

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

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



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Report on the Financial Statement

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

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the McCreary County Fiscal Court as of June 30, 2021, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the McCreary County Fiscal Court. The Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards (supplementary information), as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Schedule of Capital Assets (other information) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

To the People of Kentucky
 The Honorable Andy Beshear, Governor
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 Members of the McCreary County Fiscal Court

Other Matters (Continued)

Supplementary and Other Information (Continued)

The accompanying Budgetary Comparison Schedules and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2022, on our consideration of the McCreary 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 McCreary County Fiscal Court's internal control over financial reporting and compliance.

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

- 2021-001 The Payroll Revolving Account Was Not Properly Reconciled
- 2021-002 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures
- 2021-003 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements
- 2021-004 The Fiscal Court Did Not Segregate Duties Over Accounting Functions
- 2021-005 The Fiscal Court Did Not Have Sufficient Monitoring Or Internal Controls Over The Revolving Loan Program
- 2021-006 The Fiscal Court Did Not Budget Two Funds
- 2021-007 The Fiscal Court Did Not Prepare An Accurate Schedule Of Expenditures Of Federal Awards

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

March 11, 2022

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

Jimmie W. Greene II	County Judge/Executive
Roger Phillips	Magistrate
Bobby Strunk	Magistrate
Randy Maxwell	Magistrate
Bill Hale	Magistrate

Other Elected Officials:

Austin Price	County Attorney
Jessie Hatfield	Jailer
Eric Haynes	County Clerk
Othel King	Circuit Court Clerk
Randy Waters	Sheriff
Dwight Ross	Property Valuation Administrator
Tim Corder	Coroner

Appointed Personnel:

Geraldine Laxton	County Treasurer
Nathan H. Nevels II	Deputy Judge-Executive
Randy Jones	Chief Financial Officer

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

For The Year Ended June 30, 2021

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

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 846,893	\$	\$	\$
In Lieu Tax Payments	406,803	297,441		
Excess Fees	120,716			
Licenses and Permits	174,514			
Intergovernmental	1,094,558	1,619,185	84,731	3,331
Charges for Services	1,836,044			
Miscellaneous	226,969	316,142	21,084	
Interest	621	422	68	12
Total Receipts	<u>4,707,118</u>	<u>2,233,190</u>	<u>105,883</u>	<u>3,343</u>
DISBURSEMENTS				
General Government	1,222,528			
Protection to Persons and Property	1,882,093		689,533	
General Health and Sanitation	206,743			
Recreation and Culture	110,602			
Roads		2,389,275		100
Airports	15,635			
Road Facilities		139,758		
Debt Service	33,227			
Administration	1,309,771	433,141	38,367	
Total Disbursements	<u>4,780,599</u>	<u>2,962,174</u>	<u>727,900</u>	<u>100</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(73,481)</u>	<u>(728,984)</u>	<u>(622,017)</u>	<u>3,243</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account	18,458			
Transfers From Other Funds	1,347,407	250,000	673,918	
Transfers To Other Funds	(270,214)			
Total Other Adjustments to Cash (Uses)	<u>1,095,651</u>	<u>250,000</u>	<u>673,918</u>	
Net Change in Fund Balance	1,022,170	(478,984)	51,901	3,243
Fund Balance - Beginning (Restated)	937,252	901,876	96,833	24,566
Fund Balance - Ending	<u>\$ 1,959,422</u>	<u>\$ 422,892</u>	<u>\$ 148,734</u>	<u>\$ 27,809</u>
Composition of Fund Balance				
Bank Balance	\$ 1,943,545	\$ 558,506	\$ 148,734	\$ 27,809
Payroll Revolving Account	18,458			
Less: Outstanding Checks	(2,581)	(135,614)		
Fund Balance - Ending	<u>\$ 1,959,422</u>	<u>\$ 422,892</u>	<u>\$ 148,734</u>	<u>\$ 27,809</u>

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

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

Budgeted Funds					Unbudgeted Fund
Federal Grant Fund	Ambulance Equipment Fund	Occupational Tax Fund	Grant Fund	Revolving Loan Fund	OVC Expansion Project Fund
\$	\$	\$ 2,024,226	\$	\$	\$
1,673,460			70,000		580,790
	40,000			70,531	
87	9	100	10	39	
<u>1,673,547</u>	<u>40,009</u>	<u>2,024,326</u>	<u>70,010</u>	<u>70,570</u>	<u>580,790</u>
	12,700		85,000		
	38,365			70,000	510,950
	<u>51,065</u>		<u>85,000</u>	<u>70,000</u>	<u>510,950</u>
<u>1,673,547</u>	<u>(11,056)</u>	<u>2,024,326</u>	<u>(14,990)</u>	<u>570</u>	<u>69,840</u>
	20,000	(2,021,111)			
	<u>20,000</u>	<u>(2,021,111)</u>			
1,673,547	8,944	3,215	(14,990)	570	69,840
	25,289	64,293	25,712	93,837	
<u>\$ 1,673,547</u>	<u>\$ 34,233</u>	<u>\$ 67,508</u>	<u>\$ 10,722</u>	<u>\$ 94,407</u>	<u>\$ 69,840</u>
\$ 1,673,547	\$ 34,233	\$ 68,038	\$ 10,722	\$ 94,407	\$ 141,225
		(530)			(71,385)
<u>\$ 1,673,547</u>	<u>\$ 34,233</u>	<u>\$ 67,508</u>	<u>\$ 10,722</u>	<u>\$ 94,407</u>	<u>\$ 69,840</u>

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

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

	Unbudgeted Funds		
	Marsh Creek Waterline Project Fund	McCreary County Courthouse And Public Square Corporation Fund	Total Funds
RECEIPTS			
Taxes	\$	\$	\$ 2,871,119
In Lieu Tax Payments			704,244
Excess Fees			120,716
Licenses and Permits			174,514
Intergovernmental	609,959	54,100	5,790,114
Charges for Services			1,836,044
Miscellaneous			674,726
Interest			1,368
Total Receipts	609,959	54,100	12,172,845
DISBURSEMENTS			
General Government			1,222,528
Protection to Persons and Property			2,669,326
General Health and Sanitation			206,743
Recreation and Culture			110,602
Roads			2,389,375
Airports			15,635
Road Facilities			139,758
Debt Service		5,050	76,642
Administration	609,958		2,972,187
Total Disbursements	609,958	5,050	9,802,796
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	1	49,050	2,370,049
Other Adjustments to Cash (Uses)			
Payroll Revolving Account			18,458
Transfers From Other Funds			2,291,325
Transfers To Other Funds			(2,291,325)
Total Other Adjustments to Cash (Uses)			18,458
Net Change in Fund Balance	1	49,050	2,388,507
Fund Balance - Beginning (Restated)		1,100	2,170,758
Fund Balance - Ending	\$ 1	\$ 50,150	\$ 4,559,265
Composition of Fund Balance			
Bank Balance	\$ 1	\$ 50,150	\$ 4,750,917
Payroll Revolving Account			18,458
Less: Outstanding Checks			(210,110)
Fund Balance - Ending	\$ 1	\$ 50,150	\$ 4,559,265

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

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TO THE FINANCIAL STATEMENT**

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**MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2021

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The McCreary County Tourist Commission would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis, they are no longer a required component of the reporting entity.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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.

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

Federal Grant Fund - The primary purpose of this fund is to manage the American Rescue Plan Act (ARPA) funds received by the county from the federal government.

Ambulance Equipment Fund - The primary purpose of this fund is to account for the purchase of new ambulance equipment. The primary source of receipts for this fund is state grants.

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

Grant Fund - The primary purpose of this fund is to manage state and federal grants received by the county. The primary sources of receipts for this fund are state and federal grants.

Revolving Loan Fund - The primary purpose of this fund is to account for the county's small business revolving loan program. The primary source of receipts for this fund is loan repayments.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

OVC Expansion Project Fund - The primary purpose of this fund is to account for pass-through grant monies to the McCreary County Industrial Authority for the Outdoor Ventures Corporation (OVC). The source of receipts for this fund is a Community Development Block Grant (CDBG).

Marsh Creek Waterline Project Fund - The primary purpose of this fund is to account for grant monies to replace 30,785 linear feet of waterline along Marsh Creek Road near Strunk, KY. The source of receipts for this fund is a CDBG.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

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

E. McCreary County Elected Officials

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

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

F. Deposits and Investments

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

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

	General	Occupational	Total
	Fund	Tax	Transfers In
		Fund	
General Fund	\$	\$ 1,347,407	\$ 1,347,407
Road Fund	250,000		250,000
Jail Fund	214	673,704	673,918
Ambulance Equipment Fund	20,000		20,000
Total Transfers Out	<u>\$ 270,214</u>	<u>\$ 2,021,111</u>	<u>\$ 2,291,325</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.

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

Note 4. Notes Receivable

In 1994, McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as the Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As part of this effort, SMART-approved low interest rate loans were made available to eligible businesses from Enterprise Community Program funds, which were passed through to the county from the U.S. Department of Health and Human Services. In 1998, the county was also awarded Rural Business Enterprise Grants (RBEG) for Smart-Approved low interest rate loans to eligible businesses, which were passed through the U.S. Department of Agriculture. The most recent grant awarded from the USDA was during fiscal year 2013 in the amount of \$75,000.

Once grant funds are repaid from a borrower, the repaid principal and interest will be used to make additional loans as specified in the loan guidelines. The balance of both the SMART and RBEG receivables due as of June 30, 2021, is \$893,504.

Note 5. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Financing Obligation - Courthouse Renovations

On June 26, 2013, the McCreary County Fiscal Court issued \$246,320 for the purpose of paying off McCreary Co., Ky (ADA) KADDFT Lease Acquisition Program 2001 Series B 59517. The debt requires semi-annual interest payments due on October 1 and April 1. The debt will mature on October 1, 2021. The principal balance as of June 30, 2021, was \$30,780. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 30,780	\$ 378
Totals	\$ 30,780	\$ 378

2. Financing Obligation - Ambulance

On July 13, 2016, the McCreary County Fiscal Court entered into a financing obligation with KACo Leasing Trust for the purchase of an ambulance. In case of default, the ambulance is considered collateral. The principle was \$88,195 at a variable interest rate for a period of 5 years, with principal and interest both paid monthly. The principal balance as of June 30, 2021, was \$0.

3. Financing Obligation - Ambulance

On June 15, 2018, the McCreary County Fiscal Court entered into a financing obligation with KACo Leasing Trust for the purchase of an ambulance. In case of default, the ambulance is considered collateral. The principal balance was \$50,000 with an effective interest rate of 3.95% for a period of three years, with principal and interest paid monthly. The principal balance as of June 30, 2021, was \$0.

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

Note 5. Long-term Debt (Continued)

B. Other Debt

1. First Mortgage Refunding Revenue Bonds (County Facilities Project), Series 2009

On November 1, 1999, the McCreary County Courthouse and Public Square Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the justice center, which is attached to the courthouse, and obtaining rental space for the AOC at the justice center. In November of 1999, the McCreary County Courthouse and Public Square Corporation issued 1999A First Mortgage Revenue Bonds in the amount of \$5,205,000 in order to construct the McCreary County Justice Center.

The McCreary County Courthouse and Public Square Corporation designated the county to act as its agent in order to plan, design, construct, manage, and maintain the justice center. The McCreary County Courthouse and Public Square Corporation expects annual rentals from AOC for use of the justice center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, AOC has agreed to pay directly to the paying agent bank the use allowances payments as provided in the lease. The lease agreement is renewable each year. The McCreary County Courthouse and Public Square Corporation is dependent upon the use of allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the justice center by AOC. AOC, with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2020, but the lease does not legally obligate AOC to do so.

In July 2009, the McCreary County Fiscal Court retired the 1999A and 2001B series bonds by the issuance of series 2009 refunding bonds in the amount of \$3,515,000. This refunding resulted in an average interest rate reduction of 1.77 percent and estimated present value savings amount of \$150,915.

The county did not pay the required, fiscal year ending June 30, 2021, bond principal payment of \$50,000. The principal balance as of June 30, 2021, was \$75,000. The future debt service requirements for the 2009 First Mortgage Refunding Revenue Bonds are presented as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2022	<u>\$ 75,000</u>	<u>\$ 1,725</u>
Totals	<u>\$ 75,000</u>	<u>\$ 1,725</u>

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

Note 5. Long-term Debt (Continued)

C. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 100,748	\$	\$ 69,968	\$ 30,780	\$ 30,780
Other Debt	75,000			75,000	75,000
Total Long-term Debt	<u>\$ 175,748</u>	<u>\$ 0</u>	<u>\$ 69,968</u>	<u>\$ 105,780</u>	<u>\$ 105,780</u>

D. Aggregate Debt Schedule

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

Fiscal Year Ended June 30	Other Debt		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2022	\$ 75,000	\$ 1,725	\$ 30,780	\$ 378
Totals	<u>\$ 75,000</u>	<u>\$ 1,725</u>	<u>\$ 30,780</u>	<u>\$ 378</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. The nine (9) member board of trustees is responsible for the governance of the CERS pension and insurance plans.

The county's contribution for FY 2019 was \$424,523, FY 2020 was \$527,548, and FY 2021 was \$513,904.

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

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

Note 6. Employee Retirement System (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 KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for nonhazardous employees was 24.06 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

Benefits are covered under KRS 78.5536.

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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

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

Tier 2 member benefits are covered by KRS 78.5536. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

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

Note 7. Deferred Compensation

The McCreary 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 8. Flexible Spending Account

The McCreary County Fiscal Court established a flexible spending account in 2010 to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$2,000 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 9. Insurance

For the fiscal year ended June 30, 2021, the McCreary 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 10. Payroll Revolving Account

The reconciled balance of the payroll revolving account of \$18,458 as of June 30, 2021, was added to the general fund cash balance for financial reporting purposes.

Note 11. Prior Period Adjustments

	General Fund	Road Fund	Jail Fund
Ending Balance, June 30, 2020	\$ 956,458	\$ 901,001	\$ 96,353
Adjustments:			
Unexplained Payroll Balance	(19,218)		
Voided Checks	12	875	480
Restated Beginning Balance, July 1, 2020	<u>\$ 937,252</u>	<u>\$ 901,876</u>	<u>\$ 96,833</u>

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

Note 12. Related Party Transactions

In 1994, McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as the Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As a part of this effort, SMART-approved low interest rate loans were made available to eligible businesses from Enterprise Community Program funds, which were passed through to the county from the U.S. Department of Health and Human Services. In 1998, the county was also awarded Rural Business Enterprise Grants (RBEG) for SMART-approved low interest rate loans to eligible businesses, which were passed through the U.S. Department of Agriculture. The program has awarded 43 loans totaling \$1,801,345 over the program's existence. Five of the loans were to related parties as listed below:

Relationship	Loans To Related Parties	Disposition Of Loan
McCreary County Fiscal Court Deputy Judge/Executive and Wife	\$22,519 loan in July 2003	Three payments received in FY 2021 Note - interest rate lowered to one percent in FY 2017
Borrower was related to the President of the Loan Board	\$50,000 loan in November 2006	Filed bankruptcy January 20, 2010
Former McCreary County Fiscal Court Deputy Judge/Executive and Wife	\$15,000 loan in January 2008	Five payments received in FY 2021 Note - interest rate lowered to one percent in FY 2017
President of the Loan Board	\$60,268 loan in November 2009	Paid off in FY 2017
Mother-In-Law to the former McCreary County Deputy Judge/Executive	\$75,000 loan in September 2011	Two payments received in FY 2021 Note - interest rate lowered to one percent in FY 2017

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2021

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MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2021

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 778,000	\$ 778,000	\$ 846,893	\$ 68,893
In Lieu Tax Payments	352,000	352,000	406,803	54,803
Excess Fees	17,250	17,250	120,716	103,466
Licenses and Permits	147,600	147,600	174,514	26,914
Intergovernmental	375,308	1,001,867	1,094,558	92,691
Charges for Services	1,469,000	1,469,000	1,836,044	367,044
Miscellaneous	49,550	100,421	226,969	126,548
Interest	500	500	621	121
Total Receipts	3,189,208	3,866,638	4,707,118	840,480
DISBURSEMENTS				
General Government	1,034,792	1,354,367	1,222,528	131,839
Protection to Persons and Property	1,655,395	1,976,140	1,882,093	94,047
General Health and Sanitation	225,209	246,579	206,743	39,836
Recreation and Culture	86,668	123,293	110,602	12,691
Airports	8,700	19,795	15,635	4,160
Debt Service	43,600	33,228	33,227	1
Administration	1,655,961	1,386,353	1,309,771	76,582
Total Disbursements	4,710,325	5,139,755	4,780,599	359,156
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,521,117)	(1,273,117)	(73,481)	1,199,636
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,358,814	1,358,814	1,347,407	(11,407)
Transfers To Other Funds	(549,323)	(549,323)	(270,214)	279,109
Total Other Adjustments to Cash (Uses)	809,491	809,491	1,077,193	267,702
Net Change in Fund Balance	(711,626)	(463,626)	1,003,712	1,467,338
Fund Balance - Beginning (Restated)	711,626	711,626	937,252	225,626
Fund Balance - Ending	\$ 0	\$ 248,000	\$ 1,940,964	\$ 1,692,964

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 365,545	\$ 365,545	\$ 297,441	\$ (68,104)
Intergovernmental	1,581,857	1,673,235	1,619,185	(54,050)
Miscellaneous	219,500	241,960	316,142	74,182
Interest	400	400	422	22
Total Receipts	<u>2,167,302</u>	<u>2,281,140</u>	<u>2,233,190</u>	<u>(47,950)</u>
DISBURSEMENTS				
Roads	1,459,843	2,501,429	2,389,275	112,154
Road Facilities	203,630	167,671	139,758	27,913
Administration	520,481	527,171	433,141	94,030
Total Disbursements	<u>2,183,954</u>	<u>3,196,271</u>	<u>2,962,174</u>	<u>234,097</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(16,652)</u>	<u>(915,131)</u>	<u>(728,984)</u>	<u>186,147</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			250,000	250,000
Transfers To Other Funds	<u>(233,870)</u>	<u>(233,870)</u>		<u>233,870</u>
Total Other Adjustments to Cash (Uses)	<u>(233,870)</u>	<u>(233,870)</u>	<u>250,000</u>	<u>483,870</u>
Net Change in Fund Balance	(250,522)	(1,149,001)	(478,984)	670,017
Fund Balance - Beginning (Restated)	<u>250,522</u>	<u>901,001</u>	<u>901,876</u>	<u>875</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (248,000)</u>	<u>\$ 422,892</u>	<u>\$ 670,892</u>

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

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 145,750	\$ 145,750	\$ 84,731	\$ (61,019)
Miscellaneous	28,500	28,500	21,084	(7,416)
Interest	25	25	68	43
Total Receipts	<u>174,275</u>	<u>174,275</u>	<u>105,883</u>	<u>(68,392)</u>
DISBURSEMENTS				
Protection to Persons and Property	1,160,020	1,158,585	689,533	469,052
Administration	<u>66,550</u>	<u>67,985</u>	<u>38,367</u>	<u>29,618</u>
Total Disbursements	<u>1,226,570</u>	<u>1,226,570</u>	<u>727,900</u>	<u>498,670</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,052,295)</u>	<u>(1,052,295)</u>	<u>(622,017)</u>	<u>430,278</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>1,051,795</u>	<u>1,051,795</u>	<u>673,918</u>	<u>(377,877)</u>
Total Other Adjustments to Cash (Uses)	<u>1,051,795</u>	<u>1,051,795</u>	<u>673,918</u>	<u>(377,877)</u>
Net Change in Fund Balance	(500)	(500)	51,901	52,401
Fund Balance - Beginning (Restated)	<u>500</u>	<u>500</u>	<u>96,833</u>	<u>96,333</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 148,734</u>	<u>\$ 148,734</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 6,959	\$ 6,959	\$ 3,331	\$ (3,628)
Interest	75	75	12	(63)
Total Receipts	7,034	7,034	3,343	(3,691)
DISBURSEMENTS				
Roads	31,034	31,034	100	30,934
Total Disbursements	31,034	31,034	100	30,934
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(24,000)	(24,000)	3,243	27,243
Net Change in Fund Balance	(24,000)	(24,000)	3,243	27,243
Fund Balance - Beginning	24,000	24,000	24,566	566
Fund Balance - Ending	\$ 0	\$ 0	\$ 27,809	\$ 27,809

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

FEDERAL GRANT FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$	\$ 1,673,460	\$ 1,673,460	\$
Interest			87	87
Total Receipts		1,673,460	1,673,547	87
DISBURSEMENTS				
Capital Projects		1,673,460		1,673,460
Total Disbursements		1,673,460		1,673,460
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			1,673,547	1,673,547
Net Change in Fund Balance			1,673,547	1,673,547
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,673,547	\$ 1,673,547

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

AMBULANCE EQUIPMENT FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Miscellaneous	\$	\$	\$ 40,000	\$ 40,000
Interest	10	10	9	(1)
Total Receipts	10	10	40,009	39,999
DISBURSEMENTS				
Protection to Persons and Property	38,310	38,310	12,700	25,610
Debt Service	40,750	40,750	38,365	2,385
Total Disbursements	79,060	79,060	51,065	27,995
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(79,050)	(79,050)	(11,056)	67,994
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	60,000	60,000	20,000	(40,000)
Total Other Adjustments to Cash (Uses)	60,000	60,000	20,000	(40,000)
Net Change in Fund Balance	(19,050)	(19,050)	8,944	27,994
Fund Balance - Beginning	19,050	19,050	25,289	6,239
Fund Balance - Ending	\$ 0	\$ 0	\$ 34,233	\$ 34,233

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

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,687,291	\$ 1,687,291	\$ 2,024,226	\$ 336,935
Interest	125	125	100	(25)
Total Receipts	<u>1,687,416</u>	<u>1,687,416</u>	<u>2,024,326</u>	<u>336,910</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,687,416</u>	<u>1,687,416</u>	<u>2,024,326</u>	<u>336,910</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(1,687,416)</u>	<u>(1,687,416)</u>	<u>(2,021,111)</u>	<u>(333,695)</u>
Total Other Adjustments to Cash (Uses)	<u>(1,687,416)</u>	<u>(1,687,416)</u>	<u>(2,021,111)</u>	<u>(333,695)</u>
Net Change in Fund Balance			3,215	3,215
Fund Balance - Beginning			<u>64,293</u>	<u>64,293</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 67,508</u>	<u>\$ 67,508</u>

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

	GRANT FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 327,393	\$ 377,393	\$ 70,000	\$ (307,393)
Interest			10	10
Total Receipts	<u>327,393</u>	<u>377,393</u>	<u>70,010</u>	<u>(307,383)</u>
DISBURSEMENTS				
Protection to Persons and Property	<u>327,393</u>	<u>377,393</u>	<u>85,000</u>	<u>292,393</u>
Total Disbursements	<u>327,393</u>	<u>377,393</u>	<u>85,000</u>	<u>292,393</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(14,990)</u>	<u>(14,990)</u>
Net Change in Fund Balance			(14,990)	(14,990)
Fund Balance - Beginning			<u>25,712</u>	<u>25,712</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,722</u>	<u>\$ 10,722</u>

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

REVOLVING LOAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 25,000	\$ 25,000	\$ 70,531	\$ 45,531
Interest	100	100	39	(61)
Total Receipts	25,100	25,100	70,570	45,470
DISBURSEMENTS				
Administration	114,600	114,600	70,000	44,600
Total Disbursements	114,600	114,600	70,000	44,600
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(89,500)	(89,500)	570	90,070
Net Change in Fund Balance	(89,500)	(89,500)	570	90,070
Fund Balance - Beginning	89,500	89,500	93,837	4,337
Fund Balance - Ending	\$ 0	\$ 0	\$ 94,407	\$ 94,407

MCCREARY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2021

Note 1. Budgetary Information

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

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

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

Note 2. Reconciliation of the General Fund

The *Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis* differs from the *Budgetary Comparison Schedule* for the general fund for intergovernmental receipts and debt service by \$18,458 due to the inclusion of the payroll revolving account's reconciled balance.

MCCREARY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2021

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MCCREARY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<u>U. S. Department of Agriculture</u>				
<i>Direct Program:</i>				
Community Facilities Loans and Grants	10.766	Unknown	\$	\$ 50,000
Total U.S. Department of Agriculture				50,000
<u>U. S. Department of Housing and Urban Development</u>				
<i>Passed-Through Kentucky Department for Local Government:</i>				
Community Development Block Grant (State-Administered Small Cities Program) Outdoor Venture Corporation Project	14.228	18-064		510,950
Community Development Block Grant (State-Administered Small Cities Program) Marsh Creek to HWY 92 Waterline Replacement Project	14.228	18-030		609,959
Total U.S. Department of Housing and Urban Development				1,120,909
<u>U. S. Department of the Treasury</u>				
<i>Passed-Through Kentucky Department for Local Government:</i>				
COVID-19 Coronavirus Relief Fund	21.019	2100000070		193,707
Total U.S. Department of the Treasury				193,707
<u>U. S. Department of Homeland Security</u>				
<i>Passed-Through Kentucky Department of Emergency Management:</i>				
Emergency Management Performance Grants (EMPG)	97.042	2100000513		17,768
<i>Direct Program:</i>				
Assistance to Firefighters Grant	97.044	Unknown		39,909
Total U.S. Department of Homeland Security				57,677
Total Expenditures of Federal Awards			\$ 0	\$ 1,422,293

The accompanying notes are an integral part of this schedule.

MCCREARY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2021

Note 1. Basis of Presentation

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

McCreary 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.

MCCREARY COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2021

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MCCREARY COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2021

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,096,783	\$	\$	\$ 2,096,783
Buildings	9,159,877			9,159,877
Vehicles and Equipment	1,162,348			1,162,348
Other Equipment	1,722,655			1,722,655
Infrastructure	9,054,473			9,054,473
 Total Capital Assets	 <u>\$ 23,196,136</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 23,196,136</u>

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

June 30, 2021

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Vehicles and Equipment	\$ 5,000	3-25
Other Equipment	\$ 5,000	3-25
Infrastructure	\$ 5,000	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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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmie W. Greene II, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCreary County Fiscal Court for the fiscal year ended June 30, 2021, and the related notes to the financial statement which collectively comprise the McCreary County Fiscal Court's financial statement and have issued our report thereon dated March 11, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the McCreary 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 McCreary County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCreary 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 and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2021-002, 2021-004, 2021-005, and 2021-007 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)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001 and 2021-003 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2021-002, 2021-005, 2021-006 and 2021-007.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

March 11, 2022

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmie W. Greene II, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

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

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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



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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

March 11, 2022

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2021

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MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2021

Section I: Summary of Auditor's Results

Financial Statement

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Adverse on GAAP and Unmodified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input 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 [<i>unmodified, qualified, adverse, or disclaimer</i>]:		
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>
14.228	Community Development Block Grant
21.019	COVID-19 Coronavirus Relief Fund

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

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

Section II: Financial Statement Findings

2021-001 The Payroll Revolving Account Was Not Properly Reconciled

This is a repeat finding and was included in the prior year audit report as finding 2020-002. The payroll revolving account did not reconcile to zero as of June 30, 2021, and the remaining balance could not be readily explained. According to the information available to auditors, the account balance as of June 30, 2021, was \$6,186. Of this balance, the county had outstanding liabilities of \$64,220 and outstanding receivables of \$76,492, leaving an unexplained balance of \$18,458 for fiscal year 2021.

In addition, the employee benefits account, which primarily receives funds from the payroll account, did not reconcile to zero. According to the information available to auditors, as of June 30, 2021, the account had an unexplained balance of \$682 for fiscal year 2021. Auditors noted the finance officer verified that funds were deposited, and checks or electronic withdrawals had cleared but no evidence of a monthly bank reconciliation was found for these accounts. In addition, the account was overdrawn 11 times during the fiscal year which indicates a lack of oversight.

According to the finance officer, a new payroll account was opened in July 2018 and he thought this corrected the prior year issue since he transfers payroll funds according to the summary produced by the computer software.

The unreconciled payroll account could cause the fiscal court to have insufficient funds to meet payroll requirements, cause the fiscal court's liabilities to not be properly paid, or cause liabilities to not be paid timely.

Per KRS 68.210, the state local finance officer has the authority to require a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* includes monthly bank reconciliations as a minimum requirement for all county officials. Since the payroll and employee benefits accounts are revolving accounts, only the funds necessary to pay employees and government agencies should be transferred from other county funds. Therefore, each month the account should reconcile to a zero balance.

Good internal controls dictate that revolving accounts be reconciled to a zero balance. In addition, monthly bank reconciliations should be prepared and reviewed by someone independent of the reconciliation process.

We recommend the fiscal court properly reconcile the payroll revolving account and the employee benefits account to a zero balance monthly. Additionally, we recommend the bank reconciliations be reviewed by an employee independent of the reconciliation process. These reviews should be dated and initialed by both the preparer and the reviewer to document evidence of oversight, accuracy, and completeness.

County Judge/Executive's Response: A new account will be implemented in the next budget to rectify this.

2021-002 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures

This is a repeat finding and was included in the prior year audit report as finding 2020-003. The fiscal court did not have proper purchase and procurement procedures as noted by the following deficiencies:

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

Section II: Financial Statement Findings (Continued)

2021-002 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures (Continued)

Of the 82 invoices tested:

- The county did not properly accept bids for goods and services. The fiscal court order did not document which bidder was selected and approved. It just stated all bids presented were being approved.
- The county did not maintain bid documentation for one disbursement over \$30,000.
- Fifty-four invoices tested did not have purchase orders.
- Nineteen invoices tested were paid past 30 working days of receipt.
- Four invoices tested did not have supporting documentation.
- Purchase orders that were completed are not consistent pertaining to the documentation of the issuance and authorization of the purchase order. Some purchase orders were documented as only being issued by the finance officer and some were issued by the finance officer and some were only authorized by the department head or county judge/executive. This process should document who issued the purchase order and who approved the purchase order.

The deficiencies are a direct result of the lack of adequate segregation of duties, improper accounting practices, and poor internal controls without sufficient management oversight. These deficiencies could have resulted in significant overpayments, misappropriations, inaccurate financial reporting, or penalties being assessed.

Section 9.1 of the McCreary County Administrative Code states, “All purchases must be accompanied by a purchase order as issued by the County Finance Officer, which shall be issued prior to the time of purchase or authorization of purchase by an employee or department and will be paid once an original invoice is in receipt of County Judge’s Office.”

The McCreary County Administrative Code Section 9.2(E) states, “The County Judge shall open all bids publicly at the time and place stated in the advertisements and shall select the lowest and/or best bid by qualified bidder. If the lowest bid is not selected, the reasons for the selection shall be stated in writing.” Also, section 9.2(H) states, “The County Judge shall submit the bid selected to Fiscal Court for approval.”

KRS 65.140(2) states, “Unless 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.”

We recommend the fiscal court take the steps necessary to ensure they are in compliance with the state local finance officer and the county administrative code. We recommend all items over \$30,000 county bid threshold be properly bid out and that all supporting documentation, such as approved bid specifications and purchase orders, be maintained with the original invoices. We recommend all disbursements are paid within 30 working days of receipt and all disbursements have supporting receipts. We further recommend that all purchase orders are completed properly in regards to the issuance and authorization of the purchase order.

County Judge/Executive’s Response: This is one area we have stressed repeatedly and diligently to fix.

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

Section II: Financial Statement Findings (Continued)

2021-003 The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2020-004. The fiscal court has not implemented proper internal control procedures over credit card disbursements. Credit card disbursements had the following deficiencies:

- Twenty out of the 34 charges tested included sales tax when the county is tax exempt.
- One credit card receipt was missing an itemized detail of charge.

One credit card charge was paid without sufficient supporting documentation.

The deficiencies noted above stem from a lack of adequate segregation of duties, improper accounting practices, and poor internal controls without oversight. The county treasurer and county judge/executive are relying upon the finance officer to ensure all invoices are valid without proper review of the supporting documentation before authorizing disbursement. The lack of proper segregation of duties, improper accounting practices, and lack of oversight could result in misappropriation of assets, inaccurate financial reporting, or payment for personal purchases with public funds.

Good internal controls dictate that proper supporting documentation is maintained to support disbursements and the county does not pay sales tax since they are a tax-exempt entity.

We recommend the fiscal court take the steps necessary to ensure compliance with applicable statutes and proper accounting practices by implementing additional internal controls on credit card disbursements. This could be accomplished by assigning an individual other than the finance officer to review all transactions to ensure that they have proper documentation (such as itemized receipts, etc.) and to ensure sales tax is not part of the claim before being submitted for approval to the fiscal court. We further recommend that the authorized check signers ensure credit card disbursements are properly supported before authorizing the checks.

County Judge/Executive's Response: We have gone to online payments but sometimes situations (ultimately notification, etc.) are beyond our control.

2021-004 The Fiscal Court Did Not Segregate Duties Over Accounting Functions

This is a repeat finding and was included in the prior year audit report as finding 2020-005. A lack of segregation of duties exists over accounting functions. The county treasurer prepares and deposits receipts, posts to the ledgers, prepares financial reports, and prepares the monthly bank reconciliations. Items returned from the bank are handled by the county treasurer. The finance officer picks up mail from the post office then distributes to the proper department. The finance officer prepares a list of bills for the fiscal court's approval, prepares all checks, and makes adjustments to the appropriations ledger. The finance officer submits the financial statement electronically to the Department for Local Government. The finance officer maintains timesheets, prepares payroll, posts payroll to the ledgers, and transfers funds from the appropriate accounts to the revolving payroll account. In addition, the finance officer is responsible for employee benefits payments (health insurance, life insurance and payments to the employee benefit bank account).

According to the county judge/executive, a limited budget places restrictions on the number of employees the fiscal court can hire. The lack of oversight could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

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

Section II: Financial Statement Findings (Continued)

2021-004 The Fiscal Court Did Not Segregate Duties Over Accounting Functions (Continued)

A segregation of duties over various accounting functions, collecting receipts, preparing bank deposits, and 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 segregate the duties involving collecting and depositing receipts and preparation of reports and reconciliations. If this is not feasible due to limited staff, strong oversight over these areas could occur and involve an employee that is not currently performing any of those functions. For example, the county judge/executive could provide this oversight and document his oversight by initialing the source documents.

County Judge/Executive's Response: This is a common problem for everyone. We don't have the budget to hire more personnel.

2021-005 The Fiscal Court Did Not Have Sufficient Monitoring Or Internal Controls Over The Revolving Loan Program

This is a repeat finding and was included in the prior year audit report as finding 2020-006. Since 1994, the McCreary County Fiscal Court has utilized United States Department of Agriculture (USDA) grants to run a Rural Business Enterprise Grant (RBEG) program. The program is designed to encourage new employment opportunities within the county by providing low cost financing to new businesses. The fiscal court has made 43 loans, totaling \$1,801,345 from fiscal year 1994 through fiscal year 2021. The following issues were noted for fiscal year 2021 as a result of reviewing the program:

- Multiple payments listed within revolving loan records of three businesses that could not be accounted for during the fiscal year. This resulted in the records of those businesses reflecting outstanding balances totaling \$5,905 lower than actually owed.
- Multiple payments recorded within the receipts ledger during the fiscal year, but not reflected within the loan records of ten businesses. This resulted in the records of those businesses reflecting outstanding balances totaling \$22,917 higher than actually owed.

Due to weak controls and inadequate monitoring over the revolving loan program, accurate amounts owed by businesses within the county were not accurately reported. Adequate monitoring and properly designed and implemented internal controls could allow early detection of possible non-paying borrowers. In addition, good internal controls dictate accurate records are maintained to support the activity of the program.

The USDA Application For Federal Assistance SF-424 states “[r]ecords will include an accurate accounting of any principal repayments, interest, or other proceeds generated by the loan fund and will document expenses paid for with interest, or other proceeds generated by the loan and will be documented for the grant audits.”

We recommend the fiscal court properly monitor the activities of the revolving loan program. Additionally, we recommend the fiscal court comply with the requirements of the USDA Application For Federal Assistance SF-424 and ensure that all loans are properly made, documented, collected, and reported. This matter will be referred to the United States Department of Agriculture.

County Judge/Executive's Response: Due to past infractions over the past 20 years we have no control over this matter.

Auditor's Reply: While there have been issues over the past years with this program, the items noted above deal with current issues that can be resolved with proper controls and accounting.

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

Section II: Financial Statement Findings (Continued)

2021-006 The Fiscal Court Did Not Budget Two Funds

The Marsh Creek Waterline Replacement Project Fund and the OVC Expansion Project Fund were not included in the fiscal court's budget and fourth quarter financial report. In addition, receipt and disbursement ledgers were not maintained for these funds.

The county did not include all funds in the budget as required by the Department for Local Government. Failing to budget and record all revenues and expenditures results in the quarterly financial statement being understated. The Marsh Creek Waterline Replacement Project Fund had receipts of \$609,959 and \$609,958 of disbursements. The OVC Expansion Project Fund had receipts of \$580,790 and \$510,950 of disbursements.

KRS 68.240(1) states, in part, "[t]he county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year." KRS 68.280 authorizes the fiscal court to amend the budget for "the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget."

We recommend the county present a budget which includes all funds of the county and include them on the fourth quarter financial report.

County Judge/Executive's Response: This was due to Grant monies from Federal Programs and has been fixed.

2021-007 The Fiscal Court Did Not Prepare An Accurate Schedule Of Expenditures Of Federal Awards

The county's Schedule of Expenditures of Federal Awards (SEFA) required material adjustments to accurately document funds provided to subrecipients and total federal expenditures for fiscal year ending June 30, 2021. The county prepared a SEFA for fiscal year 2021. The original schedule documented \$1,363,131 in federal expenditures. It was determined that the SEFA required material adjustments to accurately report federal expenditures for the FYE June 30, 2021.

The original schedule also included amounts provided to subrecipients of \$3,095,009. It was determined that the SEFA required further material adjustments which removed amounts provided to subrecipients. The fiscal court did not have adequate procedures in place to ensure that all federal expenditures were accurately reported. The failure to properly prepare the SEFA could cause the county to potentially miss obtaining a required single audit.

2 CFR 200.510(b) requires the auditee to "also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements." At a minimum, the schedule should include the following if applicable.

- (1) List individual Federal programs by Federal agency.
- (2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number (ALN) or other identifying number when the ALN information is not available.
- (4) The total amount provided to sub-recipients from each Federal program.
- (5) For loan or loan guarantee programs described in 2 C.F.R. 200.502(b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule.

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

2021-007 The Fiscal Court Did Not Prepare An Accurate Schedule Of Expenditures Of Federal Awards
 (Continued)

We recommend the fiscal court ensure that the SEFA is prepared and is reported accurately.

County Judge/Executive's Response: Fixed.

Section III: Federal Award Findings And Questioned Costs

None.

Section IV: Summary Schedule of Prior Audit Findings

Finding Number	Prior Year Finding Title	Status	Corrective Action
2020-001	Transfers Were Made Before Approval By The Fiscal Court	Resolved	
2020-002	The Payroll Revolving Account Was Not Properly Reconciled	Unresolved	See corrective action for current year finding 2021-001
2020-003	The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures	Unresolved	See corrective action for current year finding 2021-002
2020-004	The Fiscal Court Did Not Have Sufficient Internal Control Procedures Over Credit Card Disbursements	Unresolved	See corrective action for current year finding 2021-003
2020-005	The Fiscal Court Did Not Segregate Duties Over Accounting Functions	Unresolved	See corrective action for current year finding 2021-004
2020-006	The Fiscal Court Did Not Have Sufficient Monitoring Or Internal Controls Over The Revolving Loan	Unresolved	See corrective action for current year finding 2021-005

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

MCCREARY COUNTY FISCAL COURT

For The Year Ended June 30, 2021


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CERTIFICATION OF COMPLIANCE

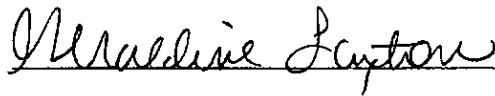
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MCCREARY COUNTY FISCAL COURT

For The Year Ended June 30, 2021

The McCreary 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 cursive script, reading "James W. Greer II", written over a horizontal line.

County Judge/Executive

A handwritten signature in cursive script, reading "Madeline Layton", written over a horizontal line.

County Treasurer