

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

**For The Year Ended
June 30, 2020**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Letcher County Fiscal Court, for the year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Letcher County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



To the People of Kentucky
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Letcher County Fiscal Court as of June 30, 2020, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Letcher County Fiscal Court as of June 30, 2020, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Letcher County Fiscal Court. The Budgetary Comparison Schedules (supplementary information) and the Schedule of Capital Assets (other information) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules 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.

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

To the People of Kentucky
The Honorable Andy Beshear, Governor
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2021, on our consideration of the Letcher County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Letcher County Fiscal Court's internal control over financial reporting and compliance.

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

- 2020-001 The Letcher County Fiscal Court's Disbursements Exceeded Budgeted Appropriations For The Jail Fund
- 2020-002 The Letcher County Fiscal Court Did Not Have Adequate Procedures For Reporting County Liabilities
- 2020-003 The Letcher County Fiscal Court Did Not Present All Debt Activity On The Financial Statement
- 2020-004 The Letcher County Fiscal Court And the Letcher County Recreation Center Does Not Have Adequate Segregation Of Duties Over Receipts
- 2020-005 The Letcher County Fiscal Court Accepted Two Bids For Gravel

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 7, 2021

LETCHER COUNTY OFFICIALS**For The Year Ended June 30, 2020****Fiscal Court Members:**

Terry Adams	County Judge/Executive
Jack Banks	Magistrate
Sherry Sexton	Magistrate
Maverick Cook	Magistrate
William "Cheddy" Smith	Magistrate
Bennie McCall	Magistrate

Other Elected Officials:

Billy Jamie Hatton	County Attorney
Bert Slone Jr.	Jailer
Winston Meade	County Clerk
Mike Watts	Circuit Court Clerk
Mickey Stines	Sheriff
Ricky Rose	Property Valuation Administrator
Lillie Renee Campbell	Coroner

Appointed Personnel:

Jason Back	Deputy Judge/Executive and Road Foreman
D.J. Frazier	Treasurer
Virginia Sandusky	Finance Officer
Mike Gover	911 Coordinator

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

For The Year Ended June 30, 2020

LETCHER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2020

	Budgeted Funds				
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Forestry Fund
RECEIPTS					
Taxes	\$ 1,435,106			\$ 8,780	
In Lieu Tax Payments		2,740			
Excess Fees	17,232				
Licenses and Permits	24,682				
Intergovernmental	85,651	2,034,544	585,583	1,993,728	
Charges for Services	1,435,200		3,517	226,378	
Miscellaneous	443,823	298,451	76,110	49,270	
Interest	992	3,369	72	2,037	
Total Receipts	<u>3,442,686</u>	<u>2,339,104</u>	<u>665,282</u>	<u>2,280,193</u>	
DISBURSEMENTS					
General Government	987,589	26,443		30,286	
Protection to Persons and Property	162,603		1,013,770	143,726	2,146
General Health and Sanitation	1,177,457			51,057	
Social Services	9,258			8,100	
Recreation and Culture				388,870	
Roads		1,985,670		36,993	
Airports				2,322	
Debt Service	281,184	310,179		514,879	
Capital Projects	48,220			75,210	
Administration	780,761	465,533	328,804	59,386	
Total Disbursements	<u>3,447,072</u>	<u>2,787,825</u>	<u>1,342,574</u>	<u>1,310,829</u>	<u>2,146</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(4,386)</u>	<u>(448,721)</u>	<u>(677,292)</u>	<u>969,364</u>	<u>(2,146)</u>
Other Adjustments to Cash (Uses)					
Financing Obligation Proceeds		289,844			
Transfers From Other Funds			675,000		
Transfers To Other Funds				(675,000)	
Total Other Adjustments to Cash (Uses)		<u>289,844</u>	<u>675,000</u>	<u>(675,000)</u>	
Net Change in Fund Balance	(4,386)	(158,877)	(2,292)	294,364	(2,146)
Fund Balance - Beginning (Restated)	862,089	538,675	35,003	406,523	18,364
Fund Balance - Ending	<u>\$ 857,703</u>	<u>\$ 379,798</u>	<u>\$ 32,711</u>	<u>\$ 700,887</u>	<u>\$ 16,218</u>
Composition of Fund Balance					
Bank Balance	\$ 882,089	\$ 392,972	\$ 38,569	\$ 706,296	\$ 16,218
Plus: Deposits In Transit	773			161	
Less: Outstanding Checks	(25,159)	(13,174)	(5,858)	(5,570)	
Certificates of Deposit					
Fund Balance - Ending	<u>\$ 857,703</u>	<u>\$ 379,798</u>	<u>\$ 32,711</u>	<u>\$ 700,887</u>	<u>\$ 16,218</u>

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

LETCHER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2020
(Continued)

Unbudgeted Funds						
Senior Citizens Fund	Special Sewer Project Fund	Horse Trail Fund	Giant Martin Van Bates Fund	Police Memorial Monument Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$	\$	\$ 1,443,886
						2,740
						17,232
						24,682
						4,699,506
						1,665,095
				805	278,663	1,147,122
1						6,471
1				805	278,663	9,006,734
						1,044,318
						1,322,245
						1,228,514
						17,358
					252,591	641,461
						2,022,663
						2,322
						1,106,242
						123,430
						1,634,484
					252,591	9,143,037
1				805	26,072	(136,303)
						289,844
						675,000
						(675,000)
						289,844
1				805	26,072	153,541
228	13,199	40,000	7,341		81,218	2,002,640
\$ 229	\$ 13,199	\$ 40,000	\$ 7,341	\$ 805	\$ 107,290	\$ 2,156,181
\$ 229	\$ 13,199		\$ 7,341	\$ 805	\$ 117,565	\$ 2,175,283
					473	1,407
					(10,748)	(60,509)
		40,000				40,000
\$ 229	\$ 13,199	\$ 40,000	\$ 7,341	\$ 805	\$ 107,290	\$ 2,156,181

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

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TO THE FINANCIAL STATEMENT**

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**LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2020

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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

Forestry Fund - The primary purpose of this fund is to account for the forest fire expenses of the county. The primary sources of receipts for this fund are the taxes received.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

Special Sewer Project Fund - The primary purpose of this fund is to account for the receipts and disbursements of funds used in a sewer project grant. This fund should have been a budgeted fund of the county.

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

Giant Martin Van Bates Fund - The primary purpose of this fund is to account for the receipts and disbursements of funds to be used to construct a statue of Martin Van Bates. This fund should have been a budgeted fund of the county.

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

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

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

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

E. Letcher County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Letcher County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Letcher County Fiscal Court.

- 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).

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2020, 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 2020.

	LGEA Fund	Total Transfers In
Jail Fund	\$ 675,000	\$ 675,000
Total Transfers Out	<u>\$ 675,000</u>	<u>\$ 675,000</u>

Reason for transfers:

To move resources from the LGEA fund to the jail fund, for budgetary purposes, to the fund that will expend them.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 4. Custodial Funds

Custodial funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following custodial fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates and is maintained in the jail commissary account. The balance in the jail inmate fund cannot be determined as of June 30, 2020.

Note 5. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Trucks - Financing Obligation

On November 1, 2019, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$289,844 with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of two trucks. The lease agreement requires monthly interest payments and one principal payment on April 20, 2021. In the event of default the lessor has the right to terminate the lease term and give notice to vacate the property or recover lease payments which would otherwise have been payable, as well as exercise any other right, remedy or privilege which may be applicable law, subject to the limitation contained in the lease. The principal balance outstanding as of June 30, 2020 was \$289,844.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 289,844	\$ 8,816
Totals	\$ 289,844	\$ 8,816

2. Recreation Center Land - Financing Obligation

On September 29, 2008, the Letcher County Fiscal Court entered into a \$500,000 lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of land for the construction of a recreation center. The lease requires monthly interest payments at a variable rate and annual principal payments. As of June 30, 2020, the principal balance remaining was \$359,000. In the event of default, the lease will be enforced by appropriate court action. Future principal and interest payment requirements are:

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placement (Continued)

2. Recreation Center Land - Financing Obligation (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 15,000	\$ 22,415
2022	16,000	21,465
2023	16,000	20,462
2024	17,000	19,460
2025	18,000	18,328
2026-2030	100,000	73,907
2031-2035	120,000	39,533
2036-2037	57,000	4,479
Totals	<u>\$ 359,000</u>	<u>\$ 220,049</u>

3. Recreation Center - Financing Obligation

On May 24, 2010, the Letcher County Fiscal Court entered into a \$7,000,000 lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the construction of a recreation center. On March 1, 2011, before any principal payments were made, the lease was refinanced and the county entered into a \$7,300,000 financing agreement related to the issuance of the Kentucky Association of Counties Finance Corporation (KACoLT) Financing Program Revenue Bonds, First Series 2011A. On September 20, 2016, with the issuance of KACoLT First Series 2016C, a portion of the lease was refinanced. A revised lease requires monthly principal and interest payments ending January 2026. In the event of default, the lease agreement will be enforced by appropriate court action. As of June 30, 2020, the principal balance remaining was \$1,005,000. Future principal and interest payment requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 162,500	\$ 53,969
2022	170,000	45,738
2023	180,000	36,812
2024	190,000	27,362
2025	200,000	17,266
2026	102,500	6,012
Totals	<u>\$ 1,005,000</u>	<u>\$ 187,159</u>

4. Courthouse and Detention Center - Financing Obligation

On August 15, 2013, the Letcher County Fiscal Court entered into a \$3,140,000 lease agreement related to the issuance of Kentucky Association of Counties Finance Corporation (KACoLT) Financing Program Revenue Bonds, First Series 2013B. The proceeds retired the outstanding balance of the Letcher County Public Properties Corporation Revenue Bonds, Series 1999, which had been issued to renovate the courthouse and detention center.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

4. Courthouse and Detention Center - Financing Obligation (Continued)

The Administrative Office of the Courts (AOC) rents a portion of the premises for office space. AOC has agreed to pay rent directly to the bond trustee. The county is in reliance upon the AOC payment in order to meet a portion of the bond debt service requirement. AOC has expressed its intention to continue to make their payment in each successive biennial budget period until May 2027, but AOC is not legally obligated to do so. As of June 30, 2020, the principal balance remaining was \$1,720,000. Future principal and interest payment requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 220,000	\$ 64,516
2022	225,000	57,531
2023	235,000	50,388
2024	245,000	42,339
2025	255,000	33,641
2026-2027	540,000	34,926
Totals	<u>\$ 1,720,000</u>	<u>\$ 283,341</u>

5. Recreation Center Refinance - Financing Obligation

On September 20, 2016, the Letcher County Fiscal Court entered into a \$6,030,000 lease agreement related to the issuance of the Kentucky Association of Counties Finance Corporation (KACoLT) Financing Program Revenue and Revenue Refunding Bonds, First Series 2016C. The purpose of this debt was to refinance a portion of the KACoLT First Series 2011A bonds to reduce the combined debt payments. The lease requires monthly principal and interest payments ending December 2040. In the event of default, the lease agreement will be enforced by appropriate legal action. As of June 30, 2020, the principal balance remaining was \$5,812,500. Future principal and interest payment requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 57,500	\$ 200,087
2022	60,000	197,644
2023	62,500	195,094
2024	65,000	192,437
2025	67,500	189,675
2026-2030	1,392,500	857,334
2031-2035	1,767,500	594,194
2036-2040	2,112,500	249,250
2041	227,500	7,619
Totals	<u>\$ 5,812,500</u>	<u>\$ 2,683,334</u>

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 5. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

6. Utility Tractor - Financing Obligation

On August 4, 2015, the Letcher County Fiscal Court purchased a utility tractor and a mower. An upfront payment of \$20,000 was made at closing and \$65,157 was financed with John Deere Financial. The lease agreement requires 59 monthly payments of \$1,218, applied to principal and interest at a 4 percent nominal interest rate. In the event of default the lessor has the right to terminate the lease term and give notice to vacate the property or recover lease payments which would otherwise have been payable, as well as exercise any other right, remedy or privilege which may be applicable law, subject to the limitation contained in the lease. As of June 30, 2020, the principal balance remaining was \$0.

7. Trucks - Financing Obligation

On October 26, 2018, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$283,844 with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of two trucks. The lease agreement requires monthly interest payments and one principal payment on April 20, 2020. In the event of default the lessor has the right to terminate the lease term and give notice to vacate the property or recover lease payments which would otherwise have been payable, as well as exercise any other right, remedy or privilege which may be applicable law, subject to the limitation contained in the lease. The principal balance outstanding as of June 30, 2020, was \$0.

B. Aggregate Debt Schedule

The amount of required principal and interest payments on long-term obligations at June 30, 2020, were as follows:

Fiscal Year Ending June 30	Direct Borrowings and Direct Placements	
	Principal	Scheduled Interest
2021	\$ 744,844	\$ 349,803
2022	471,000	322,378
2023	493,500	302,756
2024	517,000	281,598
2025	540,500	258,910
2026-2030	2,135,000	972,179
2031-2035	1,887,500	633,727
2036-2040	2,169,500	253,729
2041	227,500	7,619
Totals	<u>\$ 9,186,344</u>	<u>\$ 3,382,699</u>

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 5. Long-term Debt (Continued)

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2020, was as follows:

	Beginning Balance (Restated*)	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 9,633,320	\$ 289,844	\$ 736,820	\$ 9,186,344	\$ 744,844
Total Long-term Debt	<u>\$ 9,633,320</u>	<u>\$ 289,844</u>	<u>\$ 736,820</u>	<u>\$ 9,186,344</u>	<u>\$ 744,844</u>

* The beginning balance was restated by \$283,844, for debt that was reported in the prior year as short-term debt

Note 6. Contingencies

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

Note 7. Employee Retirement System

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

The county's contribution for FY 2018 was \$383,221, FY 2019 was \$434,011, and FY 2020 was \$460,574.

Nonhazardous

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

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

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 7. Employee Retirement System (Continued)

Nonhazardous (Continued)

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

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

Hazardous

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

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

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

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

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

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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

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 161.714 with exception of COLA and retiree health benefits after July 2003.

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 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 7. 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 KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

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

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

F. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 8. Deferred Compensation

The Letcher County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

Note 9. Health Reimbursement Account/Flexible Spending Account

The Letcher County Fiscal Court established health reimbursement and flexible spending accounts in May 2012, to provide full-time employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$1,450 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction. The balance in the accounts at June 30, 2020, is \$57,920.

Note 10. Insurance

For the fiscal year ended June 30, 2020, the Letcher County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Prior Period Adjustments

The beginning balance of the general fund was increased by \$1,000 for prior year voided check.

The beginning balance of the jail commissary fund was decreased by a deposit in transit totaling \$70 that should have been accounted for in the current year and outstanding checks totaling \$8,988 that should have been included in the prior year resulting in a total decrease of \$9,058 in the beginning balance of the jail commissary fund.

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

For The Year Ended June 30, 2020

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LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,322,000	\$ 1,374,107	\$ 1,435,106	\$ 60,999
Excess Fees	3,360	9,140	17,232	8,092
Licenses and Permits	24,000	24,000	24,682	682
Intergovernmental	90,050	90,050	85,651	(4,399)
Charges for Services	1,180,000	1,180,000	1,435,200	255,200
Miscellaneous	289,800	406,037	443,823	37,786
Interest	400	400	992	592
Total Receipts	<u>2,909,610</u>	<u>3,083,734</u>	<u>3,442,686</u>	<u>358,952</u>
DISBURSEMENTS				
General Government	866,384	1,079,561	987,589	91,972
Protection to Persons and Property	143,000	162,603	162,603	
General Health and Sanitation	959,402	1,198,604	1,177,457	21,147
Social Services	20,000	20,000	9,258	10,742
Debt Service	312,000	312,000	281,184	30,816
Capital Projects	115,000	115,000	48,220	66,780
Administration	717,337	1,280,568	780,761	499,807
Total Disbursements	<u>3,133,123</u>	<u>4,168,336</u>	<u>3,447,072</u>	<u>721,264</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(223,513)</u>	<u>(1,084,602)</u>	<u>(4,386)</u>	<u>1,080,216</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>223,513</u>	<u>223,513</u>		<u>(223,513)</u>
Total Other Adjustments to Cash (Uses)	<u>223,513</u>	<u>223,513</u>		<u>(223,513)</u>
Net Change in Fund Balance		(861,089)	(4,386)	856,703
Fund Balance - Beginning (Restated)		<u>861,089</u>	<u>862,089</u>	<u>1,000</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 857,703</u>	<u>\$ 857,703</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 5,000	\$ 5,000	\$ 2,740	\$ (2,260)
Intergovernmental	1,656,830	2,022,657	2,034,544	11,887
Miscellaneous	299,000	299,000	298,451	(549)
Interest	1,600	1,600	3,369	1,769
Total Receipts	<u>1,962,430</u>	<u>2,328,257</u>	<u>2,339,104</u>	<u>10,847</u>
DISBURSEMENTS				
General Government	27,443	27,443	26,443	1,000
Roads	1,267,937	1,992,523	1,985,670	6,853
Debt Service	320,000	320,000	310,179	9,821
Administration	407,537	587,453	465,533	121,920
Total Disbursements	<u>2,022,917</u>	<u>2,927,419</u>	<u>2,787,825</u>	<u>139,594</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(60,487)</u>	<u>(599,162)</u>	<u>(448,721)</u>	<u>150,441</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds	284,000	284,000	289,844	5,844
Transfers From Other Funds				
Transfers To Other Funds	<u>(223,513)</u>	<u>(223,513)</u>		<u>223,513</u>
Total Other Adjustments to Cash (Uses)	<u>60,487</u>	<u>60,487</u>	<u>289,844</u>	<u>229,357</u>
Net Change in Fund Balance		(538,675)	(158,877)	379,798
Fund Balance - Beginning		<u>538,675</u>	<u>538,675</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 379,798</u>	<u>\$ 379,798</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 617,800	\$ 623,384	\$ 585,583	\$ (37,801)
Charges for Services	3,000	3,000	3,517	517
Miscellaneous	42,500	65,631	76,110	10,479
Interest	125	125	72	(53)
Total Receipts	<u>663,425</u>	<u>692,140</u>	<u>665,282</u>	<u>(26,858)</u>
DISBURSEMENTS				
Protection to Persons and Property	803,778	1,013,771	1,013,770	1
Administration	275,500	129,225	328,804	(199,579)
Total Disbursements	<u>1,079,278</u>	<u>1,142,996</u>	<u>1,342,574</u>	<u>(199,578)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(415,853)</u>	<u>(450,856)</u>	<u>(677,292)</u>	<u>(226,436)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>415,853</u>	<u>415,853</u>	<u>675,000</u>	<u>259,147</u>
Total Other Adjustments to Cash (Uses)	<u>415,853</u>	<u>415,853</u>	<u>675,000</u>	<u>259,147</u>
Net Change in Fund Balance		(35,003)	(2,292)	32,711
Fund Balance - Beginning		35,003	35,003	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,711</u>	<u>\$ 32,711</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 10,000	\$ 10,000	\$ 8,780	\$ (1,220)
Intergovernmental	1,268,500	1,977,500	1,993,728	16,228
Charges for Services	300,000	300,000	226,378	(73,622)
Miscellaneous	17,200	17,200	49,270	32,070
Interest	1,160	1,160	2,037	877
Total Receipts	<u>1,596,860</u>	<u>2,305,860</u>	<u>2,280,193</u>	<u>(25,667)</u>
DISBURSEMENTS				
General Government	32,205	32,699	30,286	2,413
Protection to Persons and Property	148,002	148,408	143,726	4,682
General Health and Sanitation	51,500	54,898	51,057	3,841
Social Services	6,000	8,100	8,100	
Recreation and Culture	331,000	387,119	388,870	(1,751)
Roads	49,000	49,000	36,993	12,007
Airports	2,000	2,322	2,322	
Debt Service	494,000	515,379	514,879	500
Capital Projects	200	75,310	75,210	100
Administration	67,100	1,023,295	59,386	963,909
Total Disbursements	<u>1,181,007</u>	<u>2,296,530</u>	<u>1,310,829</u>	<u>985,701</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>415,853</u>	<u>9,330</u>	<u>969,364</u>	<u>960,034</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(415,853)</u>	<u>(415,853)</u>	<u>(675,000)</u>	<u>(259,147)</u>
Total Other Adjustments to Cash (Uses)	<u>(415,853)</u>	<u>(415,853)</u>	<u>(675,000)</u>	<u>(259,147)</u>
Net Change in Fund Balance		(406,523)	294,364	700,887
Fund Balance - Beginning		<u>406,523</u>	<u>406,523</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 700,887</u>	<u>\$ 700,887</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	FORESTRY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,253	\$ 1,253	\$	\$ (1,253)
Total Receipts	<u>1,253</u>	<u>1,253</u>		<u>(1,253)</u>
DISBURSEMENTS				
Protection to Persons and Property Administration	1,253	2,146	2,146	
Total Disbursements	<u>1,253</u>	<u>19,617</u>	<u>2,146</u>	<u>17,471</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(18,364)</u>	<u>(2,146)</u>	<u>16,218</u>
Net Change in Fund Balance		(18,364)	(2,146)	16,218
Fund Balance - Beginning		<u>18,364</u>	<u>18,364</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,218</u>	<u>\$ 16,218</u>

LETCHER COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2020

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

Jail Fund:

Administration line item exceeded budgeted appropriations by \$199,579.
Overall budget exceeded budgeted appropriations by \$199,578.

LGEA Fund:

Recreation and culture line item exceeded budgeted appropriations by \$1,751.

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

For The Year Ended June 30, 2020

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LETCHER COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2020

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 2,003,500	\$	\$	\$ 2,003,500
Buildings	15,411,333			15,411,333
Vehicles	2,978,889	19,725		2,998,614
Equipment	1,067,029			1,067,029
Infrastructure	4,881,403	190,896		5,072,299
Total Capital Assets	<u>\$ 26,342,154</u>	<u>\$ 210,621</u>	<u>\$ 0</u>	<u>\$ 26,552,775</u>

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

June 30, 2020

Note 1. Capital Assets

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

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

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Letcher County Fiscal Court for the fiscal year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Letcher County Fiscal Court's financial statement and have issued our report thereon dated July 7, 2021.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not 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.

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 2020-001, 2020-002, and 2020-004 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, 2020-003, and 2020-005.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 7, 2021

**LETCHER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2020

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**LETCHER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2020

FINANCIAL STATEMENT FINDINGS:

2020-001 The Letcher County Fiscal Court's Disbursements Exceeded Budgeted Appropriations For The Jail Fund

The Letcher County Fiscal Court exceeded budgeted appropriations in the jail fund. The fiscal court had budgeted appropriations of \$1,142,996 for the jail fund and incurred actual disbursements totaling \$1,342,574 for the fund. The fiscal court overspent the jail fund in the amount of \$199,578. Fiscal courts are required to maintain disbursements within budgeted appropriations in all operating funds.

The treasurer was unaware that she could budget additional receipts to the jail fund for transfers from other funds to account for additional expenditures in the jail fund that were not included in the total budgeted appropriations. A portion of disbursements of the Letcher County Fiscal Court's jail fund were made without sufficient budget appropriations.

KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable." Strong internal controls over financial reporting are vital in ensuring the fiscal court's actual disbursements do not exceed the budgeted disbursements in each fund.

We recommend the Letcher County Fiscal Court implement controls to ensure that actual disbursements are within budget appropriations as required by statute.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The county had to transfer more money into the Jail Fund to cover expenses than we budgeted. We were not aware a budget amendment needed to be made for those additional transfers.

2020-002 The Letcher County Fiscal Court Did Not Have Adequate Procedures For Reporting County Liabilities

The Letcher County Fiscal Court did not report outstanding interest balances related to debt service payments. Of the five debts listed, the principal balance for one of the debts was not reported correctly, resulting in a difference of \$13,333. The interest balances on all five debts were not reported, resulting in liabilities of \$3,382,699 for interest balances due as of June 30, 2020, not reported on the fourth quarter financial report.

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

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

**LETCHER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2020
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Letcher County Fiscal Court Did Not Have Adequate Procedures For Reporting County Liabilities (Continued)

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Liabilities are reported per the amortization schedules received from KACO. KACO sends out monthly invoices per the amortization schedules and we pay according to the invoices. Principal and interest are also reported according to the amortization schedules on the quarterly reports.

Auditor's Reply: Liabilities for outstanding interest and principal amounts due according to the amortizations schedules were not reported correctly on the fourth quarter financial report.

2020-003 The Letcher County Fiscal Court Did Not Present All Debt Activity On The Financial Statement

The Letcher County Fiscal Court's fourth quarter financial report did not include the financial activity for a loan for a truck that was later refinanced and an additional truck was also purchased with the refinanced loan. The Letcher County Fiscal Court had financing proceeds that went directly from lessor to the vendor and were not reported on the financial statement. Since these transactions did not run through the fiscal court's bank accounts, they were not included in the fiscal court's budget process or reflected on the fiscal court's financial report. The fiscal court was not aware the proceeds needed to be reported.

Failure to include all debt activity on the financial statement caused the financial statement to be understated by \$289,844.

The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* provides requirements and guidance for county government's preparation and presentation of the financial statement and budget. Page 48 of the manual states, "[a]ll borrowed money received and repaid must be reflected in the county budget," page 72 of the manual states, "[a]ll county money is to be reported on the financial statement whether it is included in the budget or not," and page 74 of the manual states, "[a]ny borrowed money that is not reflected in the original budget estimate must be **amended** into the budget and be properly reflected on the financial report as a receipt as well as an "expenditure" for repayment of borrowed funds."

We recommend the Letcher County Fiscal Court present all financial activity in the county's financial statement as required by the regulatory basis of accounting. In addition to complying with the Department for Local Government's financial statement presentation requirements, this will also ensure all line items are properly budgeted or amended as needed.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Debt for the [name redacted] Truck leases through KACO are listed in short term liabilities and reported quarterly to DLG. Debt and lease proceeds are also budgeted each year as well as payments for principal and interest for the [name redacted] Trucks which are approved yearly by DLG. It is our understanding that we must also book the receipt of funds at the time of purchase even though we do not receive those funds in the road department receipts only. The funds are paid directly to the bank from KACO.

LETCHER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2020
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-004 The Letcher County Fiscal Court And the Letcher County Recreation Center Does Not Have Adequate Segregation Of Duties Over Receipts

The Letcher County Fiscal Court and the Letcher County Recreation Center do not have adequate segregation of duties over receipts. The county treasurer is responsible for receiving receipts, preparing deposits, taking deposits to the bank, posting receipts to ledgers, preparation of financial reports, and reconciling bank accounts. The recreation center director collects receipts, prepares daily checkout sheets, prepares deposits, and takes deposits to the bank. The director takes the daily checkout sheet to the treasurer. There is no documented review of these processes. These incompatible duties create a lack of adequate segregation of duties.

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

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

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Recreation Center follows the same procedures for collecting funds as our sanitation department. Daily reports are written up by each person operating a cash register. The cash register is programmed for each type of transaction. Cash register tapes, money and daily reports must all balance and be signed off on by the operator. The director or assistant director checks all reports, counts the money and signs off on each daily report by each operator. A total end of day report is prepared by the director or assistant director, all monies are totaled and balanced. Deposits are made by the director or assistant director. All daily reports, copies of deposit slips, etc. are given to the treasurer in addition to a detailed end of month spread sheet. The treasurer checks all reports with deposits and must key in all receipts into FCAS to balance with the bank statement for the LGEA account for the deposits for the Recreation Center.

Auditor's Reply: Sufficient compensating controls were not documented at the recreation center to offset the lack of segregation of duties.

2020-005 The Letcher County Fiscal Court Accepted Two Bids For Gravel

The Letcher County Fiscal Court advertises bids for gravel each year. In calendar years 2019 and 2020, two bids for gravel were accepted with one provider for the majority of the county and another for a smaller portion of the county.

**LETCHER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2020
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-005 The Letcher County Fiscal Court Accepted Two Bids For Gravel (Continued)

According to the county, they were unaware that bids cannot be awarded to two vendors unless it is advertised as such. As a result the county is not in compliance with KRS requirements and the Letcher County Administrative Code.

KRS 178.140(1) states, “[a]ll bids for construction or maintenance of county roads and bridges shall be received at the time and place specified in the advertisement, and shall be opened publicly at the time of awarding, and the amount of items comprising each bid shall be publicly announced.” KRS 178.140(2) states, in part, “[t]he contract shall be awarded to the lowest and best bidder...”

Section 421.5 of the Letcher County Administrative Code states, “Judge/Executive shall open all bids publicly at the time and place stated in the advertisement; and shall select the lowest and best bid by a qualified bidder. If the lowest bid is not selected, the reasons for the selection shall be stated in writing.”

We recommend the Letcher County Fiscal Court comply with KRS 178.140 and the county administrative code as it relates to bids on construction or maintenance of county roads and bridges.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The fiscal court follows the direction of the county attorney. We have accepted two bids for gravel for several year for the reason that it saves time and money for the county to be able to get gravel on the end of the county that the road department is working at on any given day. When a motion is made to accept those gravel bids, wording is put in the motion that we accept two bids and will get gravel from the location that best serves the road department on the day of the work. It is our understanding that we must also put that wording in the bid specs for gravel at the time of advertisement. We will do so when advertisement for bids are done for CY 2022.

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

LETCHER COUNTY FISCAL COURT

For The Year Ended June 30, 2020

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CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM


COUNTY FISCAL COURT

For The Year Ended June 30, 2020

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



County Judge/Executive



County Treasurer