

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

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



**ALLISON BALL  
AUDITOR OF PUBLIC ACCOUNTS  
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## CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
LETCHER COUNTY OFFICIALS .....	5
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	8
NOTES TO FINANCIAL STATEMENT.....	12
BUDGETARY COMPARISON SCHEDULES.....	29
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES .....	40
SCHEDULE OF CAPITAL ASSETS.....	43
NOTES TO OTHER INFORMATION - REGULATORY BASIS SCHEDULE OF CAPITAL ASSETS.....	44
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	47
SCHEDULE OF FINDINGS AND RESPONSES.....	51
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

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

**Independent Auditor's Report**

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

**Report on the Audit of the Financial Statement**

***Opinions***

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis of the Letcher County Fiscal Court, for the year ended June 30, 2022, and the related notes to the financial statement, which collectively comprise the Letcher County Fiscal Court's financial statement as listed in the table of contents.

***Unmodified Opinion on Regulatory Basis of Accounting***

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

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

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

***Basis for Opinions***

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



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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Letcher County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

### ***Responsibilities of Management for the Financial Statement***

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

### ***Auditor's Responsibilities for the Audit of the Financial Statement***

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

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

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

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

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

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

**Other Matters**

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Letcher County Fiscal Court. The Budgetary Comparison Schedules 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 November 9, 2023, on our consideration of the Letcher County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Letcher County Fiscal Court's internal control over financial reporting and compliance.

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

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

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

- 2022-001 The Letcher County Fiscal Court Did Not Have Effective Internal Controls, Review Procedures, And Oversight For The Budget Process
- 2022-002 The Letcher County Fiscal Court Did Not Properly Report Transfers
- 2022-003 The Letcher County Fiscal Court Did Not Have Adequate Procedures For Reporting County Liabilities
- 2022-004 The Letcher County Fiscal Court Lacks Adequate Controls Over Disbursements
- 2022-005 The Letcher County Fiscal Court And The Letcher County Recreation Center Lacks Adequate Segregation Of Duties Over Receipts

Respectfully submitted,



Allison Ball  
Auditor of Public Accounts  
Frankfort, Ky

November 9, 2023



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

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

**Other Elected Officials:**

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

**Appointed Personnel:**

D.J. Frazier	County Treasurer
Sharon McCall	Chief Financial Officer

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

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

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

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

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
<b>RECEIPTS</b>				
Taxes	\$ 1,612,704	\$	\$	\$ 13,734
In Lieu Tax Payments		2,929		
Excess Fees	55,465			
Licenses and Permits	25,074			
Intergovernmental	108,706	1,575,870	362,364	1,002,172
Charges for Services	1,367,477		1,635	162,755
Miscellaneous	390,169	372,544	90,780	100,922
Interest	988	966	61	909
Total Receipts	<u>3,560,583</u>	<u>1,952,309</u>	<u>454,840</u>	<u>1,280,492</u>
<b>DISBURSEMENTS</b>				
General Government	1,522,655	27,693		55,562
Protection to Persons and Property	123,697		739,297	147,270
General Health and Sanitation	1,433,499			52,814
Social Services	21,966			8,895
Recreation and Culture				377,024
Roads		1,260,752		91,341
Debt Service	298,755	299,590		512,448
Capital Projects	55,511			171,943
Administration	856,117	395,633	180,500	84,627
Total Disbursements	<u>4,312,200</u>	<u>1,983,668</u>	<u>919,797</u>	<u>1,501,924</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(751,617)</u>	<u>(31,359)</u>	<u>(464,957)</u>	<u>(221,432)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Bond Proceeds or Financing Obligation Proceeds	120,000	145,422		
Payroll Revolving Account	28,549			
Retirement Revolving Account	47,019			
Transfers From Other Funds	317,057	144,228	347,740	28,751
Transfers To Other Funds	(148,177)	(250,000)		(262,300)
Total Other Adjustments to Cash (Uses)	<u>364,448</u>	<u>39,650</u>	<u>347,740</u>	<u>(233,549)</u>
Net Change in Fund Balance	(387,169)	8,291	(117,217)	(454,981)
Fund Balance - Beginning	<u>721,431</u>	<u>143,372</u>	<u>118,588</u>	<u>506,122</u>
Fund Balance - Ending	<u>\$ 334,262</u>	<u>\$ 151,663</u>	<u>\$ 1,371</u>	<u>\$ 51,141</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 357,953	\$ 152,799	\$ 7,110	\$ 68,835
Payroll Revolving Account Reconciled Balance	28,549			
Retirement Revolving Account Reconciled Balance	47,019			
Plus: Deposits In Transit	1,380			148
Less: Outstanding Checks	(100,639)	(1,136)	(5,739)	(17,842)
Certificates of Deposit				
Fund Balance - Ending	<u>\$ 334,262</u>	<u>\$ 151,663</u>	<u>\$ 1,371</u>	<u>\$ 51,141</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, 2022**  
**(Continued)**

Budgeted Funds						
COVID-19 Relief Fund	Forestry Fund	Senior Citizens Fund	Horse Trail Fund	Giant Martin Van Bates Fund	Police Memorial Monument Fund	American Rescue Plan Act Fund
\$	\$	\$	\$	\$	\$	\$
50,000						2,093,209
				40	500	
		2				3,176
50,000		2		40	500	2,096,385
						75,737
	2,146					247,900
50,000						29,601
						14,400
						105,776
50,000	2,146					473,414
	(2,146)	2		40	500	1,622,971
						(177,299)
						(177,299)
	(2,146)	2		40	500	1,445,672
152	14,072	229	40,000	7,341	805	
\$ 152	\$ 11,926	\$ 231	\$ 40,000	\$ 7,381	\$ 1,305	\$ 1,445,672
\$ 152	\$ 11,926	\$ 231	\$	\$ 7,381	\$ 1,305	\$ 1,445,672
			40,000			
\$ 152	\$ 11,926	\$ 231	\$ 40,000	\$ 7,381	\$ 1,305	\$ 1,445,672

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, 2022**  
**(Continued)**

	<u>Unbudgeted Funds</u>	
	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
<b>RECEIPTS</b>		
Taxes	\$	\$ 1,626,438
In Lieu Tax Payments		2,929
Excess Fees		55,465
Licenses and Permits		25,074
Intergovernmental		5,192,321
Charges for Services		1,531,867
Miscellaneous	274,998	1,229,953
Interest		6,102
Total Receipts	<u>274,998</u>	<u>9,670,149</u>
<b>DISBURSEMENTS</b>		
General Government		1,681,647
Protection to Persons and Property		1,260,310
General Health and Sanitation		1,536,313
Social Services		60,462
Recreation and Culture	307,758	684,782
Roads		1,352,093
Debt Service		1,110,793
Capital Projects		241,854
Administration		1,622,653
Total Disbursements	<u>307,758</u>	<u>9,550,907</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(32,760)</u>	<u>119,242</u>
<b>Other Adjustments to Cash (Uses)</b>		
Bond Proceeds		265,422
Payroll Revolving Account		28,549
Retirement Revolving Account		47,019
Transfers From Other Funds		837,776
Transfers To Other Funds		(837,776)
Total Other Adjustments to Cash (Uses)		<u>340,990</u>
Net Change in Fund Balance	(32,760)	460,232
Fund Balance - Beginning	<u>127,936</u>	<u>1,680,048</u>
Fund Balance - Ending	<u>\$ 95,176</u>	<u>\$ 2,140,280</u>
<b>Composition of Fund Balance</b>		
Bank Balance	\$ 123,172	\$ 2,176,536
Payroll Revolving Account Reconciled Balance		28,549
Retirement Revolving Account Reconciled Balance		47,019
Plus: Deposits In Transit	578	2,106
Less: Outstanding Checks	(28,574)	(153,930)
Investments		40,000
Fund Balance - Ending	<u>\$ 95,176</u>	<u>\$ 2,140,280</u>

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

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	12
NOTE 2.	DEPOSITS .....	15
NOTE 3.	TRANSFERS.....	15
NOTE 4.	CUSTODIAL FUND.....	15
NOTE 5.	LEASES .....	16
NOTE 6.	LONG-TERM DEBT .....	16
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM .....	20
NOTE 8.	DEFERRED COMPENSATION.....	24
NOTE 9.	HEALTH REIMBURSEMENT ACCOUNT/FLEXIBLE SPENDING ACCOUNT .....	24
NOTE 10.	INSURANCE.....	24
NOTE 11.	PAYROLL REVOLVING ACCOUNT .....	24
NOTE 12.	RETIREMENT REVOLVING ACCOUNT.....	25

**LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2022**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

**B. Basis of Accounting**

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

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

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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

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

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



**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2022**  
**(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.

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

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

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

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

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.

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.

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

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

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

**D. Budgetary Information**

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

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Information (Continued)**

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).

**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.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2022**  
**(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, 2022, 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 2022.

	General Fund	Road Fund	LGEA Fund	American Rescue Plan Act Fund	Total Transfers In
General Fund	\$	\$ 250,000	\$	\$ 67,057	\$ 317,057
Road Fund	120,000			24,228	144,228
Jail Fund	28,177		262,300	57,263	347,740
LGEA Fund				28,751	28,751
Total Transfers Out	<u>\$ 148,177</u>	<u>\$ 250,000</u>	<u>\$ 262,300</u>	<u>\$ 177,299</u>	<u>\$ 837,776</u>

Reason for transfers:

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

**Note 4. Custodial Fund**

Custodial funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. In accordance with the regulatory basis of accounting, custodial funds are not presented on the financial statement.

The fiscal court has the following custodial fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2022 was \$201.

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

**Note 5. Leases**

**Lessor**

1. On September 28, 2016, the Letcher County Fiscal Court entered into a lease agreement for a billboard rental at Isom Baseball Park. The lease is for 10 years, and the fiscal court will receive an annual payment of \$1,000. The Letcher County Fiscal Court recognized \$1,000 in lease revenue during the current fiscal year related to this lease. As of June 30, 2022, the Letcher County Fiscal Court's receivable for this lease payment was \$5,000.
2. On March 25, 2016, the Letcher County Fiscal Court entered into a lease agreement for the use of a building for a local community committee to use for events. The lease is renewed annually, and the fiscal court will receive an annual payment of \$12. The Letcher County Fiscal Court recognized \$12 in lease revenue during the current fiscal year related to this lease. As of June 30, 2022, the Letcher County Fiscal Court's receivable for this lease payment was \$12.
3. On February 20, 2017, the Letcher County Fiscal Court entered into a lease agreement for the use of a recycling center and compressor site. The lease is active indefinitely if the compressor site is being utilized for the transportation of natural gas. The fiscal court will receive an annual payment of \$2,500. The Letcher County Fiscal Court recognized \$2,500 in lease revenue during the current fiscal year related to this lease. As of June 30, 2022, the Letcher County Fiscal Court's receivable for this lease payment was \$2,500 annually if the requirements of the agreement are met.
4. On April 29, 2021, the Letcher County Fiscal Court entered into a lease agreement for the use of a building to be a local general store. The lease is for 10 years and the fiscal court will receive a monthly payment of \$100 for year one, \$200 for year two, \$250 for year 3, \$400 for year 4, and \$500 for year 5. The Letcher County Fiscal Court recognized \$1,200 in lease revenue during the current fiscal year related to this lease. As of June 30, 2022, the Letcher County Fiscal Court's receivable for this lease payment was \$16,200.
5. On May 5, 2006 the Letcher County Fiscal Court entered into a lease agreement for office space at the Emergency Management office. The lease is for 5 years and the fiscal court will receive a monthly payment of \$750. The Letcher County Fiscal Court recognized \$9,750 in lease revenue during the current fiscal year related to this lease. As of June 30, 2022, the Letcher County Fiscal Court's receivable for this lease payment was \$0.

**Note 6. 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 \$292,844 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 May 20, 2022. In the event of default, the lessor has the right to terminate the lease term and give notice to vacate the property or recover lease payments which would otherwise have been payable, as well as exercise any other right, remedy or privilege which may be available under applicable laws, subject to limitations contained in the lease. The principal balance on this lease was paid off during the fiscal year ending June 30, 2022.

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

**Note 6. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

**2. Trucks - Financing Obligation**

On October 28, 2001, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$145,422 with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of two trucks. The lease agreement requires monthly interest payments and one principal payment. In the event of default, the lessor has the right to terminate the lease term and give notice to vacate the property or recover lease payments which would otherwise have been payable, as well as exercise any other right, remedy or privilege which may be available under applicable laws, subject to limitations contained in the lease. The principal balance remaining on this lease is \$145,422 for fiscal year ending June 30, 2022.

Fiscal Year Ended June 30	Principal	Interest
2023	\$ 145,422	\$ 8,657
Totals	\$ 145,422	\$ 8,657

**3. 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. In the event of default, the lease will be enforced by appropriate court action. As of June 30, 2022, the principal balance remaining was \$328,000. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2023	\$ 16,000	\$ 13,980
2024	17,000	13,307
2025	18,000	12,553
2026	18,000	11,793
2027	19,000	11,012
2028-2032	108,000	42,018
2033-2037	132,000	16,861
Totals	\$ 328,000	\$ 121,524

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

**Note 6. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

**4. Recreation Center- Financing Obligation**

On April 8, 2021, the Letcher County Fiscal Court entered into a \$885,000 lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to refinance the lease agreement obtained under the previously noted Kentucky Association of Counties Finance Corporation (KACoLT) Financing Program Revenue Bonds, First Series 2011A, for the construction of a recreation center. The lease requires monthly principal and interest payments ending in 2026. In the event of default, the lease agreement may be enforced by appropriate court action. As of June 30, 2022, the principal balance remaining was \$635,000. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2023	\$ 172,500	\$ 25,700
2024	180,000	21,375
2025	187,500	14,125
2026	95,000	4,750
Totals	<u>\$ 635,000</u>	<u>\$ 65,950</u>

**5. 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. 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. In the event of default, the lease agreement may be enforced by appropriate legal action. As of June 30, 2022, the principal balance remaining was \$1,275,000. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2023	\$ 235,000	\$ 50,388
2024	245,000	42,339
2025	255,000	33,641
2026	265,000	22,995
2027	275,000	11,931
Totals	<u>\$ 1,275,000</u>	<u>\$ 161,294</u>

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

**Note 6. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

**6. 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 may be enforced by appropriate legal action. As of June 30, 2022, the principal balance remaining was \$5,695,000. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2023	\$ 62,500	\$ 180,406
2024	65,000	177,906
2025	67,500	175,306
2026	177,500	144,305
2027	290,000	169,756
2028-2032	1,590,000	704,416
2033-2037	1,910,000	422,625
2038-2041	1,532,500	106,350
Totals	<u>\$ 5,695,000</u>	<u>\$ 2,081,070</u>

**7. Voting Machines**

On December 1, 2021, the Letcher County Fiscal Court entered into a lease agreement related to the issuance of new voting machines for the Letcher County Clerk. The lease requires monthly principal and interest payments ending December 1, 2026. In the event of default, the lease agreement may be enforced by appropriate legal action. As of June 30, 2022, the principal balance remaining was \$106,291. Future principal and interest payment requirements are:

Fiscal Year Ended June 30	Principal	Interest
2023	\$ 28,965	\$ 3,482
2024	30,067	2,380
2025	31,211	1,236
2026	16,048	175
Totals	<u>\$ 106,291</u>	<u>\$ 7,273</u>

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

**Note 6. Long-term Debt (Continued)**

**B. Changes In Long-term Debt**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 8,735,594	\$ 265,422	\$ 816,303	\$ 8,184,713	\$ 660,387
Total Long-term Debt	<u>\$ 8,735,594</u>	<u>\$ 265,422</u>	<u>\$ 816,303</u>	<u>\$ 8,184,713</u>	<u>\$ 660,387</u>

**C. Aggregate Debt Schedule**

The amount of required principal and interest payments on long-term obligations on June 30, 2022, were as follows:

Fiscal Year Ended June 30	Direct Borrowings and Direct Placements	
	Principal	Interest
2023	660,387	282,613
2024	537,067	257,307
2025	559,211	236,861
2026	571,548	184,018
2027	584,000	192,699
2028-2032	1,337,500	746,434
2033-2037	1,992,500	439,486
2038-2041	<u>1,942,500</u>	<u>106,350</u>
Totals	<u>\$ 8,184,713</u>	<u>\$ 2,445,768</u>

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

The county's contribution for FY 2020 was \$460,574, FY 2021 was \$510,494, and FY 2022 was \$569,780.



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

**Note 7. Employee Retirement System (Continued)**

Nonhazardous

Nonhazardous covered employees are required to contribute five percent (5%) of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent (6%) of their salary to be allocated as follows: five percent (5%) will go to the member's account and one percent (1%) 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 five percent (5%) of their annual creditable compensation. Nonhazardous members also contribute one percent (1%) 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 four percent (4%) employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for nonhazardous employees was 26.95 percent.

Hazardous

Hazardous covered employees are required to contribute eight percent (8%) of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent (9%) of their salary to be allocated as follows: eight percent (8%) will go to the member's account and one percent (1%) 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 eight percent (8%) of their annual creditable compensation and also contribute one percent (1%) 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.

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

**Note 7. Employee Retirement System (Continued)**

Hazardous (Continued)

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 44.33 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:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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.

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

**Note 7. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

**B. Health Insurance Coverage - Tier 2 and Tier 3 – Nonhazardous (Continued)**

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

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

**C. 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.

**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.

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

**Note 7. Employee Retirement System (Continued)**

Annual Financial Report and Proportionate Share Audit Report (Continued)

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

**Note 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**

In May 2012, the Letcher County Fiscal Court established health reimbursement (HRA) and flexible spending (FSA) accounts to provide full-time employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$1,600 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction. As of June 30, 2022, the HRA account had a balance of \$2,416 and the FSA account had a balance of \$49,020.

**Note 10. Insurance**

For the fiscal year ended June 30, 2022, 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. Payroll Revolving Account**

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

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

**Note 12. Retirement Revolving Account**

The reconciled balance of the retirement revolving account as of June 30, 2022, was added to the general fund cash balance for financial reporting purposes.

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

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

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

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

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 1,397,000	\$ 1,483,708	\$ 1,612,704	\$ 128,996
Excess Fees	4,103	30,556	55,465	24,909
Licenses and Permits	24,000	24,000	25,074	1,074
Intergovernmental	133,110	163,929	108,706	(55,223)
Charges for Services	1,181,000	1,181,000	1,367,477	186,477
Miscellaneous	290,800	389,996	390,169	173
Interest	500	500	988	488
Total Receipts	3,030,513	3,273,689	3,560,583	286,894
<b>DISBURSEMENTS</b>				
General Government	891,143	1,530,976	1,522,655	8,321
Protection to Persons and Property	125,500	123,697	123,697	
General Health and Sanitation	1,024,622	1,436,451	1,433,499	2,952
Social Services	20,000	22,029	21,966	63
Debt Service	325,000	299,031	298,755	276
Capital Projects	75,000	55,511	55,511	
Administration	767,500	845,676	856,117	(10,441)
Total Disbursements	3,228,765	4,313,371	4,312,200	1,171
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(198,252)	(1,039,682)	(751,617)	288,065
<b>Other Adjustments to Cash (Uses)</b>				
Financing Obligation Proceeds		120,000	120,000	
Transfers From Other Funds	226,429	226,429	317,057	90,628
Transfers To Other Funds	(28,177)	(28,177)	(148,177)	(120,000)
Total Other Adjustments to Cash (Uses)	198,252	318,252	288,880	(29,372)
Net Change in Fund Balance		(721,430)	(462,737)	258,693
Fund Balance - Beginning		721,430	721,431	1
Fund Balance - Ending	\$ 0	\$ 0	\$ 258,694	\$ 258,694

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

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
In Lieu Tax Payments	\$ 5,000	\$ 5,000	\$ 2,929	\$ (2,071)
Intergovernmental	1,681,603	1,847,505	1,575,870	(271,635)
Miscellaneous	314,844	314,844	372,544	57,700
Interest	2,000	2,000	966	(1,034)
Total Receipts	2,003,447	2,169,349	1,952,309	(217,040)
<b>DISBURSEMENTS</b>				
General Government	27,443	27,693	27,693	
Roads	1,315,919	1,477,914	1,260,752	217,162
Debt Service	305,000	305,000	299,590	5,410
Administration	421,500	642,485	395,633	246,852
Total Disbursements	2,069,862	2,453,092	1,983,668	469,424
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(66,415)	(283,743)	(31,359)	252,384
<b>Other Adjustments to Cash (Uses)</b>				
Financing Obligation Proceeds	292,844	366,800	145,422	(221,378)
Transfers From Other Funds			144,228	144,228
Transfers To Other Funds	(226,429)	(226,429)	(250,000)	(23,571)
Total Other Adjustments to Cash (Uses)	66,415	140,371	39,650	(100,721)
Net Change in Fund Balance		(143,372)	8,291	151,663
Fund Balance - Beginning		143,372	143,372	
Fund Balance - Ending	\$ 0	\$ 0	\$ 151,663	\$ 151,663

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

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 417,600	\$ 489,342	\$ 362,364	\$ (126,978)
Charges for Services	2,700	2,700	1,635	(1,065)
Miscellaneous	57,500	76,945	90,780	13,835
Interest	100	100	61	(39)
Total Receipts	<u>477,900</u>	<u>569,087</u>	<u>454,840</u>	<u>(114,247)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	395,777	756,552	739,297	17,255
Administration	<u>189,600</u>	<u>221,600</u>	<u>180,500</u>	<u>41,100</u>
Total Disbursements	<u>585,377</u>	<u>978,152</u>	<u>919,797</u>	<u>58,355</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(107,477)</u>	<u>(409,065)</u>	<u>(464,957)</u>	<u>(55,892)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>107,477</u>	<u>107,477</u>	<u>347,740</u>	<u>240,263</u>
Total Other Adjustments to Cash (Uses)	<u>107,477</u>	<u>107,477</u>	<u>347,740</u>	<u>240,263</u>
Net Change in Fund Balance		(301,588)	(117,217)	184,371
Fund Balance - Beginning		<u>118,588</u>	<u>118,588</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (183,000)</u>	<u>\$ 1,371</u>	<u>\$ 184,371</u>

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

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 10,000	\$ 10,000	\$ 13,734	\$ 3,734
Intergovernmental	1,051,500	1,437,762	1,002,172	(435,590)
Charges for Services	230,000	230,000	162,755	(67,245)
Miscellaneous	18,200	18,200	100,922	82,722
Interest	1,160	1,160	909	(251)
Total Receipts	1,310,860	1,697,122	1,280,492	(416,630)
<b>DISBURSEMENTS</b>				
General Government	29,255	55,562	55,562	
Protection to Persons and Property	144,605	153,661	147,270	6,391
General Health and Sanitation	53,000	55,127	52,814	2,313
Social Services	6,000	8,895	8,895	
Recreation and Culture	400,900	467,631	377,024	90,607
Roads	25,000	92,341	91,341	1,000
Airports	1,000	1,000		1,000
Debt Service	500,000	531,465	512,448	19,017
Capital Projects	200	172,043	171,943	100
Administration	71,600	407,016	84,627	322,389
Total Disbursements	1,231,560	1,944,741	1,501,924	442,817
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	79,300	(247,619)	(221,432)	26,187
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			28,751	28,751
Transfers To Other Funds	(79,300)	(79,300)	(262,300)	(183,000)
Total Other Adjustments to Cash (Uses)	(79,300)	(79,300)	(233,549)	(154,249)
Net Change in Fund Balance		(326,919)	(454,981)	(128,062)
Fund Balance - Beginning		509,919	506,122	(3,797)
Fund Balance - Ending	\$ 0	\$ 183,000	\$ 51,141	\$ (131,859)

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

<b>COVID-19 RELIEF FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)
	Original	Final	
			Variance with Final Budget Positive (Negative)
<b>RECEIPTS</b>			
Intergovernmental	\$	\$ 200,000	\$ 50,000
Total Receipts		200,000	50,000
<b>DISBURSEMENTS</b>			
General Health and Sanitation		200,000	50,000
Administration		152	152
Total Disbursements		200,152	50,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(152)	152
<b>Other Adjustments to Cash (Uses)</b>			
Total Other Adjustments to Cash (Uses)			
Net Change in Fund Balance		(152)	152
Fund Balance - Beginning		152	152
Fund Balance - Ending	\$ 0	\$ 0	\$ 152

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

<b>FORESTRY FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 2,146	\$ 2,146	\$	\$ (2,146)
Total Receipts	2,146	2,146		(2,146)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,146	2,146	2,146	
Administration		14,072		14,072
Total Disbursements	2,146	16,218	2,146	14,072
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(14,072)	(2,146)	11,926
Net Change in Fund Balance		(14,072)	(2,146)	11,926
Fund Balance - Beginning		14,072	14,072	
Fund Balance - Ending	\$ 0	\$ 0	\$ 11,926	\$ 11,926

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

<b>SENIOR CITIZENS FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Interest	\$ 1	\$ 1	\$ 2	\$ 1
Total Receipts	1	1	2	1
<b>DISBURSEMENTS</b>				
Administration	231	231		231
Total Disbursements	231	231		231
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(230)	(230)	2	232
Net Change in Fund Balance	(230)	(230)	2	232
Fund Balance - Beginning	230	230	229	(1)
Fund Balance - Ending	\$ 0	\$ 0	\$ 231	\$ 231

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

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



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

**GIANT MARTIN VAN BATES FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Miscellaneous	\$	\$	\$ 40	\$ 40
Total Receipts			40	40
<b>DISBURSEMENTS</b>				
Administration	7,341	7,341		7,341
Total Disbursements	7,341	7,341		7,341
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(7,341)	(7,341)	40	7,381
Net Change in Fund Balance	(7,341)	(7,341)	40	7,381
Fund Balance - Beginning	7,341	7,341	7,341	
Fund Balance - Ending	\$ 0	\$ 0	\$ 7,381	\$ 7,381

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

<b>POLICE MEMORIAL MONUMENT FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Miscellaneous	\$ 3,250	\$ 3,250	\$ 500	\$ (2,750)
Total Receipts	3,250	3,250	500	(2,750)
<b>DISBURSEMENTS</b>				
Social Services	4,100	4,100		4,100
Total Disbursements	4,100	4,100		4,100
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(850)	(850)	500	1,350
Net Change in Fund Balance	(850)	(850)	500	1,350
Fund Balance - Beginning	850	850	805	(45)
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,305	\$ 1,305

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

<b>AMERICAN RESCUE PLAN ACT FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,090,036	\$ 2,090,036	\$ 2,093,209	\$ 3,173
Interest			3,176	3,176
Total Receipts	2,090,036	2,090,036	2,096,385	6,349
<b>DISBURSEMENTS</b>				
General Government		87,502	75,737	11,765
Protection to Persons and Property		301,153	247,900	53,253
General Health and Sanitation		42,460		42,460
Social Services		49,283	29,601	19,682
Roads		18,000		18,000
Capital Projects		14,400	14,400	
Administration	4,180,072	3,667,274	105,776	3,561,498
Total Disbursements	4,180,072	4,180,072	473,414	3,706,658
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,090,036)	(2,090,036)	1,622,971	3,713,007
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds			(177,299)	(177,299)
Total Other Adjustments to Cash (Uses)			(177,299)	(177,299)
Net Change in Fund Balance	(2,090,036)	(2,090,036)	1,445,672	3,535,708
Fund Balance - Beginning	2,090,036	2,090,036		(2,090,036)
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,445,672	\$ 1,445,672

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

**June 30, 2022**

**Note 1. Budgetary Information**

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

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

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

**Note 2. Reconciliation of the General Fund**

Reconciliation of the General Fund

Other Adjustments to Cash (Uses)-Budgetary Basis	\$ 288,880
To adjust for payroll revolving account	28,549
To adjust for retirement revolving account	<u>47,019</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ 364,448</u>
Ending Fund Balance - Budgetary Basis	\$ 258,694
To adjust for payroll revolving account	28,549
To adjust for retirement revolving account	<u>47,019</u>
Total Ending Fund Balance - Regulatory Basis	<u>\$ 334,262</u>

**Note 3. Excess of Disbursements Over Appropriations**

The general fund, administration line-item, exceeded budgeted appropriations by \$10,441.

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

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

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

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

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 2,003,500	\$	\$	\$ 2,003,500
Buildings	15,411,333			15,411,333
Vehicles	2,957,452	6,000	32,263	2,931,189
Equipment	1,067,029			1,067,029
Infrastructure	5,743,777			5,743,777
 Total Capital Assets	 \$ 27,183,091	 \$ 6,000	 \$ 32,263	 \$ 27,156,828

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

**June 30, 2022**

**Note 1. Capital Assets**

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

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



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

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ALLISON BALL  
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Letcher County Fiscal Court for the fiscal year ended June 30, 2022, 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 November 9, 2023.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2022-003, 2022-004, and 2022-005 to be material weaknesses.



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

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2022-001 and 2022-002 to be significant deficiencies.

**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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2022-003.

**Views of Responsible Officials 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,



Allison Ball  
Auditor of Public Accounts  
Frankfort, Ky

November 9, 2023

**LETCHER COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

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

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**LETCHER COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

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

FINANCIAL STATEMENT FINDINGS:

**2022-001    The Letcher County Fiscal Court Did Not Have Effective Internal Controls, Review Procedures, And Oversight For The Budget Process**

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The budget approved in the fiscal court minutes and by the Department for Local Government did not agree to the amount reported on the fourth quarter report. The approved budget for jail fund receipts was a total of \$795,152, and the amount reported on the fourth quarter report was \$978,152, for a difference of (\$183,000). In addition, the approved budget for LGEA fund receipts was a total of \$2,127,740, and the amount reported on the fourth quarter report was \$1,944,740, for a difference of \$183,000. These two errors have caused the budget to be out of balance for the jail and LGEA funds.

The fiscal court did not have effective internal controls, review procedures, and oversight for the budget process thus, incorrect budget amounts were reported on the fourth quarter report.

Inadequate controls over the budget process resulted in the undetected errors noted above. The fiscal court relies on information presented in the quarterly financial reports, and inaccurate information could lead to improper decision-making. In addition, KRS 68.210 states, “[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials.” The Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires county officials to submit quarterly reports that show, among other things, the amounts from the original budget for each category of receipts and expenditures. The fourth quarter financial report must agree to the original budget and budget amendments submitted to and approved by DLG.

We recommend the fiscal court implement effective internal controls, oversight, and review procedures to ensure all budgeted amounts reflected on the fourth quarter financial report are complete and accurate and agree to the original budget.

*County Judge/Executive’s Response: This has been corrected.*

**2022-002    The Letcher County Fiscal Court Did Not Properly Report Transfers**

---

This is a repeat finding and was included in the prior year audit report as finding 2021-001. The Letcher County Fiscal Court used \$177,299 in American Rescue Plan Act (ARPA) funding from the Department of Treasury for premium pay in November 2021. These funds were transferred from the ARPA Fund to other county funds to fund the special payroll but were treated as expenditures within the ARPA Fund. The money being sent to other county funds should have been reported as transfers out and transfers in between the county funds so the amounts would not overstate receipts and disbursements. The amount being reclassified to transfers will be \$177,299.

The county treasurer was unaware that these funds should be shown as transfers rather than expenditures. Receipts and disbursements will be overstated if the funds are not reclassified to transfers in and transfers out.

Strong internal controls over the budgeting, recording, and reporting of funds is vital in ensuring that the fiscal court's financial reports accurately reflect the financial activity of the fiscal court.

**LETCHER COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2022**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-002 The Letcher County Fiscal Court Did Not Properly Report Transfers (Continued)

In addition, the Uniform System of Accounts as prescribed by KRS 68.210 requires counties to submit quarterly reports to their regulatory agency, the Department for Local Government (DLG). These reports should include all funds of the fiscal court, should include all activity within the funds, and should agree to the fiscal court's reconciled cash balances. The financial activity should be reflected accurately with no overstatements or understatements.

We recommend the fiscal court implement strong internal controls over the budgeting, recording, and reporting of funds to ensure financial reports accurately reflect the financial activity of the fiscal court. We also recommend that all funds being moved between county funds be shown as transfers in and out to make sure amounts are not overstated or understated.

*County Judge/Executive's Response: This has been corrected.*

2022-003 The Letcher County Fiscal Court Did Not Have Adequate Procedures For Reporting County Liabilities

The Letcher County Fiscal Court reported outstanding interest balances of \$4,572,326 in the liabilities section of the fourth quarter report. The actual balance was \$2,702,622 resulting in interest balances being overstated by \$1,869,704.

The fiscal court did not have controls in place to ensure balances were reported properly. Some of the differences in the interest balances are likely due to posting errors in prior years. The software used by the fiscal court calculates the balances for principal and interest based upon when debt service payments are issued. If the debt service payments were misclassified when issued, then the balances would not calculate properly.

This has resulted in the misstatement of county liabilities, making it difficult for management to easily determine where the county's debt balances stand.

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

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

*County Judge/Executive's Response: This is an issue with how the treasurer reported those amounts on the accounting software. It will be changed to reflect the interest left owing on the life of the loan/lease.*



**LETCHER COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2022**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-004 The Letcher County Fiscal Court Lacks Adequate Controls Over Disbursements

The fiscal court's controls associated with disbursements were not operating as intended. Based on items tested, disbursements were paid late, purchase orders were completed after the payment date, and some purchase orders were not created at all.

The deficiencies listed below were able to occur due to a lack of monitoring of controls, which diminished the effectiveness of the controls put in place over disbursements 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:

- Four disbursements were not paid within 30 days.
- Four transactions did not have purchase orders as required by the county's policies and procedures and DLG requirements.
- Thirty-six transactions had purchase orders that were approved/created after the payment date.

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

KRS 65.140(2) states, "[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." Good controls dictate that procedures are in place to ensure invoices are paid within thirty days of receipt.

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

*County Judge/Executive's Response: We will make sure each employee follows proper purchasing procedures.*

2022-005 The Letcher County Fiscal Court And The Letcher County Recreation Center Lacks Adequate Segregation Of Duties Over Receipts

This is a repeat finding and was included in the prior year audit report as finding 2021-003. The Letcher County Fiscal Court and the Letcher County Recreation Center does 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.

**LETCHER COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2022**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-005    The Letcher County Fiscal Court And The Letcher County Recreation Center Lacks Adequate Segregation Of Duties Over Receipts (Continued)

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According to the county, this is the result of a limited budget, which restricts the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been implemented to offset the lack of segregation of duties.

The lack of oversight could result in undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government.

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

We recommend the fiscal court 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 who is not currently performing any of those functions and this oversight should be documented by dating, signing, or initialing the documentation.

*County Judge/Executive's Response: We will change collection and depositing procedures for the Recreation Center as recommended.*

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

**LETCHER COUNTY FISCAL COURT**

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

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CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
COUNTY FISCAL COURT

For The Year Ended June 30, 2022

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

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

County Judge/Executive

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

County Treasurer