

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

**For The Year Ended
June 30, 2022**



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

Independent Auditor's Report

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Jimmie W. Greene II, McCreary County Judge/Executive

Members of the McCreary County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis of the McCreary County Fiscal Court, for the year ended June 30, 2022, 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.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompany financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and changes in fund balances – regulatory basis of the McCreary County Fiscal Court, for the year ended June 30, 2022, in accordance with accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the McCreary County Fiscal Court, for the year ended June 30, 2022, or the changes in financial position and cash flows thereof for the year then ended.

Basis for Opinions

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



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

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

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

Responsibilities of Management for the Financial Statement

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

Auditor's Responsibilities for the Audit of the Financial Statement

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the McCreary County Fiscal Court's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the McCreary County Fiscal Court's ability to continue as a going concern for a reasonable period of time.

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

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

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

Other Matters

Supplementary Information

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

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2023, 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.

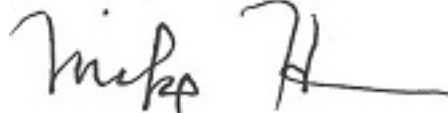
To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jimmie W. Greene II, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

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

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

- 2022-001 The Payroll Revolving Account Was Not Properly Reconciled
- 2022-002 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures
- 2022-003 The Fiscal Court Did Not Segregate Duties Over Accounting Functions
- 2022-004 The Fiscal Court Did Not Budget Two Funds
- 2022-005 The Fiscal Court Did Not Prepare An Accurate Schedule Of Expenditures Of Federal Awards

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

January 27, 2023

MCCREARY COUNTY OFFICIALS**For The Year Ended June 30, 2022****Fiscal Court Members:**

Jimmie W. Green 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

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

For The Year Ended June 30, 2022

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

For The Year Ended June 30, 2022

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 920,912	\$	\$	\$
In Lieu Tax Payments	408,995	309,663		
Excess Fees	114,846			
Licenses and Permits	162,487			
Intergovernmental	513,939	2,435,364	92,717	9,524
Charges for Services	2,062,497			
Miscellaneous	293,873	238,501	33,788	
Interest	907	455	75	15
Total Receipts	<u>4,478,456</u>	<u>2,983,983</u>	<u>126,580</u>	<u>9,539</u>
DISBURSEMENTS				
General Government	1,339,139			
Protection to Persons and Property	2,862,284		1,025,802	
General Health and Sanitation	225,747			
Social Services				
Recreation and Culture	143,271			
Roads		2,450,081		100
Airports	33,463			
Road Facilities		239,328		
Debt Service	31,159			
Capital Projects				
Administration	1,401,786	309,412	44,304	
Total Disbursements	<u>6,036,849</u>	<u>2,998,821</u>	<u>1,070,106</u>	<u>100</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,558,393)</u>	<u>(14,838)</u>	<u>(943,526)</u>	<u>9,439</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account	31,302			
Transfers From Other Funds	2,964,765	337,920	990,511	2,375
Transfers To Other Funds	(561,000)	(27,099)		
Total Other Adjustments to Cash (Uses)	<u>2,435,067</u>	<u>310,821</u>	<u>990,511</u>	<u>2,375</u>
Net Change in Fund Balance	876,674	295,983	46,985	11,814
Fund Balance - Beginning (Restated)	<u>1,941,134</u>	<u>422,892</u>	<u>148,734</u>	<u>27,809</u>
Fund Balance - Ending	<u>\$ 2,817,808</u>	<u>\$ 718,875</u>	<u>\$ 195,719</u>	<u>\$ 39,623</u>
Composition of Fund Balance				
Bank Balance	\$ 2,878,875	\$ 927,030	\$ 195,803	\$ 39,623
Payroll Revolving Account	31,302			
Less: Outstanding Checks	(92,369)	(208,155)	(84)	
Fund Balance - Ending	<u>\$ 2,817,808</u>	<u>\$ 718,875</u>	<u>\$ 195,719</u>	<u>\$ 39,623</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, 2022
(Continued)

Budgeted Funds					
Federal Grant Fund	Ambulance Equipment Fund	Occupational Tax Fund	Grant Fund	Revolving Loan Fund	American Rescue Plan Act Fund
\$	\$	\$ 2,183,011	\$	\$	\$
10,000			26,252		1,673,460
	60,000			79,654	
197	28	93	11	54	488
10,197	60,028	2,183,104	26,263	79,708	1,673,948
	89,052		35,900		
10,000					122,761
152,520				25,040	
162,520	89,052		35,900	25,040	122,761
(152,323)	(29,024)	2,183,104	(9,637)	54,668	1,551,187
(1,521,224)		(2,208,137)			1,521,224
(1,521,224)		(2,208,137)			(1,499,335)
					21,889
(1,673,547)	(29,024)	(25,033)	(9,637)	54,668	1,573,076
1,673,547	34,233	68,038	10,722	94,407	
\$ 0	\$ 5,209	\$ 43,005	\$ 1,085	\$ 149,075	\$ 1,573,076
\$	\$ 5,209	\$ 43,005	\$ 1,085	\$ 149,075	\$ 1,671,790
					(98,714)
\$ 0	\$ 5,209	\$ 43,005	\$ 1,085	\$ 149,075	\$ 1,573,076

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, 2022
(Continued)

	Unbudgeted Funds			
	OVC Expansion Project Fund	Marsh Creek Waterline Project Fund	McCreary County Courthouse And Public Square Corporation Fund	Total Funds
RECEIPTS				
Taxes	\$	\$	\$	\$ 3,103,923
In Lieu Tax Payments				718,658
Excess Fees				114,846
Licenses and Permits				162,487
Intergovernmental	469,708	112,041	26,275	5,369,280
Charges for Services				2,062,497
Miscellaneous				705,816
Interest				2,323
Total Receipts	469,708	112,041	26,275	12,239,830
DISBURSEMENTS				
General Government				1,339,139
Protection to Persons and Property				4,013,038
General Health and Sanitation				225,747
Social Services				132,761
Recreation and Culture				143,271
Roads				2,450,181
Airports				33,463
Road Facilities				239,328
Debt Service			76,425	107,584
Capital Projects				152,520
Administration	539,547	112,042		2,432,131
Total Disbursements	539,547	112,042	76,425	11,269,163
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(69,839)	(1)	(50,150)	970,667
Other Adjustments to Cash (Uses)				
Payroll Revolving Account				31,302
Transfers From Other Funds				5,816,795
Transfers To Other Funds				(5,816,795)
Total Other Adjustments to Cash (Uses)				31,302
Net Change in Fund Balance	(69,839)	(1)	(50,150)	1,001,969
Fund Balance - Beginning (Restated)	69,840	1	50,150	4,541,507
Fund Balance - Ending	\$ 1	\$ 0	\$ 0	\$ 5,543,476
Composition of Fund Balance				
Bank Balance	\$ 1	\$	\$	\$ 5,911,496
Payroll Revolving Account				31,302
Less: Outstanding Checks				(399,322)
Fund Balance - Ending	\$ 1	\$ 0	\$ 0	\$ 5,543,476

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, 2022

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

The McCreary County Tourism Commission and Industrial Development Authority 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 no longer are required components 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, 2022
(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 utility assistance 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.

American Rescue Plan Act 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.

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 Community Development Block Grant (CDBG).

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Unbudgeted Funds (Continued)

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.

D. Budgetary Information

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

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

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

The state local finance officer does not require the 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

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

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

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

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

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

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*. On June 30, 2022, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$541,702

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2022.

	General Fund	Road Fund	Federal Grants Fund	Occupational Tax Fund	American Rescue Plan Act Fund	Total Transfers In
General Fund	\$	\$ 24,724	\$	\$ 1,470,125	\$ 1,469,916	\$ 2,964,765
Road Fund	311,000				26,920	337,920
Jail Fund	250,000			738,012	2,499	990,511
LGEA Fund		2,375				2,375
American Rescue Plan Act Fund			1,521,224			1,521,224
Total Transfers Out	<u>\$ 561,000</u>	<u>\$ 27,099</u>	<u>\$ 1,521,224</u>	<u>\$ 2,208,137</u>	<u>\$ 1,499,335</u>	<u>\$ 5,816,795</u>

Reason for transfers:

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

Note 4. 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, 2022, is \$844,972.

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, 2022, was \$0.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 5. Long-term Debt (Continued)

B. Other Debt

2. 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 are 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 principal balance as of June 30, 2022, was \$0.

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2022, was as follows:

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

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

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

The county's contribution for FY 2020 was \$527,548, FY 2021 was \$513,904, and FY 2022 was \$678,081.

Nonhazardous

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

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

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

The county's contribution rate for nonhazardous employees was 26.95 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:

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

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

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.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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.

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

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

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

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, in 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.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2022, 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. 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 45 loans totaling \$1,826,345 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	Seven payments received in FY 2022 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	Four payments received in FY 2022 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	Four payments received in FY 2022 Note - interest rate lowered to one percent in FY 2017

Note 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account of \$31,302 as of June 30, 2022, was added to the general fund cash balance for financial reporting purposes.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 12. Prior Period Adjustments

	General Fund	Occupational Tax Fund
Ending Balance, June 30, 2021	\$ 1,959,422	\$ 67,508
Adjustments:		
Unexplained Payroll Balance	(18,458)	
Voided Checks	170	530
Restated Beginning Balance, July 1, 2021	<u>\$ 1,941,134</u>	<u>\$ 68,038</u>

Note 13. Leases

A. Lessee

- On September 1, 2019, McCreary County entered into a five year lease agreement as lessee for the acquisition and use of 6 copiers/office equipment. An initial lease liability was recorded in the amount of \$31,079 during that fiscal year. As of June 30, 2022, the value of the lease liability was \$13,696. McCreary County is required to make monthly principal payments of \$527.

Fiscal Year Ended June 30	Amount
2023	\$ 6,321
2024	6,321
2025	<u>1,054</u>
Total Minimum Lease Payments	<u>\$ 13,696</u>

- On January 14, 2020, McCreary County entered into a four year lease agreement as lessee for the acquisition and use of office equipment. An initial lease liability was recorded in the amount of \$2,631 during that fiscal year. As of June 30, 2022, the value of the lease liability was \$1,375. McCreary County is required to make monthly principal payments of \$55.

Fiscal Year Ended June 30	Amount
2023	\$ 660
2024	660
2025	<u>55</u>
Total Minimum Lease Payments	<u>\$ 1,375</u>

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2022

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MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2022

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 862,000	\$ 922,236	\$ 920,912	\$ (1,324)
In Lieu Tax Payments	400,000	400,000	408,995	8,995
Excess Fees	16,750	113,567	114,846	1,279
Licenses and Permits	170,600	184,130	162,487	(21,643)
Intergovernmental	422,400	500,411	513,939	13,528
Charges for Services	1,594,000	1,713,835	2,062,497	348,662
Miscellaneous	42,100	260,734	293,873	33,139
Interest	500	500	907	407
Total Receipts	3,508,350	4,095,413	4,478,456	383,043
DISBURSEMENTS				
General Government	1,216,817	1,522,178	1,339,139	183,039
Protection to Persons and Property	1,938,415	2,987,069	2,862,284	124,785
General Health and Sanitation	234,050	281,223	225,747	55,476
Recreation and Culture	125,200	190,215	143,271	46,944
Airports	11,200	106,727	33,463	73,264
Debt Service	32,100	32,100	31,159	941
Administration	2,016,172	3,222,399	1,401,786	1,820,613
Total Disbursements	5,573,954	8,341,911	6,036,849	2,305,062
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,065,604)	(4,246,498)	(1,558,393)	2,688,105
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,266,750	1,266,750	2,964,765	1,698,015
Transfers To Other Funds	(701,146)	(701,146)	(561,000)	140,146
Total Other Adjustments to Cash (Uses)	565,604	565,604	2,403,765	1,838,161
Net Change in Fund Balance	(1,500,000)	(3,680,894)	845,372	4,526,266
Fund Balance - Beginning (Restated)	1,500,000	1,946,978	1,941,134	(5,844)
Fund Balance - Ending	\$ 0	\$ (1,733,916)	\$ 2,786,506	\$ 4,520,422

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 300,000	\$ 309,663	\$ 309,663	\$
Intergovernmental	1,632,624	2,501,765	2,435,364	(66,401)
Miscellaneous	114,500	226,936	238,501	11,565
Interest	400	400	455	55
Total Receipts	<u>2,047,524</u>	<u>3,038,764</u>	<u>2,983,983</u>	<u>(54,781)</u>
DISBURSEMENTS				
Roads	2,005,072	2,981,516	2,450,081	531,435
Road Facilities	303,630	502,380	239,328	263,052
Administration	638,822	751,294	309,412	441,882
Total Disbursements	<u>2,947,524</u>	<u>4,235,190</u>	<u>2,998,821</u>	<u>1,236,369</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(900,000)</u>	<u>(1,196,426)</u>	<u>(14,838)</u>	<u>1,181,588</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	500,000	500,000	337,920	(162,080)
Transfers To Other Funds			(27,099)	(27,099)
Total Other Adjustments to Cash (Uses)	<u>500,000</u>	<u>500,000</u>	<u>310,821</u>	<u>(189,179)</u>
Net Change in Fund Balance	(400,000)	(696,426)	295,983	992,409
Fund Balance - Beginning	<u>400,000</u>	<u>558,506</u>	<u>422,892</u>	<u>(135,614)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (137,920)</u>	<u>\$ 718,875</u>	<u>\$ 856,795</u>

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 91,000	\$ 91,000	\$ 92,717	\$ 1,717
Miscellaneous	28,500	28,500	33,788	5,288
Interest	25	25	75	50
Total Receipts	119,525	119,525	126,580	7,055
DISBURSEMENTS				
Protection to Persons and Property	1,005,695	1,057,625	1,025,802	31,823
Administration	73,779	47,654	44,304	3,350
Total Disbursements	1,079,474	1,105,279	1,070,106	35,173
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(959,949)	(985,754)	(943,526)	42,228
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	834,521	834,521	990,511	155,990
Total Other Adjustments to Cash (Uses)	834,521	834,521	990,511	155,990
Net Change in Fund Balance	(125,428)	(151,233)	46,985	198,218
Fund Balance - Beginning	125,428	148,734	148,734	
Fund Balance - Ending	\$ 0	\$ (2,499)	\$ 195,719	\$ 198,218

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(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	\$ 9,524	\$ 2,565
Interest	75	75	15	(60)
Total Receipts	7,034	7,034	9,539	2,505
DISBURSEMENTS				
Roads	32,034	34,843	100	34,743
Total Disbursements	32,034	34,843	100	34,743
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(25,000)	(27,809)	9,439	37,248
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			2,375	2,375
Total Other Adjustments to Cash (Uses)			2,375	2,375
Net Change in Fund Balance	(25,000)	(27,809)	11,814	39,623
Fund Balance - Beginning	25,000	27,809	27,809	
Fund Balance - Ending	\$ 0	\$ 0	\$ 39,623	\$ 39,623

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

FEDERAL GRANT FUND			
	Budgeted Amounts		Variance with
	Original	Final	Actual Amounts, (Budgetary Basis) Final Budget Positive (Negative)
RECEIPTS			
Intergovernmental	\$	\$ 200,000	\$ 10,000
Interest			197
Total Receipts		200,000	10,197
			(189,803)
DISBURSEMENTS			
Social Services		200,000	10,000
Capital Projects	1,670,923	152,520	152,520
Total Disbursements	1,670,923	352,520	162,520
			190,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,670,923)	(152,520)	(152,323)
			197
Other Adjustments to Cash (Uses)			
Transfers To Other Funds			(1,521,224)
Total Other Adjustments to Cash (Uses)			(1,521,224)
			(1,521,224)
Net Change in Fund Balance	(1,670,923)	(152,520)	(1,673,547)
Fund Balance - Beginning	1,670,923	1,673,547	1,673,547
			(1,521,027)
Fund Balance - Ending	\$ 0	\$ 1,521,027	\$ 0
			(1,521,027)

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

AMBULANCE EQUIPMENT FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Miscellaneous	\$ 60,000	\$ 60,000	\$ 60,000	\$
Interest	10	10	28	18
Total Receipts	60,010	60,010	60,028	18
DISBURSEMENTS				
Protection to Persons and Property	84,010	94,243	89,052	5,191
Total Disbursements	84,010	94,243	89,052	5,191
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(24,000)	(34,233)	(29,024)	5,209
Net Change in Fund Balance	(24,000)	(34,233)	(29,024)	5,209
Fund Balance - Beginning	24,000	34,233	34,233	
Fund Balance - Ending	\$ 0	\$ 0	\$ 5,209	\$ 5,209

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,900,000	\$ 1,900,000	\$ 2,183,011	\$ 283,011
Interest	125	125	93	(32)
Total Receipts	<u>1,900,125</u>	<u>1,900,125</u>	<u>2,183,104</u>	<u>282,979</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,900,125</u>	<u>1,900,125</u>	<u>2,183,104</u>	<u>282,979</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(1,900,125)</u>	<u>(1,900,125)</u>	<u>(2,208,137)</u>	<u>(308,012)</u>
Total Other Adjustments to Cash (Uses)	<u>(1,900,125)</u>	<u>(1,900,125)</u>	<u>(2,208,137)</u>	<u>(308,012)</u>
Net Change in Fund Balance			(25,033)	(25,033)
Fund Balance - Beginning (Restated)			<u>68,038</u>	<u>68,038</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 43,005</u>	<u>\$ 43,005</u>

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

	GRANT FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 386,419	\$ 386,419	\$ 26,252	\$ (360,167)
Interest			11	11
Total Receipts	<u>386,419</u>	<u>386,419</u>	<u>26,263</u>	<u>(360,156)</u>
DISBURSEMENTS				
Protection to Persons and Property	<u>397,139</u>	<u>397,139</u>	<u>35,900</u>	<u>361,239</u>
Total Disbursements	<u>397,139</u>	<u>397,139</u>	<u>35,900</u>	<u>361,239</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(10,720)</u>	<u>(10,720)</u>	<u>(9,637)</u>	<u>1,083</u>
Net Change in Fund Balance	(10,720)	(10,720)	(9,637)	1,083
Fund Balance - Beginning	<u>10,720</u>	<u>10,720</u>	<u>10,722</u>	<u>2</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,085</u>	<u>\$ 1,085</u>

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

REVOLVING LOAN FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Miscellaneous	\$ 50,000	\$ 50,000	\$ 79,654	\$ 29,654
Interest	100	100	54	(46)
Total Receipts	50,100	50,100	79,708	29,608
DISBURSEMENTS				
Administration	142,100	144,507	25,040	119,467
Total Disbursements	142,100	144,507	25,040	119,467
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(92,000)	(94,407)	54,668	149,075
Net Change in Fund Balance	(92,000)	(94,407)	54,668	149,075
Fund Balance - Beginning	92,000	94,407	94,407	
Fund Balance - Ending	\$ 0	\$ 0	\$ 149,075	\$ 149,075

MCCREARY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

AMERICAN RESCUE PLAN ACT FUND			
	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	
RECEIPTS			
Intergovernmental	\$	\$ 1,673,460	\$ 1,673,460
Interest			488
Total Receipts		1,673,460	1,673,948
DISBURSEMENTS			
Social Services		1,121,173	122,761
Total Disbursements		1,121,173	122,761
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		552,287	1,551,187
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			1,521,224
Transfers To Other Funds		(198,979)	(1,499,335)
Total Other Adjustments to Cash (Uses)		(198,979)	21,889
Net Change in Fund Balance		353,308	1,573,076
Fund Balance - Beginning			
Fund Balance - Ending	\$ 0	\$ 353,308	\$ 1,573,076

MCCREARY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2022

Note 1. Budgetary Information

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

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

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

Note 2. Reconciliation of the General Fund

The *Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis* differs from the *Budgetary Comparison Schedule* for the general fund by \$31,302 due to the inclusion of the payroll revolving account's reconciled balance.

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MCCREARY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2022

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MCCREARY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2022

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 Housing and Urban Development</u>				
<i>Passed-Through Kentucky Department for Local Government:</i>				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii:				
- Outdoor Venture Corporation Project	14.228	18-064	\$	\$ 378,907
- Marsh Creek to HWY 92 Waterline Replacement	14.228	18-030		112,042
- Utility Assistance Project	14.228	20C-011		10,000
Total U.S. Department of Housing and Urban Development				500,949
<u>U. S. Department of Interior</u>				
<i>Passed-Through Kentucky Energy and Environment Cabinet:</i>				
Abandoned Mine Land Reclamation - Outdoor Venture Corporation Expansion AML Pilot Project	15.252	Unknown		160,640
Total U.S. Department of Interior				160,640
<u>U. S. Department of Transportation</u>				
<i>Highway Planning and Construction Cluster</i>				
<i>Passed-Through Kentucky Department for Local Government:</i>				
Recreational Trails Program	20.219	550-17		17,350
Total U.S. Department of Transportation				17,350
<u>U. S. Department of Treasury</u>				
<i>Direct Program:</i>				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Unknown		1,774,616
Total U.S. Department of Treasury				1,774,616
<u>U. S. Department of Agriculture</u>				
<i>Passed-Through Kentucky Rural Development:</i>				
Rural Business Development Grant	10.351	Unknown		25,000
Total U.S. Department of Treasury				25,000
<u>U. S. Department of Homeland Security</u>				
<i>Passed-Through Kentucky Department of Emergency Management:</i>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)-FEMA DR 4540	97.036	Unknown		47,600
Emergency Management Performance Grants (EMPG)	97.042	2100000605		27,365
Total U.S. Department of Homeland Security				74,965
Total Expenditures of Federal Awards			\$ 0	\$2,553,520

The accompanying notes are an integral part of this schedule.

MCCREARY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2022

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, 2022. 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, 2022

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MCCREARY COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2022

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
Land	\$ 2,096,783	\$	\$	\$ 2,096,783
Buildings *	9,056,068			9,056,068
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	 \$ 23,092,327	 \$ 0	 \$ 0	 \$ 23,092,327

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

June 30, 2022

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	\$ 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

Note 2. Restatement of Capital Assets Beginning Balance

Buildings beginning balance was restated by (\$103,809) due to an error in the prior year.

**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

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCreary County Fiscal Court for the fiscal year ended June 30, 2022, 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 January 27, 2023.

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 another deficiency that we consider to be a significant deficiency.

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 2022-002, 2022-003, and 2022-005 to be material weaknesses.



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

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 to be a significant deficiency.

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 2022-002, 2022-004, and 2022-005.

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 flourish extending to the right.

Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

January 27, 2023

**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

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the McCreary County Fiscal Court's compliance with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the McCreary County Fiscal Court's major federal programs for the year ended June 30, 2022. 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.

In our opinion, McCreary County Fiscal Court complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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



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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding McCreary County Fiscal Court's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of McCreary County Fiscal Court's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of McCreary County Fiscal Court's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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

Report on Internal Control over Compliance (Continued)

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

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

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

Respectfully submitted,

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Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

January 27, 2023

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MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2022

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MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2022

Section I: Summary of Auditor's Results

Financial Statement

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

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input 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: Unmodified		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

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, 2022
(Continued)

Section II: Financial Statement Findings

2022-001 The Payroll Revolving Account Was Not Properly Reconciled

This is a repeat finding and was included in the prior year audit report as finding 2021-001. The payroll revolving account did not reconcile to zero as of June 30, 2022, and the remaining balance could not be readily explained. According to the information available to auditors, the June 30, 2022 balance was \$57,703, with \$26,401 outstanding liabilities and zero outstanding receivables, leaving an unexplained balance of \$31,302 as of June 30, 2022.

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, 2022, the account had an unexplained balance of \$905 for fiscal year 2022. 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 24 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: We are taking action to correct any and all discrepancies that are within our control. These actions will be instituted immediately.

2022-002 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 2021-002. 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, 2022
(Continued)

Section II: Financial Statement Findings (Continued)

2022-002 The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures (Continued)

Of the 74 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.
- One invoice tested was not properly itemized.
- Fifty-two invoices tested did not have purchase orders.
- Eleven invoices tested were paid past 30 working days of receipt.
- 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. This process should document who issued the purchase order and who approved the purchase order.

Furthermore, 12 credit card transactions were tested in which we noted:

- Eight charges tested included sales tax when the county is tax exempt

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

Good internal controls dictate that 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 they are in compliance with the state local finance officer and the county's administrative code. We recommend all disbursements are paid within 30 working days of receipt and all disbursements have supporting receipts. We recommend ensuring sales tax is not part of a claim before being submitted for approval to the fiscal court. We further recommend that all purchase orders are completed properly regarding the issuance and authorization of the purchase order.

County Judge/Executive's Response: We are taking action to correct any and all discrepancies that are within our control. These actions will be instituted immediately.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)

Section II: Financial Statement Findings (Continued)

2022-003 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 2021-004. 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.

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: We are taking action to correct any and all discrepancies that are within our control. These actions will be instituted immediately.

2022-004 The Fiscal Court Did Not Budget Two Funds

This is a repeat finding and was included in the prior year audit report as finding 2021-006. 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 \$112,041 and \$112,042 of disbursements. The OVC Expansion Project Fund had receipts of \$469,708 and \$539,547 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."

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)

Section II: Financial Statement Findings (Continued)

2022-004 The Fiscal Court Did Not Budget Two Funds (Continued)

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: We are taking action to correct any and all discrepancies that are within our control. These actions will be instituted immediately.

2022-005 The Fiscal Court Did Not Prepare An Accurate Schedule Of Expenditures Of Federal Awards

This is a repeat finding and was included in the prior year audit report as finding 2021-007. The county's Schedule of Expenditures of Federal Awards (SEFA) required material adjustments to accurately document funds provided to subrecipients and total federal fund expenditures for fiscal year ending June 30, 2022.

The county prepared a SEFA for fiscal year 2022. The original schedule documented \$2,801,749 in federal expenditures. It was determined that the SEFA required material adjustments to accurately report federal expenditures for the FYE June 30, 2022. This included removing \$608,818 of federal expenditures and the addition of \$335,589 in federal expenditures resulting in \$2,528,520 federal expenditures for the FYE June 30, 2022.

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 subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity.
- (3) Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the ALN information is not available.
- (4) The total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 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.

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

County Judge/Executive's Response: We are taking action to correct any and all discrepancies that are within our control. These actions will be instituted immediately.

Section III: Federal Award Findings And Questioned Costs

None Noted.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)

Section IV: Summary Schedule of Prior Audit Findings

Finding Number	Prior Year Finding Title	Status	Corrective Action
2021-001	The Payroll Revolving Account Was Not Properly Reconciled	Unresolved	See corrective action for current year finding 2022-001
2021-002	The Fiscal Court Did Not Have Proper Purchase And Procurement Procedures	Unresolved	See corrective action for current year finding 2022-002
2021-003	The Fiscal Court Did Not Have Sufficient Internal Controls Over Credit Card Disbursements	Unresolved	
2021-004	The Fiscal Court Did Not Segregate Duties Over Accounting Functions	Unresolved	See corrective action for current year finding 2022-003
2021-005	The Fiscal Court Did Not Have Sufficient Monitoring Or Internal Controls Over The Revolving Loan Program	Unresolved	
2021-006	The McCreary County Fiscal Court Failed To Budget Two Funds	Unresolved	See corrective action for current year finding 2022-004
2021-007	The Fiscal Court Did Not Prepare An Accurate Schedule Of Federal Expenditure Of Federal Awards	Unresolved	See corrective action for current year finding 2022-005

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

MCCREARY COUNTY FISCAL COURT

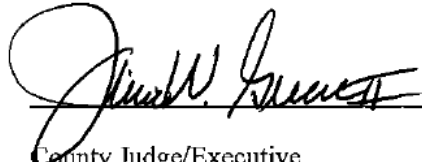
For The Year Ended June 30, 2022

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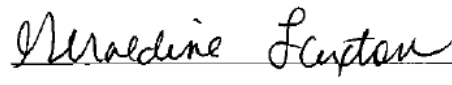
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MCCREARY COUNTY FISCAL COURT

For The Year Ended June 30, 2022

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.



County Judge/Executive



County Treasurer