

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

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



**ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS
auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jim Gazay, Morgan County Judge/Executive
Members of the Morgan 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 Morgan County Fiscal Court, for the year ended June 30, 2023, and the related notes to the financial statement, which collectively comprise the Morgan County Fiscal Court's financial statement as listed in the table of contents.

Unmodified Opinion on Regulatory Basis of Accounting

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Morgan County Fiscal Court, for the year ended June 30, 2023, or the changes in financial position and cash flows thereof for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Fiscal Court Audit Guide* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of Morgan 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 Jim Gazay, Morgan County Judge/Executive
Members of the Morgan 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 Morgan 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

Morgan 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 Morgan County Fiscal Court's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Morgan 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 Jim Gazay, Morgan County Judge/Executive
Members of the Morgan 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 Morgan County Fiscal Court. The Budgetary Comparison Schedules 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 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 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 June 17, 2024, on our consideration of the Morgan 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 Morgan 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 Jim Gazay, Morgan County Judge/Executive
Members of the Morgan 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 Responses included herein, which discusses the following report findings:

- 2023-001 The Morgan County Fiscal Court Did Not Approve Interfund Transfers In Advance
- 2023-002 The Morgan County Fiscal Court Lacks Adequate Internal Controls Over Off-Site Receipts
- 2023-003 The Morgan County Fiscal Court Did Not Have Adequate Internal Controls Over Disbursements
- 2023-004 The Morgan County Fiscal Court Did Not Follow Competitive Bidding Requirements
- 2023-005 The Morgan County Fiscal Court Did Not Adhere To Fourth Year Expenditure Restrictions

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

June 17, 2024

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

John Will Stacy (7/1/22 - 12/31/2022)	County Judge/Executive
Jim Gazay (1/1/2023 - Present)	County Judge/Executive
Carter Bolin (7/1/22 - 12/31/2022)	Magistrate
Eric Pelfrey (1/1/2023 - Present)	Magistrate
Donnie Keeton (7/1/22 - Present)	Magistrate
Darrell Patrick (7/1/2022 - 12/31/2022)	Magistrate
Tommy Fannin (1/1/2023 - Present)	Magistrate
Brandon Evans (7/1/22 - Present)	Magistrate
Leroy Phipps (7/1/22 - Present)	Magistrate

Other Elected Officials:

Myles Holbrook	County Attorney
James Easterling	Jailer
Randy Williams	County Clerk
Mary Coffee (7/1/2022 - 12/31/2022)	Circuit Court Clerk
Geannie Wright (1/1/2023 - Present)	Circuit Court Clerk
Greg Motley	Sheriff
Darby Franklin	Property Valuation Administrator
Raymond Vancleave (7/1/2022 - 12/31/2022)	Coroner
Casey Helton (1/1/2023 - Present)	Coroner

Appointed Personnel:

Linzey Lewis (7/1/2022 - 1/25/2023)	County Treasurer
George T. Phipps (1/26/2023 - 6/30/2023)	County Treasurer
Shenea Easterling	Chief Financial Officer

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

For The Year Ended June 30, 2023

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

For The Year Ended June 30, 2023

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 3,126,688	\$	\$
In Lieu Tax Payments	46,573	31,370	
Excess Fees	41,089		
Licenses and Permits	439		
Intergovernmental	543,893	2,930,326	91,196
Charges for Services	43,061		17,537
Miscellaneous	375,124	6	1,200
Interest	18,960	1,127	
Total Receipts	<u>4,195,827</u>	<u>2,962,829</u>	<u>109,933</u>
DISBURSEMENTS			
General Government	1,824,805		
Protection to Persons and Property	65,036		601,698
General Health and Sanitation	381,924		3,907
Social Services	348,687		
Recreation and Culture	470,576		
Roads		2,065,047	
Debt Service	356,599	289,407	
Capital Projects		1,311,295	
Administration	833,089	304,444	60,972
Total Disbursements	<u>4,280,716</u>	<u>3,970,193</u>	<u>666,577</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(84,889)</u>	<u>(1,007,364)</u>	<u>(556,644)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds		427,391	
Payroll Revolving Account	64,764		
Transfers From Other Funds	2,287,068	893,682	575,000
Transfers To Other Funds	(1,308,997)		
Total Other Adjustments to Cash (Uses)	<u>1,042,835</u>	<u>1,321,073</u>	<u>575,000</u>
Net Change in Fund Balance	957,946	313,709	18,356
Fund Balance - Beginning	<u>367,494</u>	<u>258,409</u>	<u>23,026</u>
Fund Balance - Ending	<u>\$ 1,325,440</u>	<u>\$ 572,118</u>	<u>\$ 41,382</u>
Composition of Fund Balance			
Bank Balance	\$ 1,312,855	\$ 613,331	\$ 62,083
Payroll Revolving Account Reconciled Balance	64,764		
Less: Outstanding Checks	<u>(52,179)</u>	<u>(41,213)</u>	<u>(20,701)</u>
Fund Balance - Ending	<u>\$ 1,325,440</u>	<u>\$ 572,118</u>	<u>\$ 41,382</u>

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

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

Budgeted Funds					
Local Government Economic Assistance Fund	Forestry Fund	Special Projects Fund	County Clerk Document Fee Fund	Public Properties Fund	ARPA Fund
\$	\$ 3,086	\$	\$	\$	\$
211,727		105,978			1,371,820
		13,182	15,420	177,637	
		10	3	35	191
<u>211,727</u>	<u>3,086</u>	<u>119,170</u>	<u>15,423</u>	<u>177,672</u>	<u>1,372,011</u>
		5,600			
	3,783	107,641			
		36,394			
		210,815			
		45,102			
	<u>3,783</u>	<u>405,552</u>			
211,727	(697)	(286,382)	15,423	177,672	1,372,011
	1,538	46,087		144,971	
(207,310)		(36,078)	(3,405)		(2,283,663)
(207,310)	1,538	10,009	(3,405)	144,971	(2,283,663)
4,417	841	(276,373)	12,018	322,643	(911,652)
1	121	319,960			911,652
<u>\$ 4,418</u>	<u>\$ 962</u>	<u>\$ 43,587</u>	<u>\$ 12,018</u>	<u>\$ 322,643</u>	<u>\$ 0</u>
\$ 4,418	\$ 962	\$ 45,792	\$ 12,018	\$ 322,643	\$ 0
		(2,205)			
<u>\$ 4,418</u>	<u>\$ 962</u>	<u>\$ 43,587</u>	<u>\$ 12,018</u>	<u>\$ 322,643</u>	<u>\$ 0</u>

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

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

	<u>Unbudgeted Funds</u>		
	<u>Rebuild Morgan County Fund</u>	<u>Public Properties Corporation Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 3,129,774
In Lieu Tax Payments			77,943
Excess Fees			41,089
Licenses and Permits			439
Intergovernmental		725,478	5,980,418
Charges for Services			60,598
Miscellaneous			582,569
Interest		780	21,106
Total Receipts		<u>726,258</u>	<u>9,893,936</u>
DISBURSEMENTS			
General Government			1,830,405
Protection to Persons and Property			778,158
General Health and Sanitation			422,225
Social Services			348,687
Recreation and Culture			470,576
Roads			2,065,047
Debt Service		723,878	1,369,884
Capital Projects			1,522,110
Administration	2	1,650	1,245,259
Total Disbursements	<u>2</u>	<u>725,528</u>	<u>10,052,351</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2)</u>	<u>730</u>	<u>(158,415)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			427,391
Payroll Revolving Account			64,764
Transfers From Other Funds			3,948,346
Transfers To Other Funds	(108,893)		(3,948,346)
Total Other Adjustments to Cash (Uses)	<u>(108,893)</u>		<u>492,155</u>
Net Change in Fund Balance	(108,895)	730	333,740
Fund Balance - Beginning	108,895	3,396	1,992,954
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 4,126</u>	<u>\$ 2,326,694</u>
Composition of Fund Balance			
Bank Balance	\$ 0	\$ 4,126	\$ 2,378,228
Payroll Revolving Account Reconciled Balance			64,764
Less: Outstanding Checks			(116,298)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 4,126</u>	<u>\$ 2,326,694</u>

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

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TO THE FINANCIAL STATEMENT**

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MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2023

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

Forestry Fund - The primary purpose of this fund is to account for collections and disbursements of taxes relating to fire protection.

Special Projects Fund - The primary purpose of this fund is to account for the receipts and disbursements received from grants or special projects.

County Clerk Document Fee Fund - The primary purpose of this fund is to account for receipts from the county clerk for storage fees.

Public Properties Fund - The primary purpose of this fund is to account for receipts from the unwinding of the new market tax credit transactions.

ARPA Fund - The purpose of this fund to account for American Rescue Plan Act grants and related disbursements. The primary sources of receipts for this fund are grants from the federal government.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Rebuild Morgan County Fund - The primary purpose of this fund was to account for receipts and disbursements received from the new market tax credits received to rebuild certain infrastructure destroyed during a tornado. This account has been closed and the money transferred to the Public Properties Fund.

Public Properties 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

E. Morgan County Elected Officials

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

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

F. Deposits and Investments

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

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

G. Long-term Obligations

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

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

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

	General Fund	LGEA Fund	Special Projects Fund	Clerk Document Fee Fund	ARPA Fund	Rebuild Morgan County Fund	Total Transfers In
General Fund	\$	\$	\$	\$ 3,405	\$ 2,283,663	\$	\$ 2,287,068
Road Fund	861,372	32,310					893,682
Jail Fund	400,000	175,000					575,000
Forestry Fund	1,538						1,538
Special Projects Fund	46,087						46,087
Public Properties Fund			36,078			108,893	144,971
Total Transfers Out	<u>\$ 1,308,997</u>	<u>\$ 207,310</u>	<u>\$ 36,078</u>	<u>\$ 3,405</u>	<u>\$ 2,283,663</u>	<u>\$ 108,893</u>	<u>\$ 3,948,346</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.

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

Note 4. Leases

A. Lessor

1. Gateway Community Action – Office Space

During the 2011 fiscal year, the Morgan County Fiscal Court began leasing office space in the Morgan County Enterprise Center to the Gateway Community Action Office. The Gateway Community Action Office is responsible for paying a fixed annual fee of \$25,000 for utility costs, maintenance, housekeeping, and information technology services. The annual fee shall be allocated on a monthly basis and is due on the tenth of each month. The agreement is effective October 1, 2010 and remains in effect as written through June 30, 2015. The agreement shall extend automatically for two five-year periods with a five-percent increase in the annual fixed fee on the beginning of the sixth year and the eleventh year. The Morgan County Fiscal Court recognized \$27,563 in lease revenue during the current fiscal year related to this lease. As of June 30, 2023, Morgan County Fiscal Court's receivable for lease payments was \$55,126.

2. Gateway Community Action - WIA

During the 2012 fiscal year, the Morgan County Fiscal Court began leasing office space to house Gateway Community Action's Workforce Investment Act (WIA) in the Morgan County Enterprise Center to the Gateway Community Action Office. The Gateway Community Action Office is responsible for paying a fixed monthly fee of \$993 for utility costs, maintenance, housekeeping, and information technology services. This agreement is effective September 1, 2011 and remains in effect as written through June 30, 2015. The agreement shall extend automatically for two five-year periods with a five-percent increase in the annual fixed fee on the beginning of the sixth year and the eleventh year. The Morgan County Fiscal Court recognized \$13,137 in lease revenue during the current fiscal year related to this lease. As of June 30, 2023, Morgan County Fiscal Court's receivable for lease payments was \$26,274.

3. Gateway Community Action- Left Wing

During the 2012 fiscal year, the Morgan County Fiscal Court began leasing office space in the Morgan County Enterprise Center Left Wing to the Gateway Community Action Office. The Gateway Community Action Office is responsible for paying a fixed annual fee of \$33,000 for utility costs, maintenance, housekeeping, and information technology services. The annual fee shall be allocated on a monthly basis and is due on the tenth of each month. The agreement is effective January 1, 2012 and remains in effect as written through June 30, 2015. The agreement shall extend automatically for two five-year periods with a five-percent increase in the annual fixed fee on the beginning of the sixth year and the eleventh year. The Morgan County Fiscal Court recognized \$36,383 in lease revenue during the current fiscal year related to this lease. As of June 30, 2023, Morgan County Fiscal Court's receivable for lease payments was \$72,766.

4. Gateway Community Action- Early Head Start

During the 2018 fiscal year, the Morgan County Fiscal Court began leasing floor space and land at 450 Prestonsburg Street, West Liberty, KY to be used for Early Head Start purposed to the Gateway Community Action Agency. The Gateway Community Action Agency is responsible for paying a fixed monthly fee of \$1,200. This agreement is effective June 1, 2017 and remains in effect through August 31, 2032. The Morgan County Fiscal Court recognized \$14,400 in lease revenue during the current fiscal year related to this lease. As of June 30, 2023, Morgan County Fiscal Court's receivable for lease payments was \$132,000.

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

Note 4. Leases (Continued)

A. Lessor (Continued)

5. Youthful Essence Medical Center

During the prior fiscal year, Morgan County Fiscal Court began leasing the First Aid Room at the Morgan County Youth Center to Youthful Essence Medical Center. The lease is for one year and the Morgan County Fiscal Court will receive monthly payments of \$500. The lease term is renewable upon agreement of both parties. The Morgan County Fiscal Court recognized \$6,000 in lease revenue during the current fiscal year related to this lease. As of June 30, 2023, Morgan County Fiscal Court's receivable for lease payments was \$3,000.

6. Cannel City Post Office

The Morgan County Fiscal Court leases a building at 9519 KY 191, Cannel City, KY 41408 to the United States Postal Service for Cannel City Post Office. The Morgan County Fiscal Court receives monthly payments of \$55. The Morgan County Fiscal Court recognized \$660 in lease revenue during the current fiscal year related to this lease.

7. AirEvac

During the 2015 fiscal year, the Morgan County Fiscal Court began leasing a helipad to AirEvac. The Morgan County Fiscal Court receives monthly payments of \$530. The Morgan County Fiscal Court recognized \$6,365 during the current fiscal year related to this lease.

8. Morgan County Public Library

During the 2020 fiscal year, the Morgan County Fiscal Court began leasing space in the Morgan County Enterprise Center to the Morgan County Public Library. The Morgan County Fiscal Court will receive annual payments of \$65,000. The Morgan County Fiscal Court recognized \$65,000 in lease revenue during the current fiscal year related to this lease.

B. Lessee

American Business Systems

During the current fiscal year, the Morgan County Fiscal Court entered into a five-year lease agreement as lessee for the acquisition and use of office equipment. An initial lease liability was recorded in the amount of \$18,143 during the current fiscal year. As of June 30, 2023, the value of the lease liability was \$15,422. The Morgan County Fiscal Court is required to make monthly principal payments of \$302. The future principal and interest lease payments as of June 30, 2023, were as follows:

Fiscal Year Ended June 30	Amount
2024	\$ 3,629
2025	3,629
2026	3,629
2027	3,629
2028	906
Total Minimum Lease Payments	<u>\$ 15,422</u>

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

Note 5. Long-term Debt

A. Direct Borrowings and Direct Placements

1. KACo #35 - Ambulance

On July 13, 2017, the Morgan County Fiscal Court entered into a six-year lease agreement with the Kentucky Association of Counties for an ambulance. The principal amount of the lease was \$101,599 with an interest rate of 6.55 percent. The lease is secured by the ambulance and in the event of default, the lessor is entitled to reclaim the ambulance. The lease agreement was paid in full as of June 30, 2023.

2. KACo Series 2015 B - Blacktop and Tornado

On April 1, 2025, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Finance Corporation to refinance various debt. The principal amount of the lease was \$4,655,000 with an interest rate between 2.0 and 3.75 percent plus fees. In the event of a default, the lessor may take whatever action at law to enforce performance by the lessee. The lease requires monthly principal and interest payments to be paid in full on December 20, 2034. As of June 30, 2023, the principal balance on this bond was \$3,075,000. Debt service requirements for the remaining years are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2024	\$ 225,000	\$ 104,844
2025	232,500	97,531
2026	240,000	89,975
2027	247,500	82,175
2028	255,000	74,131
2029-2033	1,407,500	237,097
2034-2035	<u>467,500</u>	<u>23,331</u>
Totals	<u>\$ 3,075,000</u>	<u>\$ 709,084</u>

3. KACo Series 2020 C - Road Project

On August 20, 2020, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Finance Corporation to finance various road project. The principal amount of the lease was \$2,450,000 with an interest rate between 1.5 and 3.0 percent plus fees. In the event of a default, the lessor may take whatever action at law to enforce performance by the lessee. The lease requires monthly principal and interest payments to be paid in full on February 1, 2036. As of June 30, 2023, the principal balance on this bond was \$2,152,500. Debt service requirements for the remaining years are:

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

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

3. KACo Series 2020 C - Road Project (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2024	\$ 140,000	\$ 60,271
2025	147,500	54,321
2026	152,500	48,053
2027	160,000	41,571
2028	167,500	34,771
2029-2033	895,000	123,344
2034-2036	490,000	28,569
Totals	<u>\$ 2,152,500</u>	<u>\$ 390,900</u>

4. KACo Series 2020D - General Obligation Lease

On October 13, 2020, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Finance Corporation to partially defease the General Obligation Bonds, Series 2012. The principal amount of the lease was \$1,205,000 with an interest rate between 4.0 and 4.5 percent plus fees. In the event of a default, the lessor may take whatever action at law to enforce performance by the lessee. The lease requires monthly principal and interest payments to be paid in full on February 1, 2038. As of June 30, 2023, the principal balance on this bond was \$1,165,000. Debt service requirements for the remaining years are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2024	\$ 12,500	\$ 28,710
2025	47,500	28,526
2026	80,000	27,710
2027	80,000	26,270
2028	82,500	24,750
2029-2033	427,500	96,859
2034-2038	435,000	38,881
Totals	<u>\$ 1,165,000</u>	<u>\$ 271,706</u>

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

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

5. KACo #40 Road Equipment

On June 1, 2023, the Morgan County Fiscal Court entered into a four-year lease agreement with the Kentucky Association of Counties for road equipment. The principal amount of the lease was \$427,391 with an interest rate of 5.17 percent. The lease is secured by the equipment and in the event of default, the lessor is entitled to reclaim the truck. The lease agreement balance as of June 30, 2023, was 427,391. Lease payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2024	\$ 98,258	\$ 21,675
2025	104,661	14,557
2026	109,632	9,029
2027	114,840	3,239
Totals	<u>\$ 427,391</u>	<u>\$ 48,500</u>

B. Other Debt

1. General Obligation Bond, Series 2012 – Various Projects

In December 2012, the Morgan County Fiscal Court issued \$1,600,000 in bonds for a community center, parking garage, extension district office, wellness ad recover center, and the renovation of the old Morgan County courthouse and paying the cost of issuance of the bond. The bonds interest rate shall not exceed 7 percent with a retirement date of February 1, 2038. Monthly principal and interest payments are made each year. On October 13, 2020, the bonds were partially defeased with a general obligation lease, series 2020.

In the case of default, the grantee may pursue any other remedies provided by law. The outstanding principal balance as of June 30, 2023, is \$95,000. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2024	\$ 62,500	\$ 3,698
2025	32,500	1,346
Totals	<u>\$ 95,000</u>	<u>\$ 5,044</u>

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

Note 5. Long-term Debt (Continued)

B. Other Debt (Continued)

2. First Mortgage Revenue Bonds – Justice Center Project

The Morgan County Public Properties Corporation (the corporation) issued \$1,635,000 first mortgage revenue bonds dated April 1, 2013 to finance the completion of the construction of the judicial center. The bonds have interest rates from 1 percent to 3.25 percent with a retirement date of February 1, 2031. The corporation is acting as agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the justice center. The 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. The corporation is in reliance upon the use allowance payment in order to meet the debt service for the bonds. The use allowance payment commenced 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 June 30, 2031, but AOC is not legally obligated to do so.

In the event the AOC shall elect not to renew the lease at any time, or fail to pay the stipulated rentals, then and in that event and upon any ensuing default in the payment of the principal of or interest on the bonds, the mortgage, as the case may be, shall be enforced, which enforcement may, under the terms of the mortgage, include foreclosure of the liens created by the mortgage and sale of the project. No such sale or foreclosure, however, shall give rise to any right to a deficiency judgment against the county or the AOC or the issuer in any sum, and until such sale, the county may at any time, by payment of all costs of action and charges of trustee, and by discharge of principal of and interest on the bonds, receive unencumbered fee simple title to the project. In the event of any such enforcement by the trustee (whether occasioned by the default of the AOC or the county or by the failure of the issuer to apply the use allowance to the payment of the bonds and interest) from the proceeds of any operation of the project or foreclosure and sale of the project by the trustee there shall first be paid all expenses incident to said enforcement, as provided in the mortgage, and thereafter the bonds and interest then outstanding shall be paid and retired, and if there shall remain any excess after paying such expenses and the claims of owners, the entire amount of such excess shall be paid over in cash to the county. Notwithstanding the foregoing, as an alternative remedy, the trustee is entitled to enter upon the premises, evict the AOC and the county and relet the project under such terms and conditions as it deems prudent; the proceeds of such reletting to be applied to the payment of the principal and interest requirements on the bonds.

Per the debt service requirements, principal payments are due on June 1, and interest payments are due on December 1 and June 1 of each year. As of June 30, 2023, the principal outstanding was \$700,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2024	\$ 90,000	\$ 22,575
2025	95,000	20,100
2026	95,000	17,250
2027	100,000	14,400
2028	105,000	11,400
2029-2030	215,000	12,563
Totals	<u>\$ 700,000</u>	<u>\$ 98,288</u>

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

Note 5. Long-term Debt (Continued)

B. Other Debt (Continued)

3. Taxable Mortgage Revenue Bonds, Series 2020 – Justice Center

The Morgan County Public Properties Corporation (the corporation) issued \$7,640,000 taxable mortgage revenue refunding revenue bonds dated August 26, 2020, for the purpose of a partial defeasance of the outstanding first mortgage revenue bonds, series 2010, which were used for the construction of the Morgan County Justice Center. The bonds were issued at an interest rate of 1.4 percent and will be retired by June 1, 2030. The corporation is acting as agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the justice center. The 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. The corporation is in reliance upon the use allowance payment in order to meet the debt service for the bonds. The use allowance payment commenced 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 June 30, 2030, but AOC is not legally obligated to do so.

In the event the AOC shall elect not to renew the lease at any time, or fail to pay the stipulated rentals, then and in that event and upon any ensuing default in the payment of the principal of or interest on the bonds, the mortgage, as the case may be, shall be enforced, which enforcement may, under the terms of the mortgage, include foreclosure of the liens created by the mortgage and sale of the project. No such sale or foreclosure, however, shall give rise to any right to a deficiency judgment against the county or the AOC or the issuer in any sum, and until such sale, the county may at any time, by payment of all costs of action and charges of trustee, and by discharge of principal of and interest on the bonds, receive unencumbered fee simple title to the project. In the event of any such enforcement by the trustee (whether occasioned by the default of the AOC or the county or by the failure of the issuer to apply the use allowance to the payment of the bonds and interest) from the proceeds of any operation of the project or foreclosure and sale of the project by the trustee there shall first be paid all expenses incident to said enforcement, as provided in the mortgage, and thereafter the bonds and interest then outstanding shall be paid and retired, and if there shall remain any excess after paying such expenses and the claims of owners, the entire amount of such excess shall be paid over in cash to the county. Notwithstanding the foregoing, as an alternative remedy, the trustee is entitled to enter upon the premises, evict the AOC and the county and relet the project under such terms and conditions as it deems prudent; the proceeds of such reletting to be applied to the payment of the principal and interest requirements on the bonds.

Per the debt service requirements, principal payments are due on June 1, and interest payments are due on December 1 and June 1 of each year. As of June 30, 2023, the principal outstanding was \$7,120,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2024	\$ 985,000	\$ 86,948
2025	995,000	79,560
2026	1,005,000	70,605
2027	1,015,000	60,053
2028	1,025,000	47,873
2029-2030	<u>2,095,000</u>	<u>51,970</u>
Totals	<u>\$ 7,120,000</u>	<u>\$ 397,009</u>

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

Note 5. Long-term Debt (Continued)

C. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 6,766,084	\$ 427,391	\$ 373,584	\$ 6,819,891	\$ 475,758
General Obligation Bonds	155,000		60,000	95,000	62,500
Revenue Bonds	8,430,000		610,000	7,820,000	1,075,000
Total Long-term Debt	<u>\$ 15,351,084</u>	<u>\$ 427,391</u>	<u>\$ 1,043,584</u>	<u>\$ 14,734,891</u>	<u>\$ 1,613,258</u>

B. Aggregate Debt Schedule

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

Fiscal Year Ended June 30	Other Debt		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2024	\$ 1,137,500	\$ 113,221	\$ 475,758	\$ 215,501
2025	1,122,500	101,006	532,161	194,935
2026	1,100,000	87,855	582,132	174,767
2027	1,115,000	74,453	602,340	153,255
2028	1,130,000	59,273	505,000	133,652
2029-2033	2,310,000	64,533	2,730,000	457,300
2034-2038			1,392,500	90,781
Totals	<u>\$ 7,915,000</u>	<u>\$ 500,341</u>	<u>\$ 6,819,891</u>	<u>\$ 1,420,191</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (Ky. Ret. Sys.). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Effective April 1, 2021, the Kentucky Public Pension Authority (KPPA) was created by KRS 61.505 to provide staffing and daily administrative needs for CERS and Ky. Ret. Sys. The CERS nine (9) member board of trustees is responsible for the governance of the CERS pension and insurance plans.

The county's contribution for FY 2021 was \$245,735, FY 2022 was \$350,353, and FY 2023 was \$341,563.

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

Note 6. Employee Retirement System (Continued)

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 26.79 percent.

Hazardous

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

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

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

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit. The county's contribution rate for hazardous employees was 49.59 percent.

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

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

Benefits are covered under KRS 78.5536.

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

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

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

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

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

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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

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

D. Cost of Living Adjustments - Tier 1

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

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

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

F. Death Benefit

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

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

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

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

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

Note 7. Deferred Compensation

The Morgan 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. Related Party Transactions

- A. During the year ending June 30, 2023, the fiscal court expended \$48,938 for cleaning services performed at the judicial center with a company whose part owner is the finance officer.
- B. During the year ending June 30, 2023, the fiscal court-maintained accounts at a depository institution where the treasurer was a shareholder and board member.

Note 9. Payroll Revolving Account

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

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

For The Year Ended June 30, 2023

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MORGAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2023

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 2,527,000	\$ 3,235,827	\$ 3,126,688	\$ (109,139)
In Lieu Tax Payments	35,000	46,573	46,573	
Excess Fees	37,000	54,886	41,089	(13,797)
Licenses and Permits		439	439	
Intergovernmental	245,900	624,405	543,893	(80,512)
Charges for Services	11,000	44,061	43,061	(1,000)
Miscellaneous	301,160	470,042	375,124	(94,918)
Interest	20,000	20,000	18,960	(1,040)
Total Receipts	<u>3,177,060</u>	<u>4,496,233</u>	<u>4,195,827</u>	<u>(300,406)</u>
DISBURSEMENTS				
General Government	1,699,546	2,002,727	1,824,805	177,922
Protection to Persons and Property	61,550	151,582	65,036	86,546
General Health and Sanitation	356,900	424,865	381,924	42,941
Social Services	350,000	428,082	348,687	79,395
Recreation and Culture	511,800	631,971	470,576	161,395
Debt Service	355,327	356,995	356,599	396
Administration	1,135,268	1,305,533	833,089	472,444
Total Disbursements	<u>4,470,391</u>	<u>5,301,755</u>	<u>4,280,716</u>	<u>1,021,039</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,293,331)</u>	<u>(805,522)</u>	<u>(84,889)</u>	<u>720,633</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	992,559	992,559	2,287,068	1,294,509
Transfers To Other Funds	(599,228)	(599,228)	(1,308,997)	(709,769)
Total Other Adjustments to Cash (Uses)	<u>393,331</u>	<u>393,331</u>	<u>978,071</u>	<u>584,740</u>
Net Change in Fund Balance	(900,000)	(412,191)	893,182	1,305,373
Fund Balance - Beginning	<u>900,000</u>	<u>900,000</u>	<u>367,494</u>	<u>(532,506)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 487,809</u>	<u>\$ 1,260,676</u>	<u>\$ 772,867</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 28,366	\$ 31,370	\$ 31,370	\$
Intergovernmental	3,495,954	3,881,571	2,930,326	(951,245)
Miscellaneous	500	500	6	(494)
Interest		1,127	1,127	
Total Receipts	<u>3,524,820</u>	<u>3,914,568</u>	<u>2,962,829</u>	<u>(951,739)</u>
DISBURSEMENTS				
General Government	1,500	1,500		1,500
Roads	2,327,700	2,242,341	2,065,047	177,294
Debt Service	288,929	293,429	289,407	4,022
Capital Projects	450,000	2,687,821	1,311,295	1,376,526
Administration	861,691	381,922	304,444	77,478
Total Disbursements	<u>3,929,820</u>	<u>5,607,013</u>	<u>3,970,193</u>	<u>1,636,820</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(405,000)</u>	<u>(1,692,445)</u>	<u>(1,007,364)</u>	<u>685,081</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		427,391	427,391	
Transfers From Other Funds	105,000	105,000	893,682	788,682
Total Other Adjustments to Cash (Uses)	<u>105,000</u>	<u>532,391</u>	<u>1,321,073</u>	<u>788,682</u>
Net Change in Fund Balance	(300,000)	(1,160,054)	313,709	1,473,763
Fund Balance - Beginning	<u>300,000</u>	<u>300,000</u>	<u>258,409</u>	<u>(41,591)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (860,054)</u>	<u>\$ 572,118</u>	<u>\$ 1,432,172</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 93,700	\$ 94,392	\$ 91,196	\$ (3,196)
Charges for Services	7,000	17,537	17,537	
Miscellaneous	100	1,200	1,200	
Interest	100	100		(100)
Total Receipts	<u>100,900</u>	<u>113,229</u>	<u>109,933</u>	<u>(3,296)</u>
DISBURSEMENTS				
General Government		1,200		1,200
Protection to Persons and Property	648,128	695,292	601,698	93,594
General Health and Sanitation		5,000	3,907	1,093
Administration	54,000	71,975	60,972	11,003
Total Disbursements	<u>702,128</u>	<u>773,467</u>	<u>666,577</u>	<u>106,890</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(601,228)</u>	<u>(660,238)</u>	<u>(556,644)</u>	<u>103,594</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>601,228</u>	<u>601,228</u>	<u>575,000</u>	<u>(26,228)</u>
Total Other Adjustments to Cash (Uses)	<u>601,228</u>	<u>601,228</u>	<u>575,000</u>	<u>(26,228)</u>
Net Change in Fund Balance		(59,010)	18,356	77,366
Fund Balance - Beginning			<u>23,026</u>	<u>23,026</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (59,010)</u>	<u>\$ 41,382</u>	<u>\$ 100,392</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 107,000	\$ 211,728	\$ 211,727	\$ (1)
Total Receipts	107,000	211,728	211,727	(1)
DISBURSEMENTS				
Administration		104,728		104,728
Total Disbursements		104,728		104,728
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	107,000	107,000	211,727	104,727
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(107,000)	(107,000)	(207,310)	(100,310)
Total Other Adjustments to Cash (Uses)	(107,000)	(107,000)	(207,310)	(100,310)
Net Change in Fund Balance			4,417	4,417
Fund Balance - Beginning			1	1
Fund Balance - Ending	\$ 0	\$ 0	\$ 4,418	\$ 4,418

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

	FORESTRY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,800	\$ 3,800	\$ 3,086	\$ (714)
Total Receipts	<u>3,800</u>	<u>3,800</u>	<u>3,086</u>	<u>(714)</u>
DISBURSEMENTS				
Protection to Persons and Property	3,800	3,800	3,783	17
Total Disbursements	<u>3,800</u>	<u>3,800</u>	<u>3,783</u>	<u>17</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(697)</u>	<u>(697)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			1,538	1,538
Total Other Adjustments to Cash (Uses)			<u>1,538</u>	<u>1,538</u>
Net Change in Fund Balance			841	841
Fund Balance - Beginning			<u>121</u>	<u>121</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 962</u>	<u>\$ 962</u>

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

	SPECIAL PROJECTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 539,919	\$ 544,333	\$ 105,978	\$ (438,355)
Miscellaneous	14,500	16,500	13,182	(3,318)
Interest		10	10	
Total Receipts	<u>554,419</u>	<u>560,843</u>	<u>119,170</u>	<u>(441,673)</u>
DISBURSEMENTS				
General Government		7,600	5,600	2,000
Protection to Persons and Property	300,000	107,641	107,641	
General Health and Sanitation	43,500	52,334	36,394	15,940
Capital Projects	200,373	210,815	210,815	
Administration	10,546	56,198	45,102	11,096
Total Disbursements	<u>554,419</u>	<u>434,588</u>	<u>405,552</u>	<u>29,036</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>126,255</u>	<u>(286,382)</u>	<u>(412,637)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			46,087	46,087
Transfers To Other Funds			<u>(36,078)</u>	<u>(36,078)</u>
Total Other Adjustments to Cash (Uses)			<u>10,009</u>	<u>10,009</u>
Net Change in Fund Balance		126,255	(276,373)	(402,628)
Fund Balance - Beginning			<u>319,960</u>	<u>319,960</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 126,255</u>	<u>\$ 43,587</u>	<u>\$ (82,668)</u>

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

COUNTY CLERK DOCUMENT FEE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$ 15,420	\$ 15,420	\$
Interest		3	3	
Total Receipts		15,423	15,423	
DISBURSEMENTS				
General Government		15,423		15,423
Total Disbursements		15,423		15,423
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			15,423	15,423
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(3,405)	(3,405)
Total Other Adjustments to Cash (Uses)			(3,405)	(3,405)
Net Change in Fund Balance			12,018	12,018
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 12,018	\$ 12,018

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

	PUBLIC PROPERTIES FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$ 286,530	\$ 177,637	\$ (108,893)
Interest		24	35	11
Total Receipts		<u>286,554</u>	<u>177,672</u>	<u>(108,882)</u>
DISBURSEMENTS				
Administration		<u>286,554</u>		<u>286,554</u>
Total Disbursements		<u>286,554</u>		<u>286,554</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>177,672</u>	<u>177,672</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			<u>144,971</u>	<u>144,971</u>
Total Other Adjustments to Cash (Uses)			<u>144,971</u>	<u>144,971</u>
Net Change in Fund Balance			322,643	322,643
Fund Balance - Beginning				
Fund Balance - Ending	\$	<u>0</u>	\$ <u>322,643</u>	\$ <u>322,643</u>

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

	ARPA FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,292,559	\$ 1,292,559	\$ 1,371,820	\$ 79,261
Interest	5,000	5,000	191	(4,809)
Total Receipts	<u>1,297,559</u>	<u>1,297,559</u>	<u>1,372,011</u>	<u>74,452</u>
DISBURSEMENTS				
Administration	305,000			
Total Disbursements	<u>305,000</u>			
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>992,559</u>	<u>1,297,559</u>	<u>1,372,011</u>	<u>74,452</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(992,559)	(992,559)	(2,283,663)	(1,291,104)
Total Other Adjustments to Cash (Uses)	<u>(992,559)</u>	<u>(992,559)</u>	<u>(2,283,663)</u>	<u>(1,291,104)</u>
Net Change in Fund Balance		305,000	(911,652)	(1,216,652)
Fund Balance - Beginning			<u>911,652</u>	<u>911,652</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 305,000</u>	<u>\$ 0</u>	<u>\$ (305,000)</u>

**MORGAN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES**

June 30, 2023

Note 1. Budgetary Information

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

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

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

Note 2. Reconciliation of the General Fund

Other Adjustments to Cash (Uses)-Budgetary Basis	\$ 978,071
To adjust for payroll revolving account	<u>64,764</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ 1,042,835</u>
Ending Fund Balance - Budgetary Basis	\$ 1,260,676
To adjust for payroll revolving account	<u>64,764</u>
Total Ending Fund Balance - Regulatory Basis	<u>\$ 1,325,440</u>

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

For The Year Ended June 30, 2023

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MORGAN COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2023

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 4,977,520	\$	\$	\$ 4,977,520
Buildings	22,919,648	1,703,132		24,622,780
Vehicles and Equipment	2,446,259	1,103,157		3,549,416
Furnishings	43,773			43,773
Infrastructure	18,792,762	790,477		19,583,239
 Total Capital Assets	 <u>\$ 49,179,962</u>	 <u>\$ 3,596,766</u>	 <u>\$ 0</u>	 <u>\$ 52,776,728</u>

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

June 30, 2023

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	03-25
Infrastructure	\$ 20,000	10-50

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

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

The Honorable Jim Gazay, Morgan County Judge/Executive
Members of the Morgan 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 Morgan County Fiscal Court for the fiscal year ended June 30, 2023, and the related notes to the financial statement which collectively comprise the Morgan County Fiscal Court's financial statement and have issued our report thereon dated June 17, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Morgan 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 Morgan County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morgan 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 Responses, 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 Responses as items 2023-001, 2023-003, 2023-004, and 2023-005 to be material weaknesses.



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

Report on 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 Responses as item 2023-002 to be a significant deficiency.

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan 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 Responses as items 2023-001, 2023-002, 2023-004, and 2023-005.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

June 17, 2024

**MORGAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2023

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**MORGAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2023

FINANCIAL STATEMENT FINDINGS:

2023-001 The Morgan County Fiscal Court Did Not Approve Interfund Transfers In Advance

This is a repeat finding and was included in the prior year audit report as finding 2022-004. The Morgan County Fiscal Court did not have all fund transfers approved by the fiscal court before executing the transfer. An interfund transfer from the ARPA Fund for \$911,652 to the General Fund was made on July 1, 2022 and was not presented to or approved by the fiscal court. Two interfund transfers from the General Fund totaling \$300,000 to the Jail Fund were made on August 31, 2022 and did not receive approval until September 19, 2022.

The lack of oversight over interfund transfers resulted in unauthorized transfers. Without proper oversight and approval from the fiscal court, undetected misappropriation and fraud could occur. When cash transfers are made without approval of the fiscal court, money can be moved between funds to cover disbursements without the knowledge of the fiscal court. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* states "[a]ll transfers require a court order."

We recommend the fiscal court require all interfund transfers be approved by the fiscal court prior to the transfer being made.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The current administration will ensure that all interfund transfers are approved by the fiscal court prior to the transfer being executed.

2023-002 The Morgan County Fiscal Court Lacks Adequate Internal Controls Over Off-Site Receipts

This is a repeat finding and was included in the prior year audit report as finding 2022-009. Our review of the receipts process for the off-site locations which includes the transfer station, wellness center, and bowling alley revealed weaknesses in internal controls that should be addressed. The following issues were noted:

- No cash receipts were included with daily checkout sheets.
- Deposits were not always made daily.
- Lack of segregation of duties in that the same person collecting money at the off-site locations takes the money to the bank, collects a deposit receipt, and takes the deposit receipt the fiscal court's office to record in the receipt's ledger.
- The transfer station only has a calculator tape to back up cash taken in for the day.
- The wellness center and bowling alley turn in daily checkouts to the treasurer to input into the system without receipts attached, so no documentation is available to determine if information on the sheets is correct to record.

The fiscal court and management failed to implement effective internal controls, review procedures, and provide oversight for offsite collections, especially as it relates to cash receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected.

Strong internal controls require three-part receipts be maintained for all revenues. All receipt numbers should be accounted for and compared to the total listing of receipts to ensure completeness. Deposits should agree to the batched receipts for cash and check totals. The amounts collected should be accurately reflected in the receipt's ledger. Cash collected should be recounted by at least two people, with each signing and agreeing to the amount collected.

**MORGAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2023
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-002 The Morgan County Fiscal Court Lacks Adequate Internal Controls Over Off-Site Receipts
(Continued)

Further guidance on issuance of receipts can be found in KRS 64.840, which states, in part “(1)...all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid: (a) In cash; (b) By a party appearing in person to pay; or (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt. (2) One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit.”

We recommend the fiscal court establish effective internal control procedures to ensure all revenues are adequately documented, recorded, and deposited. We recommend the fiscal court comply with KRS 64.480 regarding receipts and ensure that these records are maintained for an appropriate time period.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The current administration has established internal control procedures, which included installing point of sales systems, to satisfactorily document all revenues and ensure that they are adequately recorded and deposited as per KRS 64.480. This administration will maintain these records for the appropriate time period.

2023-003 The Morgan County Fiscal Court Did Not Have Adequate Internal Controls Over Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2022-007. Internal controls over disbursements were not operating as intended. Proper procedures for disbursements were not followed to ensure payments were accurate and timely. Taxpayer monies were not properly spent due to late fees and state taxes being paid.

The deficiencies listed below were able to occur due to lack of monitoring of controls and the diminished effectiveness of the controls put in place over expenditures by the fiscal court. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets. As a result, the following exceptions were noted:

- Eight invoices totaling \$45,012 were not paid within 30 days.
- One instance occurred where a single purchase order was issued to make multiple purchases totaling \$285 occurring over a period of time.
- Encumbrances totaling \$1,478,819 were owed from prior fiscal years.

KRS 65.140(2) states, in part, “all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performance or improper invoicing by the vendor or by the vendor’s subcontractor.”

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires the fiscal court to submit a quarterly report to the state local finance officer and to report all money received to date in all funds both budgeted and unbudgeted. The report should include by fund, all

**MORGAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2023
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-003 The Morgan County Fiscal Court Did Not Have Adequate Internal Controls Over Disbursements
(Continued)

receipts to date, transfers, borrowed money as well as claims allowed since the beginning of the fiscal year for actual and budgeted amounts. This report should also include encumbrances.

Strong internal controls dictate that there be procedures in place to make sure payments are being made on time and finance charges and sales tax is not being charged.

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The current administration has implemented proper internal controls over expenditures and ensures that they are operating effectively through a reliable system of timely entry and double checking prior to payment.

2023-004 The Morgan County Fiscal Court Did Not Follow Competitive Bidding Requirements

This is a repeat finding and was included in the prior year audit report as finding 2022-008. The fiscal court did not follow competitive bidding requirements for cleaning services and security film installation.

The fiscal court and management failed to follow procedures outlined in the county's administrative code that outline provisions for bidding. The fiscal court and management did not have adequate oversight and review procedures in place to ensure competitive bidding policies and procedures were followed. The fiscal court is in violation of its administrative code and statutes for competitive bidding.

Competitive bidding ensures that the fiscal court procures materials and services at the best price available. KRS 424.260(1) states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for: (a) Materials; (b) Supplies except for perishable foods such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits; (c) Equipment; or (d) Contractual services other than professional; involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids."

In addition, page 125, section 4.02 B of the Morgan County Fiscal Court Administrative Code states, "The County Judge/Executive shall open all bids publicly at the time and place stated in the advertisement and shall select the lowest and/or best bid by a qualified bidder. If the lowest bid is not selected, the reasons for the selections shall be stated in writing."

We recommend the fiscal court and management abide by the competitive bidding requirements outlined in the county's administrative code and KRS 424.260(1). We recommend adequate oversight procedures be implemented to ensure this process is followed for any purchases of like type items that exceed \$30,000 during the fiscal year.

**MORGAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2023
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-004 The Morgan County Fiscal Court Did Not Follow Competitive Bidding Requirements (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The current administration is adhering to the competitive bid requirements outlined in the county's administrative code and KRS 424.260(1). Adequate oversight procedures have been put into effect to guarantee that the proper process is followed for any purchases of like type items that exceed \$40,000 during the fiscal year.

2023-005 The Morgan County Fiscal Court Adhere to Fourth Year Expenditure Restrictions

The original budget for the Road Fund was \$3,929,820. No budget amendments were filed prior to January 1, 2023. As of December 31, 2022, Road Fund expenditures totaled \$4,080,548, which is 104% of the total road budget.

Former officials did not have adequate controls and oversight procedures in place to monitor fourth year expenditures. As a result, the incoming administration was already in a deficit while still having half of the fiscal year to operate. This creates financial pressure on incoming officials that were not involved in the financial decision making prior to taking office.

Statutes limit expenditures in the first half of each fourth year (local official election years) to avoid situations in which outgoing officials spend the entire budget or a substantial portion of the budget before leaving office in December before the new administration takes office in January, resulting in incoming officials facing financial hardships from the beginning of their term of office. Good internal controls also require constant monitoring of budgeted expenditures to actual expenditures to manage the cash flow and operations of the county to ensure the best financial decisions are made.

KRS 68.310 states, “[e]xcept in case of an emergency concerning which the county judge/executive, the fiscal court and the state local finance officer unanimously agree in writing, and, except for encumbrances or expenditures from the county's road fund, no county shall, during the first half of any fourth fiscal year, beginning with the fiscal year 1998-1999, encumber or expend more than sixty-five percent (65%) in any fund budgeted for that fiscal year, not counting as current funds any budgetary allotments for or payments of principal and interest of bonded indebtedness. Prior to encumbering or expending any funds from the road fund during the first half of any fourth fiscal year which exceed sixty-five percent (65%) of the amount budgeted, the fiscal court shall assure that there are sufficient funds remaining in the general fund to provide for the excess encumbrance or expenditure from the road fund on a dollar-for-dollar basis. Those excess funds shall remain in the general fund until on or after January 1 of that fiscal year.”

We recommend management ensure that adequate internal controls and oversight procedures are in place to monitor budgeted and actual expenditures at all times but especially in each fourth year in order to comply with statutory requirements.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This administration has put into action internal controls and oversight procedures to monitor budgeted and actual expenditures at all times, particularly in each fourth year in order to comply with KRS 68.310 and to prevent expending in excess of 65% of the amount budgeted in any fund.

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

MORGAN COUNTY FISCAL COURT

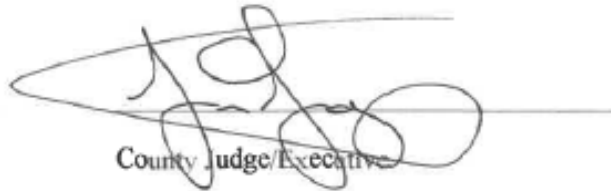
For The Year Ended June 30, 2023

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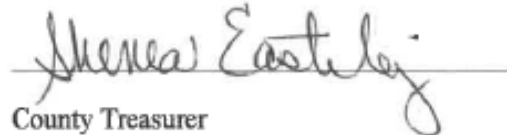
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MORGAN COUNTY FISCAL COURT

For The Year Ended June 30, 2023

The Morgan 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