Fiscal Court Audit Guide* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of Letcher County Fiscal Court and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Letcher 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 and pervasive.

Responsibilities of Management for the Financial Statement

Letcher County Fiscal Court's management is responsible for the preparation and fair presentation of the 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 Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Letcher County Fiscal Court's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Letcher County Fiscal Court's ability to continue as a going concern for a reasonable period of time.

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

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Letcher County Fiscal Court. The Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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.

Other Information

Management is responsible for the other information included in this report. The other information is comprised of the schedule of capital assets but does not include the financial statement and our auditor's report thereon. Our opinions on the financial statement do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statement, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statement, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2024, on our consideration of the Letcher 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 Letcher County Fiscal Court's internal control over financial reporting and compliance.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Terry Adams, Letcher County Judge/Executive
Members of the Letcher 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:

- 2023-001 The Letcher County Fiscal Court's Financial Statement Was Materially Misstated
- 2023-002 The Letcher County Fiscal Court Did Not Have Adequate Controls Over Processing And Recording Withholdings
- 2023-003 The Letcher County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2023-004 The Letcher County Fiscal Court Does Not Have Strong Internal Controls Over Disbursements
- 2023-005 The Letcher County Fiscal Court Does Not Have Adequate Procedures For Reporting County Liabilities

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

April 9, 2024

LETCHER COUNTY OFFICIALS**For The Year Ended June 30, 2023****Fiscal Court Members:**

Terry Adams	County Judge/Executive
Jack Banks	Magistrate
Kenny Anderson	Magistrate
Debra Collier	Magistrate
William Smith	Magistrate
Bennie McCall	Magistrate
Sherry Sexton	Former Magistrate
Maverick Cook	Former Magistrate

Other Elected Officials:

Jamie Hatton	County Attorney
Bert Slone	Jailer
Winston Meade	County Clerk
Mike Watts	Circuit Court Clerk
Mickey Stines	Sheriff
Ricky Rose	Property Valuation Administrator
Perry Fowler	Coroner

Appointed Personnel:

D.J. Frazier	County Treasurer
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**LETCHER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2023

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

For The Year Ended June 30, 2023

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 1,387,697	\$	\$	\$ 17,756
Excess Fees	58,775			
Licenses and Permits	25,112			
Intergovernmental	173,909	7,387,913	513,093	1,961,227
Charges for Services	1,539,745		75	54,207
Miscellaneous	1,955,911	217,266	85,449	60,781
Interest	1,438	3,879	36	1,411
Total Receipts	<u>5,142,587</u>	<u>7,609,058</u>	<u>598,653</u>	<u>2,095,382</u>
DISBURSEMENTS				
General Government	1,386,610	23,554		44,536
Protection to Persons and Property	195,976		511,388	166,387
General Health and Sanitation	1,844,775	113,078		52,117
Social Services	18,114			3,650
Recreation and Culture				410,380
Roads		4,004,581		
Debt Service	348,363	152,811		495,778
Capital Projects	133,028			30,000
Administration	843,923	344,841	65,445	131,602
Total Disbursements	<u>4,770,789</u>	<u>4,638,865</u>	<u>576,833</u>	<u>1,334,450</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>371,798</u>	<u>2,970,193</u>	<u>21,820</u>	<u>760,932</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds or Financing Obligation Proceeds	300,000	171,920		
Payroll Revolving Account	157,817			
Health Insurance Account	30,920			
Transfers From Other Funds	260,000			140,000
Transfers To Other Funds	(470,861)	(1,369,243)		(140,000)
Total Other Adjustments to Cash (Uses)	<u>277,876</u>	<u>(1,197,323)</u>		
Net Change in Fund Balance	649,674	1,772,870	21,820	760,932
Fund Balance - Beginning (Restated)	246,918	151,663	1,372	51,141
Fund Balance - Ending	<u>\$ 896,592</u>	<u>\$ 1,924,533</u>	<u>\$ 23,192</u>	<u>\$ 812,073</u>
Composition of Fund Balance				
Bank Balance	\$ 746,757	\$ 1,939,257	\$ 55,265	\$ 821,527
Payroll Revolving Account Reconciled Balance	157,817			
Health Insurance Account Reconciled Balance	30,920			
Plus: Deposits In Transit	383			540
Less: Outstanding Checks	(39,285)	(14,724)	(32,073)	(9,994)
Fund Balance - Ending	<u>\$ 896,592</u>	<u>\$ 1,924,533</u>	<u>\$ 23,192</u>	<u>\$ 812,073</u>

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

LETCHER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2023
(Continued)

Budgeted Funds						
EKSAFE Fund	COVID-19 Relief Fund	Forestry Fund	Flood Loan Fund	Senior Citizens Fund	Horse Trail Fund	Tourism Martin Van Bates Fund
\$	\$	\$	\$	\$	\$	\$
	229					
265			3,077	1		
265	229		3,077	1		
		2,146.00				
	229		2,585,473			
131,775			921,130			
33,516			1,004,125			
165,291	229	2,146	4,510,728			
(165,026)		(2,146)	(4,507,651)	1		
			5,999,990			
1,249,243						
			(1,000,000)			
1,249,243			4,999,990			
1,084,217		(2,146)	492,339	1		
	152	11,926		230	40,000	7,381
\$ 1,084,217	\$ 152	\$ 9,780	\$ 492,339	\$ 231	\$ 40,000	\$ 7,381
\$ 1,084,217	\$ 152	\$ 9,780	\$ 611,683	\$ 231	\$ 40,000	\$ 7,381
			(119,344)			
\$ 1,084,217	\$ 152	\$ 9,780	\$ 492,339	\$ 231	\$ 40,000	\$ 7,381

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

LETCHER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2023
(Continued)

	Budgeted Funds			
	Police Memorial Fund	Clerk Storage Fees Fund	Disaster Relief Fund	American Rescue Plan Act Fund
RECEIPTS				
Taxes	\$	\$	\$	\$
Excess Fees				
Licenses and Permits				
Intergovernmental				2,093,209
Charges for Services				
Miscellaneous		20,655	12,146	
Interest		137	17	2,105
Total Receipts		<u>20,792</u>	<u>12,163</u>	<u>2,095,314</u>
DISBURSEMENTS				
General Government		15,763		115,006
Protection to Persons and Property				556,560
General Health and Sanitation				220,258
Social Services				
Recreation and Culture				472,822
Roads				230,132
Debt Service				
Capital Projects				22,850
Administration				240,277
Total Disbursements		<u>15,763</u>		<u>1,857,905</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>5,029</u>	<u>12,163</u>	<u>237,409</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds				
Payroll Revolving Account				
Health Insurance Account				
Transfers From Other Funds				
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance		5,029	12,163	237,409
Fund Balance - Beginning (Restated)	1,305			1,445,672
Fund Balance - Ending	<u>\$ 1,305</u>	<u>\$ 5,029</u>	<u>\$ 12,163</u>	<u>\$ 1,683,081</u>
Composition of Fund Balance				
Bank Balance	\$ 1,305	\$ 5,029	\$ 12,163	\$ 1,710,390
Payroll Revolving Account Reconciled Balance				
Health Insurance Account Reconciled Balance				
Plus: Deposits In Transit				
Less: Outstanding Checks				(27,309)
Fund Balance - Ending	<u>\$ 1,305</u>	<u>\$ 5,029</u>	<u>\$ 12,163</u>	<u>\$ 1,683,081</u>

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

LETCHER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2023
(Continued)

Budgeted Funds				Unbudgeted Fund	
Former City of Blackey Fund	Local Assistance and Tribal Consistency Fund	National Opioids Settlement Fund	4663 HMGP Buyout Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$	\$ 1,405,453
					58,775
21					25,133
37,360					12,166,711
					1,594,027
110,308				167,049	2,629,794
250	15	86	304		13,021
147,939	15	86	304	167,049	17,892,914
					1,585,469
					1,432,457
					4,815,701
					21,993
				169,672	1,052,874
94,622					5,382,240
					2,034,593
					185,878
					1,626,088
94,622				169,672	18,137,293
53,317	15	86	304	(2,623)	(244,379)
					6,471,910
					157,817
					30,920
	50,000	280,861	1,000,000		2,980,104
					(2,980,104)
	50,000	280,861	1,000,000		6,660,647
53,317	50,015	280,947	1,000,304	(2,623)	6,416,268
				95,177	2,052,937
\$ 53,317	\$ 50,015	\$ 280,947	\$ 1,000,304	\$ 92,554	\$ 8,469,205
\$ 53,317	\$ 50,015	\$ 280,947	\$ 1,000,304	\$ 80,470	\$ 8,510,190
					157,817
					30,920
				21,558	22,481
				(9,474)	(252,203)
\$ 53,317	\$ 50,015	\$ 280,947	\$ 1,000,304	\$ 92,554	\$ 8,469,205

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

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TO THE FINANCIAL STATEMENT**

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LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2023

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Letcher County includes all budgeted and unbudgeted funds under the control of the Letcher 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 for and on behalf of, and as the agency and instrumentality of the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

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

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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

COVID-19 Relief Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary source of receipts for this fund are federal grants received under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Forestry Fund - The primary purpose of this fund is to account for collection and disbursement of taxes related to forest fire protection.

Flood Loan Fund - The primary purpose of this fund is to account for loan proceeds for flood disaster recovery and the related expenditures. The primary source of receipts for this fund are loan proceeds.

Senior Citizens Fund - The primary purpose of this fund is to account for the senior citizens expenses of the county. The primary sources of receipts and disbursements for this fund are state grants and transfers from the local government economic assistance fund.

Horse Trail Fund - The primary purpose of this fund is to maintain the trail or reclaim the land to its natural state in the event the land would no longer be used as a horse trail.

Tourism Martin Van Bates Fund - The primary purpose of this fund is to account for the receipts and disbursements of funds to be used to construct a statue of Martin Van Bates.

Police Memorial Fund - The primary purpose of this fund is to account for the receipts and disbursements of funds to be used to construct a police memorial monument for fallen police officers.

Clerk Storage Fees Fund - The primary purpose of this fund is to account for the receipts and disbursements of fees collected by the county clerk and remitted to the fiscal court.

Disaster Relief Fund - The primary purpose of this fund is to account for the donations received by the county in response to the July 2022 flood event and the corresponding disbursements.

American Rescue Plan Act (ARPA) Fund - The primary purpose of this fund is to account for the receipts and disbursements of the American Rescue Plan Act funds provided by the federal government. The primary source of receipts for this fund is federal monies.

Former City of Blackey Fund - The primary purpose of this fund is to account for the receipts and disbursements received and disbursed by the fiscal court after the dissolution of The City of Blackey.

Local Assistance and Tribal Consistency Fund - The primary purpose of this fund is to account for the receipts and disbursements of the Local Assistance and Tribal Consistency program provided by the federal government.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

National Opioids Settlement Fund - The primary purpose of this fund is to account for funds used to combat the county's opioid crisis. Receipts of this fund are received from the state as a result of the state's agreement with major opioid manufacturers and distributors.

4663 HMGP Buyout Fund - The primary purpose of this fund is to account for the receipts and disbursements for multiple home buyout programs of the county. The primary source of receipts of this fund is federal grants.

Unbudgeted Funds

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

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting according to the laws of Kentucky as required by the state local finance officer, 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.

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.

E. Letcher County Elected Officials

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

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Letcher 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

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, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2023.

	General Fund	Road Fund	LGEA Fund	Flood Loan Fund	Total Transfers In
General Fund	\$	\$ 120,000	\$ 140,000	\$	\$ 260,000
LGEA Fund	140,000				140,000
EKSAFE Fund		1,249,243			1,249,243
National Opioids Settlement Fund	280,861				280,861
Local Assistance and Tribal Consistency Fund	50,000				50,000
4663 HMGP Buyout Fund				1,000,000	1,000,000
Total Transfers Out	<u>\$ 470,861</u>	<u>\$ 1,369,243</u>	<u>\$ 140,000</u>	<u>\$ 1,000,000</u>	<u>\$ 2,980,104</u>

Reason for transfers:

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

Note 4. Custodial Fund

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 fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2023, was \$2,476.

Note 5. Leases

Lessor

1. On September 28, 2016, the Letcher County Fiscal Court entered into a lease agreement for a billboard rental at Isom Baseball Park. The lease is for 10 years, and the fiscal court will receive an annual payment of \$1,000. The Letcher County Fiscal Court recognized \$1,000 in lease revenue during the current fiscal year related to this lease. As of June 30, 2023, the Letcher County Fiscal Court's receivable for this lease payment was \$4,000.
2. On March 25, 2016, the Letcher County Fiscal Court entered into a lease agreement for the use of a building for a local community committee to use for events. The lease is renewed annually, and the fiscal court will receive an annual payment of \$12. The Letcher County Fiscal Court recognized \$12 in lease revenue during the current fiscal year related to this lease. As of June 30, 2023, the Letcher County Fiscal Court's receivable for this lease payment was \$12.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 5. Leases (Continued)

Lessor (Continued)

3. On February 20, 2017, the Letcher County Fiscal Court entered into a lease agreement for the use of a recycling center and compressor site. The lease is active indefinitely if the compressor site is being utilized for the transportation of natural gas. The fiscal court will receive an annual payment of \$2,500. The Letcher County Fiscal Court recognized \$2,500 in lease revenue during the current fiscal year related to this lease. As of June 30, 2023, the Letcher County Fiscal Court's receivable for this lease payment was \$2,500 annually if the requirements of the agreement are met.
4. On April 29, 2022, the Letcher County Fiscal Court entered into an amended lease agreement for the use of a building to be a local general store. The lease is for ten years and the fiscal court will receive a monthly payment of \$200 for year one, \$250 for year two, \$400 for year three, \$500 for year four, and \$500 for years five through ten. The Letcher County Fiscal Court recognized \$2,400 in lease revenue during the current fiscal year related to this lease. As of June 30, 2023, the Letcher County Fiscal Court's receivable for this lease payment was \$43,800.
5. On May 10, 2006, the Letcher County Fiscal Court entered into a lease agreement for the use of a hanger for an air ambulance helicopter located in the Gateway Regional Park and will be operated from that location on a 24-hour basis, seven days a week. The lease is for five years and will be renewed and extended every five years. The fiscal court will receive a monthly payment of \$750. The Letcher County Fiscal Court recognized \$9,000 in lease revenue during the current fiscal year related to this lease.
6. In January 1999, the Letcher County Fiscal Court began leasing space in the courthouse to the Administrative Office of the Courts (AOC). The lease is for two-year periods. On July 1 of each even numbered year, the lease may be renewed by AOC, for another biennial period of two years. The lease renewal shall automatically renew itself on July 1 of each even numbered year unless written notice of AOC's election not to exercise the renewal option for the succeeding year be given at least 60 days prior to the renewal date thereof.

Note 6. Short-term Debt

A. Direct Borrowings

1. Flood Relief

On September 2, 2022, the Letcher County Fiscal Court entered into a lease agreement for \$300,000 with the Kentucky Association of Counties Leasing Trust (KACoLT). The purpose of this lease is to provide financial assistance for flood related expenses. The term of this agreement shall be from the date of closing through August 20, 2023, with no principal component or interest component collected through June 30, 2023, nor will any interest accrue through June 30, 2023. Beginning on July 1, 2023, the interest component of lease payments shall be the annual rate of 3.74%. In case of default, lessor may terminate agreement immediately upon occurrence of any of the following: lessee fails to pay when due any of the payments, or to perform, or rectify breach of any obligation assumed by lessee in this agreement; lessee makes an assignment for the benefit of creditors; or is subject to any receivership, insolvency, or bankruptcy proceedings; any other event which causes lessor, in good faith, to deem itself insecure. As of June 30, 2023, the principal balance outstanding was \$300,000. Future principal and interest payment requirements are:

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 6. Short-term Debt (Continued)

A. Direct Borrowings (Continued)

1. Flood Relief (Continued)

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 300,000	\$ 11,189
Totals	<u>\$ 300,000</u>	<u>\$ 11,189</u>

2. Flood Relief

On October 19, 2022, the Letcher County Fiscal Court entered into a tax and revenue anticipation note agreement in the amount of \$1,000,000 with the Kentucky Association of Counties Leasing Trust (KACoLT) and Magnolia Bank, Inc. The purpose of this note is to provide financing for the cumulative cash deficit due to flood emergency. The agreement required monthly interest payments at a rate of 4.95% and one principal payment. The principal amount of \$1,000,000 was paid on June 19, 2023, leaving a \$0 balance as of June 30, 2023.

B. Changes in Short-term Debt

Short-term debt activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$	\$ 1,300,000	\$1,000,000	\$ 300,000	\$ 300,000
Total Short-term Debt	<u>\$ 0</u>	<u>\$ 1,300,000</u>	<u>\$ 1,000,000</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Note 7. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Trucks – Financing Obligation

On October 28, 2022, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$145,422 with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of two trucks. The lease agreement requires monthly interest payments and one principal payment. In the event of default, the lessor has the right to terminate the lease term and give notice to vacate the property or recover lease payments which would otherwise have been payable, as well as exercise any other right, remedy or privilege which may be available under applicable laws, subject to limitations contained in the lease. The principal balance was paid off during the fiscal year ending June 30, 2023.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 7. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

2. Trucks – Financing Obligation

On November 7, 2022, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$171,920 with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of a truck. The lease agreement requires monthly interest payments and one principal payment. In the event of default, the lessor has the right to terminate the lease term and give notice to vacate the property or recover lease payments which would otherwise have been payable, as well as exercise any other right, remedy or privilege which may be available under applicable laws, subject to limitations contained in the lease. The principal balance remaining on this lease is \$171,920 for the fiscal year ending June 30, 2023.

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 171,920	\$ 7,864
Totals	<u>\$ 171,920</u>	<u>\$ 7,864</u>

3. 2008 Recreation Center

On September 29, 2008, the Letcher County Fiscal Court entered into a \$500,000 lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of land for the construction of a recreation center. The lease requires monthly interest payments at a variable rate and annual principal payments. As of June 30, 2023, the principal balance remaining was \$312,000. In the event of default, the lease will be enforced by appropriate court action. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 17,000	\$ 19,460
2025	18,000	18,328
2026	18,000	17,213
2027	19,000	16,059
2028	20,000	14,862
2029-2033	112,000	54,023
2034-2037	<u>108,000</u>	<u>15,761</u>
Totals	<u>\$ 312,000</u>	<u>\$ 155,706</u>

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 7. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

4. Recreation Center

On April 8, 2021, the Letcher County Fiscal Court entered into a \$885,000 lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to refinance the lease agreement under the previously noted KACoLT Financing Program Revenue Bonds First Series 2011 A, for the construction of a recreation center. The lease requires monthly principal and interest payments ending in 2026. In the event of default, the lease agreement may be enforced by appropriate court action. As of June 30, 2023, the principal balance remaining was \$462,500. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 180,000	\$ 22,881
2025	187,500	15,181
2026	95,000	5,162
Totals	<u>\$ 462,500</u>	<u>\$ 43,224</u>

5. Courthouse and Detention Center

On August 15, 2013, the Letcher County Fiscal Court entered into a \$3,140,000 lease agreement related to the issuance of Kentucky Association of Counties Finance Corporation (KACoLT) Financing Program Revenue Bonds, First Series 2013 B. The proceeds retired the outstanding balance of the Letcher County Public Properties Corporation Revenue Bonds, Series 1999, which had been issued to renovate the courthouse and detention center. The Administrative Office of the Courts (AOC) rents a portion of the premises for office space. AOC has agreed to pay rent directly to the bond trustee. The county is reliant on the AOC payment in order to meet a portion of the bond debt service requirement. AOC has expressed its intention to continue to make their payment in each successive biennial budget period until May 2027, but AOC is not legally obligated to do so. In the event of default, the lease agreement may be enforced by appropriate legal action. As of June 30, 2023, the principal balance remaining was \$1,040,000. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 245,000	\$ 42,339
2025	255,000	33,641
2026	265,000	22,995
2027	275,000	11,931
Totals	<u>\$ 1,040,000</u>	<u>\$ 110,906</u>

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 7. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

6. Recreation Center Refinance

On September 20, 2016, the Letcher County Fiscal Court entered into a \$6,030,000 lease agreement related to the issuance of the Kentucky Association of Counties Finance Corporation (KACoLT) Financing Program Revenue and Revenue Refunding Bonds, First Series 2016C. The purpose of this debt was to refinance a portion of the KACoLT First Series 2011A bonds to reduce the combined debt payments. The lease requires monthly principal and interest payments ending December 2040. In the event of default, the lease agreement may be enforced by appropriate legal action. As of June 30, 2023, the principal balance remaining was \$5,632,500. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 65,000	\$ 192,437
2025	67,500	189,675
2026	177,500	187,506
2027	290,000	183,513
2028	297,500	174,037
2029-2033	1,645,000	709,241
2034-2038	1,980,000	387,569
2039-2041	<u>1,110,000</u>	<u>66,531</u>
Totals	<u>\$ 5,632,500</u>	<u>\$ 2,090,509</u>

7. Voting Machines

On December 1, 2021, the Letcher County Fiscal Court entered into a lease agreement related to the issuance of new voting machines for the Letcher County Clerk. The lease requires monthly principal and interest payments ending December 1, 2026. In the event of default, the lease agreement may be enforced by appropriate legal action. As of June 30, 2023, the principal balance remaining was \$77,326. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 30,067	\$ 2,380
2025	31,211	1,236
2026	<u>16,048</u>	<u>175</u>
Totals	<u>\$ 77,326</u>	<u>\$ 3,791</u>

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 7. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

8. FEMA

On February 22, 2023, the Letcher County Fiscal Court entered into a lease agreement in the \$5,000,000 with the Kentucky Association of Counties Leasing Trust (KACoLT) and Kentucky Farmers Bank. The purpose of this lease is to provide financial assistance for flood related expenses. The lease agreement requires monthly interest payments at an 8.15% rate and one principal payment. In case of default, the lessor may terminate agreement immediately upon occurrence of any of the following: lessee fails to pay when due any of the payments, or to perform, or rectify breach of, any obligation assumed by lessee in this agreement; lessee makes an assignment for the benefit of creditors; or is subject to any receivership, insolvency, or bankruptcy proceedings; any other event which causes lessor, in good faith, to deem itself insecure. As of June 30, 2023, the principal balance outstanding was \$5,000,000. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 0	\$ 408,562
2025	<u>5,000,000</u>	<u>271,313</u>
Totals	<u>\$ 5,000,000</u>	<u>\$ 679,875</u>

B. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	<u>\$ 8,184,713</u>	<u>\$ 5,171,920</u>	<u>\$ 660,387</u>	<u>\$12,696,246</u>	<u>\$ 708,987</u>
Total Long-term Debt	<u>\$ 8,184,713</u>	<u>\$ 5,171,920</u>	<u>\$ 660,387</u>	<u>\$12,696,246</u>	<u>\$ 708,987</u>

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 7. Long-term Debt (Continued)

C. Aggregate Debt Schedule

The amount of required principal and interest payments on long-term obligations at June 30, 2023, were as follows:

Fiscal Year Ended June 30	Direct Borrowings and Direct Placements	
	Principal	Interest
2024	\$ 708,987	\$ 695,923
2025	5,559,211	529,374
2026	571,548	233,051
2027	584,000	211,503
2028	317,500	188,899
2029-2033	1,757,000	763,264
2034-2038	2,088,000	403,330
2039-2041	1,110,000	66,531
Totals	<u>\$ 12,696,246</u>	<u>\$ 3,091,875</u>

Note 8. 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 (Ky. Ret. Sys.). 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 Pension Authority (KPPA) was created by KRS 61.505 to provide staffing and daily administrative needs for CERS and Ky. Ret. Sys. The CERS nine (9) member board of trustees is responsible for the governance of the CERS pension and insurance plans.

The county's contribution for FY 2021 was \$510,494, FY 2022 was \$569,780, and FY 2023 was \$545,080.

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 Ky. Ret. Sys. insurance fund.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 8. Employee Retirement System (Continued)

Nonhazardous (Continued)

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 Ky. Ret. Sys. 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 26.79 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 Ky. Ret. Sys. insurance fund.

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

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

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

The county's contribution rate for hazardous employees was 49.59 percent.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 8. Employee Retirement System (Continued)

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.

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.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 8. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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

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

D. Cost of Living Adjustments - Tier 1

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

G. Ky. Ret. Sys. Annual Financial Report and Proportionate Share Audit Report

Ky. Ret. Sys. 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.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 9. Deferred Compensation

The Letcher 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 10. Health Reimbursement Account/Flexible Spending Account

In May 2012, the Letcher County Fiscal Court established a health reimbursement account (HRA) and a flexible spending account (FSA) to provide full-time employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$1,600 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction. As of June 30, 2023, the HRA account had a balance of \$4,559 and the FSA account had a balance of \$46,473.

Note 11. Insurance

For the fiscal year ended June 30, 2023, the Letcher 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 12. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2023, was added to the general fund cash balance for financial reporting purposes.

Note 13. Health Insurance Revolving Account

The reconciled balance of the health insurance account as of June 30, 2023, was added to the general fund cash balance for financial reporting purposes.

Note 14. Contingencies

The county is involved in multiple lawsuits. While individually they may not be significant, in the aggregate they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2023
(Continued)

Note 15. Prior Period Adjustments

	<u>Fund Balance- Beginning</u>	<u>Add: Prior Year Revolving Account Balances</u>	<u>Add: Prior Year Misstatements</u>	<u>Rounding Differences</u>	<u>Fund Balance- Beginning (Restated)</u>
General Fund	\$ 334,262	\$ (75,567)	\$ (11,776)	\$ (1)	\$ 246,918
Jail Fund	1,371			1	1,372
Senior Citizens Fund	231			(1)	230
Jail Commissary Fund	95,176			1	95,177

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

For The Year Ended June 30, 2023

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LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2023

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,482,000	\$ 1,482,000	\$ 1,387,697	\$ (94,303)
Excess Fees	24,433	51,248	58,775	7,527
Licenses and Permits	24,000	24,000	25,112	1,112
Intergovernmental	190,110	190,110	173,909	(16,201)
Charges for Services	1,191,250	1,191,250	1,539,745	348,495
Miscellaneous	296,675	1,513,585	1,955,911	442,326
Interest	750	750	1,438	688
Total Receipts	<u>3,209,218</u>	<u>4,452,943</u>	<u>5,142,587</u>	<u>689,644</u>
DISBURSEMENTS				
General Government	1,048,085	1,516,728	1,386,610	130,118
Protection to Persons and Property	127,560	195,976	195,976	
General Health and Sanitation	1,031,000	1,889,207	1,844,775	44,432
Social Services	20,000	20,000	18,114	1,886
Debt Service	388,500	448,500	348,363	100,137
Capital Projects	50,000	133,028	133,028	
Administration	767,287	1,031,412	843,923	187,489
Total Disbursements	<u>3,432,432</u>	<u>5,234,851</u>	<u>4,770,789</u>	<u>464,062</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(223,214)</u>	<u>(781,908)</u>	<u>371,798</u>	<u>1,153,706</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		300,000	300,000	
Transfers From Other Funds	223,214	223,214	260,000	36,786
Transfers To Other Funds			(470,861)	(470,861)
Total Other Adjustments to Cash (Uses)	<u>223,214</u>	<u>523,214</u>	<u>89,139</u>	<u>(434,075)</u>
Net Change in Fund Balance		(258,694)	460,937	719,631
Fund Balance - Beginning (Restated)		<u>258,694</u>	<u>246,918</u>	<u>(11,776)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 707,855</u>	<u>\$ 707,855</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 5,000	\$ 5,000	\$	\$ (5,000)
Intergovernmental	1,678,288	5,885,787	7,387,913	1,502,126
Miscellaneous	177,100	236,600	217,266	(19,334)
Interest	1,500	1,500	3,879	2,379
Total Receipts	<u>1,861,888</u>	<u>6,128,887</u>	<u>7,609,058</u>	<u>1,480,171</u>
DISBURSEMENTS				
General Government	27,443	27,443	23,554	3,889
General Health and Sanitation		130,603	113,078	17,525
Roads	1,229,544	4,313,496	4,004,581	308,915
Debt Service	154,100	154,100	152,811	1,289
Administration	381,687	1,585,793	344,841	1,240,952
Total Disbursements	<u>1,792,774</u>	<u>6,211,435</u>	<u>4,638,865</u>	<u>1,572,570</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>69,114</u>	<u>(82,548)</u>	<u>2,970,193</u>	<u>3,052,741</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds	154,100	154,100	171,920	17,820
Transfers To Other Funds	<u>(223,214)</u>	<u>(223,214)</u>	<u>(1,369,243)</u>	<u>(1,146,029)</u>
Total Other Adjustments to Cash (Uses)	<u>(69,114)</u>	<u>(69,114)</u>	<u>(1,197,323)</u>	<u>(1,128,209)</u>
Net Change in Fund Balance		(151,662)	1,772,870	1,924,532
Fund Balance - Beginning		<u>151,663</u>	<u>151,663</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 1,924,533</u>	<u>\$ 1,924,532</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 850,700	\$ 850,700	\$ 513,093	\$ (337,607)
Charges for Services	2,700	2,700	75	(2,625)
Miscellaneous	57,500	57,500	85,449	27,949
Interest	100	100	36	(64)
Total Receipts	<u>911,000</u>	<u>911,000</u>	<u>598,653</u>	<u>(312,347)</u>
DISBURSEMENTS				
Protection to Persons and Property	775,654	778,026	511,388	266,638
Administration	255,600	254,600	65,445	189,155
Total Disbursements	<u>1,031,254</u>	<u>1,032,626</u>	<u>576,833</u>	<u>455,793</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(120,254)</u>	<u>(121,626)</u>	<u>21,820</u>	<u>143,446</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	120,254	120,254		(120,254)
Total Other Adjustments to Cash (Uses)	<u>120,254</u>	<u>120,254</u>		<u>(120,254)</u>
Net Change in Fund Balance		(1,372)	21,820	23,192
Fund Balance - Beginning (Restated)		<u>1,372</u>	<u>1,372</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,192</u>	<u>\$ 23,192</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 12,000	\$ 12,000	\$ 17,756	\$ 5,756
Intergovernmental	1,775,307	1,936,934	1,961,227	24,293
Charges for Services	150,000	150,000	54,207	(95,793)
Miscellaneous	29,000	81,753	60,781	(20,972)
Interest	1,100	1,100	1,411	311
Total Receipts	<u>1,967,407</u>	<u>2,181,787</u>	<u>2,095,382</u>	<u>(86,405)</u>
DISBURSEMENTS				
General Government	38,305	47,386	44,536	2,850
Protection to Persons and Property	152,245	171,400	166,387	5,013
General Health and Sanitation	52,000	53,503	52,117	1,386
Social Services	30,000	30,000	3,650	26,350
Recreation and Culture	517,560	532,310	410,380	121,930
Roads	145,000	145,000		145,000
Airports	1,000	1,000		1,000
Debt Service	490,000	508,869	495,778	13,091
Capital Projects	60,200	90,100	30,000	60,100
Administration	360,843	536,904	131,602	405,302
Total Disbursements	<u>1,847,153</u>	<u>2,116,472</u>	<u>1,334,450</u>	<u>782,022</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>120,254</u>	<u>65,315</u>	<u>760,932</u>	<u>695,617</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			140,000	140,000
Transfers To Other Funds	<u>(120,254)</u>	<u>(120,254)</u>	<u>(140,000)</u>	<u>(19,746)</u>
Total Other Adjustments to Cash (Uses)	<u>(120,254)</u>	<u>(120,254)</u>	<u>(140,000)</u>	<u>120,254</u>
Net Change in Fund Balance		(54,939)	760,932	815,871
Fund Balance - Beginning		<u>54,939</u>	<u>51,141</u>	<u>(3,798)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 812,073</u>	<u>\$ 812,073</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	EKSAFE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$		\$	\$ (249,243)
Interest		\$ 249,243	265	265
Total Receipts		<u>249,243</u>	<u>265</u>	<u>(248,978)</u>
DISBURSEMENTS				
Roads		131,775	131,775	
Debt Service		33,516	33,516	
Administration		83,952		83,952
Total Disbursements		<u>249,243</u>	<u>165,291</u>	<u>83,952</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(165,026)</u>	<u>(165,026)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			1,249,243	1,249,243
Total Other Adjustments to Cash (Uses)			<u>1,249,243</u>	<u>1,249,243</u>
Net Change in Fund Balance			1,084,217	1,084,217
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$	1,084,217
		\$ 0	\$ 1,084,217	\$ 1,084,217

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	COVID-19 RELIEF FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$ 229	\$ 229
Total Receipts			229	229
DISBURSEMENTS				
Social Services		229	229	
Administration	152	(77)		(77)
Total Disbursements	152	152	229	(77)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(152)	(152)		152
Net Change in Fund Balance	(152)	(152)		152
Fund Balance - Beginning	152	152	152	
Fund Balance - Ending	\$ 0	\$ 0	\$ 152	\$ 152

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	FORESTRY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,146	\$ 2,146	\$	\$ (2,146)
Total Receipts	<u>2,146</u>	<u>2,146</u>	<u></u>	<u>(2,146)</u>
DISBURSEMENTS				
Protection to Persons and Property Administration	2,146	2,146	2,146	
Total Disbursements	<u>2,146</u>	<u>11,926</u>	<u>2,146</u>	<u>11,926</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(11,926)</u>	<u>(2,146)</u>	<u>9,780</u>
Net Change in Fund Balance		(11,926)	(2,146)	9,780
Fund Balance - Beginning		<u>11,926</u>	<u>11,926</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,780</u>	<u>\$ 9,780</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

FLOOD LOAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	\$	\$ 3,077	\$ 3,077
Total Receipts			3,077	3,077
DISBURSEMENTS				
General Health and Sanitation		2,585,473	2,585,473	
Roads		1,395,875	921,130	474,745
Debt Service		1,004,125	1,004,125	
Administration		14,527		14,527
Total Disbursements		5,000,000	4,510,728	489,272
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(5,000,000)	(4,507,651)	492,349
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		5,000,000	5,999,990	999,990
Transfers To Other Funds			(1,000,000)	(1,000,000)
Total Other Adjustments to Cash (Uses)		5,000,000	4,999,990	(10)
Net Change in Fund Balance			492,339	492,339
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 492,339	\$ 492,339

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	SENIOR CITIZENS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 1	\$ 1	\$ 1	\$
Total Receipts	1	1	1	
DISBURSEMENTS				
Administration	231	231		\$ 231
Total Disbursements	231	231		231
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(230)	(230)	1	231
Net Change in Fund Balance	(230)	(230)	1	231
Fund Balance - Beginning (Restated)	230	230	230	
Fund Balance - Ending	\$ 0	\$ 0	\$ 231	\$ 231

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	HORSE TRAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$	\$	\$	\$
Total Receipts				
DISBURSEMENTS				
Administration	40,000	40,000		40,000
Total Disbursements	40,000	40,000		40,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(40,000)	(40,000)		40,000
Net Change in Fund Balance	(40,000)	(40,000)		40,000
Fund Balance - Beginning	40,000	40,000	40,000	
Fund Balance - Ending	\$ 0	\$ 0	\$ 40,000	\$ 40,000

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

TOURISM MARTIN VAN BATES FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$	\$	\$	\$
Total Receipts				
DISBURSEMENTS				
Administration	7,381	7,381		7,381
Total Disbursements	7,381	7,381		7,381
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(7,381)	(7,381)		7,381
Net Change in Fund Balance	(7,381)	(7,381)		7,381
Fund Balance - Beginning	7,381	7,381	7,381	
Fund Balance - Ending	\$ 0	\$ 0	\$ 7,381	\$ 7,381

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

	POLICE MEMORIAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$	\$	\$	\$
Total Receipts				
DISBURSEMENTS				
Administration	1,205	1,205		1,205
Total Disbursements	1,205	1,205		1,205
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,205)	(1,205)		1,205
Net Change in Fund Balance	(1,205)	(1,205)		1,205
Fund Balance - Beginning	1,205	1,205	1,305	100
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,305	\$ 1,305

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

CLERK STORAGE FEES FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$ 18,618	\$ 20,655	\$ 2,037
Interest			137	137
Total Receipts		18,618	20,792	2,174
DISBURSEMENTS				
General Government		15,763	15,763	
Administration		2,855		2,855
Total Disbursements		18,618	15,763	2,855
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			5,029	5,029
Net Change in Fund Balance			5,029	5,029
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 5,029	\$ 5,029

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

DISASTER RELIEF FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$ 12,096	\$ 12,146	\$ 50
Interest		35	17	(18)
Total Receipts		12,131	12,163	32
DISBURSEMENTS				
Administration		12,131		12,131
Total Disbursements		12,131		12,131
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			12,163	12,163
Net Change in Fund Balance			12,163	12,163
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 12,163	\$ 12,163

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

AMERICAN RESCUE PLAN ACT FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 2,090,036	\$ 2,090,036	\$ 2,093,209	\$ 3,173
Interest	3,000	3,000	2,105	(895)
Total Receipts	<u>2,093,036</u>	<u>2,093,036</u>	<u>2,095,314</u>	<u>2,278</u>
DISBURSEMENTS				
General Government		115,006	115,006	
Protection to Persons and Property		556,560	556,560	
General Health and Sanitation		220,258	220,258	
Recreation and Culture		472,822	472,822	
Roads		230,132	230,132	
Capital Projects		30,000	22,850	7,150
Administration	3,593,036	1,968,258	240,277	1,727,981
Total Disbursements	<u>3,593,036</u>	<u>3,593,036</u>	<u>1,857,905</u>	<u>1,735,131</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>237,409</u>	<u>1,737,409</u>
Net Change in Fund Balance	(1,500,000)	(1,500,000)	237,409	1,737,409
Fund Balance - Beginning	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,445,672</u>	<u>(54,328)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,683,081</u>	<u>\$ 1,683,081</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

FORMER CITY OF BLACKKEY FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$	\$ 13	\$ 21	\$ 8
Intergovernmental		37,360	37,360	
Miscellaneous		110,308	110,308	
Interest			250	250
Total Receipts		147,681	147,939	258
DISBURSEMENTS				
Roads		94,622	94,622	
Administration		53,059		53,059
Total Disbursements		147,681	94,622	53,059
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			53,317	53,317
Net Change in Fund Balance			53,317	53,317
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 53,317	\$ 53,317

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

LOCAL ASSISTANCE AND TRIBAL CONSISTENCY FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Interest	\$	\$	\$ 15	\$ 15
Total Receipts			15	15
DISBURSEMENTS				
Total Disbursements				
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			15	15
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			50,000	50,000
Total Other Adjustments to Cash (Uses)			50,000	50,000
Net Change in Fund Balance			50,015	50,015
Fund Balance - Beginning				
Fund Balance - Ending	\$	\$	\$ 50,015	\$ 50,015

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

NATIONAL OPIOIDS SETTLEMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	\$	\$ 86	\$ 86
Total Receipts			86	86
DISBURSEMENTS				
Total Disbursements				
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			86	86
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			280,861	280,861
Total Other Adjustments to Cash (Uses)			280,861	280,861
Net Change in Fund Balance			280,947	280,947
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 280,947	\$ 280,947

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2023
(Continued)

4663 HMGP BUYOUT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	\$	\$ 304	\$ 304
Total Receipts			304	304
DISBURSEMENTS				
Total Disbursements				
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			304	304
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			1,000,000	1,000,000
Total Other Adjustments to Cash (Uses)			1,000,000	1,000,000
Net Change in Fund Balance			1,000,304	1,000,304
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 1,000,304	\$ 1,000,304

LETCHER COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2023

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting according to the laws of Kentucky as required by the state local finance officer, 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.

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

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

Note 2. Reconciliation of the General Fund

Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ 89,139
To adjust for payroll revolving account	157,817
To adjust for retirement revolving account	<u>30,920</u>
Total Intergovernmental-Regulatory Basis	<u>\$ 277,876</u>
Ending Fund Balance - Budgetary Basis	\$ 707,855
To adjust for payroll revolving account	157,817
To adjust for health insurance account	<u>30,920</u>
Total Ending Fund Balance -Regulatory Basis	<u>\$ 896,592</u>

Note 3. Excess of Disbursements Over Appropriations

The COVID-19 relief fund, administration line-item exceeded budgeted appropriations by \$77.

Note 4. Road Fund -Final Budget Out of Balance

The road fund final budget was out of balance by \$1.

**LETCHER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2023

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LETCHER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2023

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 Treasury</u>				
<i>Direct Program</i>				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027		\$ _____	\$ 1,857,905
Total U.S. Department of Treasury			_____	1,857,905
<u>U. S. Department of Homeland Security</u>				
<i>Passed-Through Kentucky Emergency Management</i>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SC 095 2300000507	\$ _____	\$ 2,380,455
Total U.S. Department of Homeland Security			_____	2,380,455
<u>U. S. Department of Agriculture</u>				
<i>Direct Program</i>				
Emergency Watershed Protection Program	10.923		\$ _____	\$ 326,404
Total U.S. Department of Agriculture			_____	326,404
Total Expenditures of Federal Awards			\$ 0	\$ 4,564,764

The accompanying notes are an integral part of this schedule.

LETCHER COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2023

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Letcher County, Kentucky under programs of the federal government for the year ended June 30, 2023. 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 Letcher County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Letcher 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

Letcher 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.

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

For The Year Ended June 30, 2023

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LETCHER COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2023

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 2,003,500	\$ 280,000	\$	\$ 2,283,500
Buildings	15,411,333			15,411,333
Vehicles	2,931,189	274,940	220,353	2,985,776
Equipment	1,067,029	582,165		1,649,194
Infrastructure	5,743,777	699,765		6,443,542
 Total Capital Assets	 <u>\$ 27,156,828</u>	 <u>\$ 1,836,870</u>	 <u>\$ 220,353</u>	 <u>\$ 28,773,345</u>

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

June 30, 2023

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Vehicles	\$ 2,500	3-25
Equipment	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

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

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

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

The Honorable Terry Adams, Letcher County Judge/Executive
Members of the Letcher County Fiscal Court

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 Letcher County Fiscal Court for the fiscal year ended June 30, 2023, and the related notes to the financial statement which collectively comprise the Letcher County Fiscal Court's financial statement and have issued our report thereon dated April 9, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Letcher 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 Letcher County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Letcher 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 2023-001, 2023-002, 2023-003, 2023-004, and 2023-005 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)

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher 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 2023-002 and 2023-005.

Views of Responsible Officials and Planned Corrective Action

Government Auditing Standards requires the auditor to perform limited procedures on the Letcher County's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The county's response was not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on it.

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,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

April 9, 2024

**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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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

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

The Honorable Terry Adams, Letcher County Judge/Executive
Members of the Letcher County Fiscal Court

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Letcher County Fiscal Court's compliance with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Letcher County Fiscal Court's major federal programs for the year ended June 30, 2023. The Letcher 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.

In our opinion, Letcher County Fiscal Court complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Letcher County Fiscal Court and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Letcher County Fiscal Court's compliance with the compliance requirements referred to above.



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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Letcher County Fiscal Court's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Letcher County Fiscal Court's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Letcher County Fiscal Court's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Letcher County Fiscal Court's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Letcher County Fiscal Court's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Letcher County Fiscal Court's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

April 9, 2024

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**LETCHER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2023

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**LETCHER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2023

Section I: Summary of Auditor’s Results

Financial Statement

Type of report the auditor issued on whether the financial statement audited was 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 type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor’s report issued on compliance for major federal programs: Unmodified		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

LETCHER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings

2023-001 The Letcher County Fiscal Court's Financial Statement Was Materially Misstated

The Letcher County Fiscal Court's financial statement was materially misstated. The county treasurer deposited loan proceeds of \$1,000,000 for the flood loan fund into the clerk storage fees fund in error. The error was discovered, and the funds were transferred to the correct fund. However, the financial statement shows the \$1,000,000 as a receipt of the clerk storage fees fund.

The county treasurer was unaware that the deposit into the wrong fund should not have been recorded on the financial statement and should have been recorded in the fund that they were intended. As a result, the receipts for the clerk storage fees fund were overstated by \$1,000,000.

Effective internal controls require that any deposit error would not be included on the financial statement. We recommend the fiscal court implement internal controls over receipts and deposits by ensuring that funds are deposited in the correct account and any errors or mistakes are not presented on the financial statement.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: When electronic deposits are made in the wrong fund, we will not post in the account the funds were erroneously placed in.

2023-002 The Letcher County Fiscal Court Did Not Have Adequate Controls Over Processing And Recording Withholdings

The Letcher County Fiscal Court's internal controls over processing and recording withholdings were not operating effectively as noted by the following deficiencies:

- The county treasurer failed to submit federal tax withholding forms for a fee official from July 2022 through October 2022.
- 23 of the 40 federal tax withholding payments were paid at a minimum of 30 days late.
- State withholdings were only paid for 17 of the 26 pay periods.
- State withholdings were paid on three separate dates, the county treasurer submitted four payments on September 6, 2022; five payments on November 25, 2022; and eight payments on April 4, 2023.
- The county treasurer failed to disburse city payroll taxes for fiscal year ending June 30, 2023. This resulted in an ending balance of \$12,847 due to the City of Whitesburg.

The above deficiencies occurred as a result of internal controls over payroll withholdings not being designed and/or operating effectively. The lack of good internal controls over payroll could allow employees to be under or over paid. In addition, the Letcher County Fiscal Court is not in compliance with Kentucky Revised Statutes and the U.S. Department of Labor regulations.

Strong internal controls over the payroll process are essential in ensuring that employee withholdings and employer contributions are turned over to the appropriate taxing authorities and vendors. In addition, *Publication 15 Employer's Tax Guide (Circular E) (2022)* issued by the IRS require employers who are semiweekly schedule depositors to deposit federal taxes accumulated on taxes for payroll paid on Wednesday, Thursday, or Friday by the following Wednesday and federal taxes accumulated on taxes for payroll paid on Monday or Tuesday by the following Friday.

LETCHER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings (Continued)

2023-002 The Letcher County Fiscal Court Did Not Have Adequate Controls Over Processing And Recording Withholdings (Continued)

We recommend the fiscal court implement internal controls over payroll liabilities. Internal controls such as a thorough review of payroll earnings records should be performed by an individual independent of the payroll process and comparison of amounts due to amounts paid. Once completed, the review should be signed by the individual performing the review and submitted to the county judge/executive and the fiscal court.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All withholdings will be made timely.

2023-003 The Letcher County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2022-005. The Letcher County Fiscal Court does not have adequate segregation of duties over receipts and reconciliations. The county treasurer is responsible for receiving receipts, preparing deposits, taking deposits to the bank, posting receipts to the ledgers, preparing financial reports, and reconciling bank accounts. There is no documented review of these processes.

According to the county, this is the result of a limited budget, which restricts the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been implemented to offset the lack of segregation of duties. The lack of oversight could result in undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government.

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

We recommend the fiscal court separate duties involving receipt processing. If this is not feasible due to a limited budget, strong oversight over these areas should occur and involve an employee that is not currently performing any of those functions. This oversight should be documented by dating, signing, or initialing the documentation.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: An extra person will be appointed by Judge Adams to review receipts and reconciliations.

**LETCHER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)**

Section II: Financial Statement Findings (Continued)

2023-004 The Letcher County Fiscal Court Does Not Have Strong Internal Controls Over Disbursements

The Letcher County Fiscal Court does not have strong internal controls over the disbursement process. During the fiscal year ending June 30, 2023, the following issues were noted:

- No documented county employee verified the majority of haul tickets for delivery of road materials.
- 12 instances where invoices were not paid 30 working days of receipt.
- Two transactions did not have purchase orders as required by the county’s policies and procedures and DLG requirements.
- 56 transactions had purchase orders that were approved/created after the payment date.
- Interest charged on credit card statements totaling \$112.
- Three credit card purchases that were charged sales tax totaling \$63.
- Seven missing credit card receipts that were not turned in for payment resulting in credit card statement having a previous balance.
- Six disbursements that were missing a total of 328 haul tickets documenting delivery of road materials.
- One instance of a disbursement that was not included on the claims list presented to the fiscal court for approval.

Internal controls were not sufficient enough to ensure the proper handling of disbursements, which allowed for the deficiencies to happen. When invoices were paid for road materials, haul tickets documenting delivery were not reconciled with the invoice. Furthermore, monthly credit card statements were not reconciled with receipts to ensure all receipts had been turned in for payment. As a result, the county was not in compliance with applicable statutes. Further, lack of strong internal controls over disbursements could result in inaccurate reporting and misappropriation of assets.

Proper internal controls over expenditures are important to ensure purchase orders are created with sufficient funds available, include proper supporting documentation, and are paid in a timely manner. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government (DLG), “purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head.”

KRS 65.140(2) states, “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.” Good controls dictate that procedures be in place to ensure invoices are paid within 30 days of receipt and sales tax is not paid on the invoice due to the fiscal court being exempt from paying sales tax on purchases.

We recommend the fiscal court implement proper internal controls over expenditures and ensure they are operating effectively.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: At the beginning of this fiscal year, Letcher County suffered a catastrophic flood. During the first few weeks after that flood, supplies were going to locations all over the county. In the aftermath of such a disaster, there were hundreds of people involved in recovery so some of the haul tickets, etc. were not signed and turned in to the finance officer timely. Under normal circumstances, we follow proper procedures.

LETCHER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2023
(Continued)

Section II: Financial Statement Findings (Continued)

2023-004 The Letcher County Fiscal Court Does Not Have Strong Internal Controls Over Disbursements
 (Continued)

Auditor's Reply: The APA recognizes the difficulties that occurred during the catastrophic disaster in Letcher County. These findings are based on testing adopted policies and procedures. The Auditor's Office is sympathetic to the events that occurred in Letcher County and understands this behavior may not reflect normal practices of Letcher County Fiscal Court.

2023-005 The Letcher County Fiscal Court Does Not Have Adequate Procedures For Reporting County Liabilities

The Letcher County Fiscal Court did not report outstanding interest balances correctly for long term liabilities related to debt service payments. The interest balances on all seven debts were not reported correctly, resulting in liabilities being overstated by \$2,223,088 for interest balances due as of June 30, 2023.

The fiscal court does not have controls in place to ensure balances were reported properly. Some of the differences in the principal and interest balances are likely due to posting errors in prior years. The software used by the fiscal court calculates the balances for principal and interest based upon when debt service payments are issued. If the debt service payments were misclassified when issued, then the balances would not calculate properly. This has resulted in the misstatement of county liabilities, making it difficult for management to easily determine where the county's debt balances stand.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to report all liabilities of the county, even when related to unbudgeted funds. The schedules should be reported with correct balances. Control procedures should be in place with the fiscal court to ensure that all liabilities held at fiscal yearend are reported on the liabilities schedule and have accurate ending balances.

We recommend that the county improve procedures to ensure proper reporting of all county liabilities on the financial statement.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All proper corrections have been made on liabilities schedules.

Section III: Federal Award Findings And Questioned Costs

None.

Section IV: Summary Schedule of Prior Audit Findings

Not applicable.

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

LETCHER COUNTY FISCAL COURT

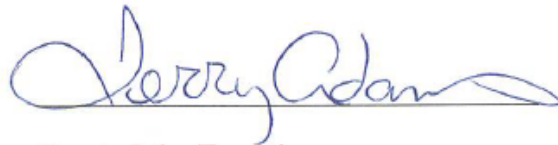
For The Year Ended June 30, 2023

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
LETCHER COUNTY FISCAL COURT

For The Year Ended June 30, 2023

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

A handwritten signature in blue ink, appearing to read "Jerry Adams", written over a horizontal line.

County Judge/Executive

A handwritten signature in blue ink, appearing to read "D. Stapp", written over a horizontal line.

County Treasurer