

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

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



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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 Donnie Watson, Estill County Judge/Executive
Members of the Estill 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 Estill County Fiscal Court, for the year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Estill County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

As described in Note 1 of the financial statement, the financial statement is prepared by the Estill 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 Estill 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 Estill 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 Estill County Fiscal Court. The Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards (supplementary information), as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Schedule of Capital Assets (other information) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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Other Matters (Continued)

Supplementary and Other Information (Continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2021, on our consideration of the Estill 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 Estill County Fiscal Court's internal control over financial reporting and compliance.

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

- 2020-001 The Estill County Fiscal Court Does Not Have Adequate Controls Over Financial Accounting Program Software
- 2020-002 The Estill County Fiscal Court Failed To Implement Adequate Internal Controls And Oversight For Disbursements
- 2020-003 Internal Controls Over Occupational Tax Collections Are Not Adequate
- 2020-004 Internal Controls, Review Procedures, And Oversight For Payroll Processing Are Not Adequate
- 2020-005 The Estill County Fiscal Court Did Not Provide The Same Level Of Health Insurance Coverage To All County Employees
- 2020-006 The Remaining Balance Of The Line Of Credit Was Not Paid By The End Of The Fiscal Year

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

November 23, 2021

ESTILL COUNTY OFFICIALS
For The Year Ended June 30, 2020

Fiscal Court Members:

Donnie Watson	County Judge/Executive
Mike Abney	Magistrate
Paul Tipton	Magistrate
Gerry Flannery	Magistrate

Other Elected Officials:

Jason Riley	County Attorney
Beverly "Bo" Morris	Jailer
Brian Crowe	County Clerk
Stephanie Brinegar-Cassidy	Circuit Court Clerk
Chris Flynn	Sheriff
Jeff Hix	Property Valuation Administrator
Tony Murphy	Coroner

Appointed Personnel:

Freida Lancaster	County Treasurer
Amber Flynn	Finance Officer (1/6/20 through 6/30/20)
Jaimie Horn	Finance Officer (7/1/19 through 12/17/19)
Teresa Reeves	Occupational Tax

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

For The Year Ended June 30, 2020

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

For The Year Ended June 30, 2020

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 2,655,568	\$	\$
In Lieu Tax Payments	11,185	10,123	
Excess Fees	27,980		
Licenses and Permits	11,577		
Intergovernmental	133,168	2,245,316	92,237
Charges for Services	253,960	26	
Miscellaneous	431,765	7,868	22,597
Interest			46
Total Receipts	<u>3,525,203</u>	<u>2,263,333</u>	<u>114,880</u>
DISBURSEMENTS			
General Government	835,912		
Protection to Persons and Property	566,235		995,087
General Health and Sanitation	82,951		
Social Services	103,107		
Recreation and Culture	933		
Roads		1,646,398	
Debt Service	205,764	20,591	
Capital Projects	274,111	17,500	
Administration	807,252	254,059	85,306
Total Disbursements	<u>2,876,265</u>	<u>1,938,548</u>	<u>1,080,393</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>648,938</u>	<u>324,785</u>	<u>(965,513)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds	245,850		
Transfers From Other Funds	209,399		966,209
Transfers To Other Funds	(966,209)		
Total Other Adjustments to Cash (Uses)	<u>(510,960)</u>		<u>966,209</u>
Net Change in Fund Balance	137,978	324,785	696
Fund Balance - Beginning (Restated)	<u>170,628</u>	<u>88,970</u>	<u>1,512</u>
Fund Balance - Ending	<u>\$ 308,606</u>	<u>\$ 413,755</u>	<u>\$ 2,208</u>
Composition of Fund Balance			
Bank Balance	\$ 324,091	\$ 421,776	\$ 6,666
Less: Outstanding Checks	<u>(15,485)</u>	<u>(8,021)</u>	<u>(4,458)</u>
Fund Balance - Ending	<u>\$ 308,606</u>	<u>\$ 413,755</u>	<u>\$ 2,208</u>

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

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

Budgeted Funds						
Local Government Economic Assistance Fund	State Grants Fund	Federal Grants Fund	Emergency Service Communications Fund	Chemical Stockpile Emergency Preparedness Program Fund	CMRS 911 Fund	Planning and Preparedness Fund
\$	\$	\$	\$	\$	\$	\$
13,835	82,238			762,564	76,551	
	2,500		19,996		81,415	
				327,390		
16						
<u>13,851</u>	<u>84,738</u>		<u>19,996</u>	<u>1,089,954</u>	<u>157,966</u>	
5,251	10,000		25,497	772,117	38,829	
	36,732					
				197,331		
				164,791		
<u>5,251</u>	<u>46,732</u>		<u>25,497</u>	<u>1,134,239</u>	<u>38,829</u>	
8,600	38,006		(5,501)	(44,285)	119,137	
				(10,757)	(178,300)	(2,500)
				(10,757)	(178,300)	(2,500)
8,600	38,006		(5,501)	(55,042)	(59,163)	(2,500)
10,232	79,708		115,007	69,664	154,731	2,500
<u>\$ 18,832</u>	<u>\$ 117,714</u>	<u>\$ 0</u>	<u>\$ 109,506</u>	<u>\$ 14,622</u>	<u>\$ 95,568</u>	<u>\$ 0</u>
\$ 18,832	\$ 117,714	\$	\$ 109,506	\$ 18,635	\$ 95,568	\$
				(4,013)		
<u>\$ 18,832</u>	<u>\$ 117,714</u>	<u>\$ 0</u>	<u>\$ 109,506</u>	<u>\$ 14,622</u>	<u>\$ 95,568</u>	<u>\$ 0</u>

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

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

	<u>Budgeted Funds</u>		
	<u>Emergency Management Fund</u>	<u>Citizens Emergency Response Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 2,655,568
In Lieu Tax Payments			21,308
Excess Fees			27,980
Licenses and Permits			11,577
Intergovernmental	7,274		3,413,183
Charges for Services			357,897
Miscellaneous			789,620
Interest			62
Total Receipts	<u>7,274</u>		<u>7,277,195</u>
DISBURSEMENTS			
General Government			835,912
Protection to Persons and Property			2,413,016
General Health and Sanitation			119,683
Social Services			103,107
Recreation and Culture			933
Roads			1,646,398
Debt Service			226,355
Capital Projects			488,942
Administration			1,311,408
Total Disbursements			<u>7,145,754</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>7,274</u>		<u>131,441</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			245,850
Transfers From Other Funds			1,175,608
Transfers To Other Funds	(14,021)	(3,821)	(1,175,608)
Total Other Adjustments to Cash (Uses)	<u>(14,021)</u>	<u>(3,821)</u>	<u>245,850</u>
Net Change in Fund Balance	(6,747)	(3,821)	377,291
Fund Balance - Beginning (Restated)	8,036	3,821	704,809
Fund Balance - Ending	<u>\$ 1,289</u>	<u>\$ 0</u>	<u>\$ 1,082,100</u>
Composition of Fund Balance			
Bank Balance	\$ 1,289	\$	\$ 1,114,077
Less: Outstanding Checks			(31,977)
Fund Balance - Ending	<u>\$ 1,289</u>	<u>\$ 0</u>	<u>\$ 1,082,100</u>

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

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TO THE FINANCIAL STATEMENT**

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ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2020

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Estill County includes all budgeted and unbudgeted funds under the control of the Estill 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.

ESTILL 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.

State Grants Fund - The primary purpose of this fund is to account for state grants. The primary source of revenue for this fund is state grants.

Federal Grants Fund - The primary purpose of this fund is to account for federal grants. The primary source of revenue for this fund is federal grants.

Emergency Service Communications Fund - The primary purpose of this fund is to account for surcharges received from the emergency management communication tower. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund - The primary purpose of this fund is to account for federal CSEPP grant monies, which is the only source of revenue for this fund. Estill County is part of a ten county region in Kentucky that receives federal grant monies to improve their capacity to plan for and respond to accidents associated with the Bluegrass Army Depot's chemical warfare materials located in neighboring Madison County. The U.S. Congress appropriates funding for reimbursement of CSEPP disbursements. CSEPP funds may not be commingled with other funds, therefore the Department for Local Government and the federal government require the fiscal court to maintain these receipts and disbursements separately from the general fund.

CMRS 911 Fund - The primary purpose of this fund is to account for the surcharge taxes for Commercial Mobile Radio Systems (CMRS). The state distributes CMRS monies to counties to supplement 911 operations. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Planning and Preparedness Fund - The primary purpose of this fund is to account for state grants used for planning and preparedness for disasters and emergencies in the county.

Emergency Management Fund - The primary purpose of this fund is to account for emergency management grant money, which is the only source of revenue for this fund.

Citizens Emergency Response Fund - The primary purpose of this fund is to account for grant money associated with the Central Kentucky Emergency Response Team to help protect the citizens of Estill County.

ESTILL 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.

E. Estill County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Estill 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 Estill 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).

ESTILL 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.

	General Fund	Jail Fund	Total Transfers Out
General Fund	\$	\$ 966,209	\$ 966,209
Chemical Stockpile Emergency Preparedness Program Fund	10,757		10,757
CMRS 911 Fund	178,300		178,300
Planning and Preparedness Fund	2,500		2,500
Emergency Management Fund	14,021		14,021
Citizens Emergency Response Fund	3,821		3,821
Total Transfers In	<u>\$ 209,399</u>	<u>\$ 966,209</u>	<u>\$ 1,175,608</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.

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

Note 4. Short -Term Debt

A. Line of Credit

On August 23, 2019, the Estill County Fiscal Court entered into a line of credit agreement not to exceed \$500,000. The purpose of this line of credit is to provide a mechanism to pay for the Chemical Stockpile Emergency Preparedness Program (CSEPP) funded projects and subsequently seek financial reimbursement from the Kentucky Division of Emergency Management (KyEM), as financial reimbursements are received by the Estill County Fiscal Court from KyEM through CSEPP. The financial funding received by these reimbursements will be paid to the line of credit. The operating line of credit by Citizens Guaranty Bank will be for one year and the rate for this period of time will be five percent. In addition to this rate, there will be a minimal origination fee. The line of credit will be renewable on an annual basis. As of June 30, 2020, unused funds in the amount of \$172,670 remain to be drawn down from the line of credit, and the outstanding principal was \$131,866. Future principal payments are as follows:

Fiscal Year Ended June 30	Principal
2021	\$ 131,866
Totals	\$ 131,866

B. Changes In Short-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Line of Credit	\$	\$ 327,330	\$ 195,464	\$ 131,866	\$ 131,866
Total Short-term Debt	\$ 0	\$ 327,330	\$ 195,464	\$ 131,866	\$ 131,866

Note 5. Leases

A. Tractor

On September 1, 2018, the Estill County Fiscal Court entered into an operating lease in the amount of \$28,742 to lease a tractor for the road department. The lease term is monthly payments of \$798 for 36 months. As of June 30, 2020, the remaining lease payments were \$11,178. Future payment requirements are:

Fiscal Year Ending June 30	Amount
2021	\$ 9,581
2022	1,597
Total Minimum Lease Payments	\$ 11,178

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

Note 5. Leases (Continued)

B. Tractor

On October 1, 2018, the Estill County Fiscal Court entered into an operating lease in the amount of \$43,023 to lease a tractor for the road department. The lease term is monthly payments \$896 for 48 months. As of June 30, 2020, the remaining lease payments were \$24,200. Future payment requirements are:

Fiscal Year Ending June 30	Amount
2021	\$ 10,756
2022	10,756
2023	<u>2,688</u>
Total Minimum Lease Payments	<u>\$ 24,200</u>

Note 6. Long-Term Debt

A. Direct Borrowings and Direct Placements

1. Road Projects

On July 5, 2018, Estill County Fiscal Court entered into a \$1,410,000 lease agreement with the Kentucky Association of Counties. The purpose of this lease was to retire a portion of the county's outstanding debt and requires monthly principle and interest payments, with the final payment due on February 1, 2028. The obligation of the lessee created by the lease shall be a full general obligation of the lessee and, for the prompt payment of the lease rental payments, the full faith, credit and revenue of the lessee are pledged. In case of default, the lessor may, without any further demand or notice, take one or any combination of the following remedial steps: enforce the pledge set forth so that during the remaining lease term there is levied on all the taxable property in the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to pay the lease rental payments when and as due; take legal title to, and sell or re-lease the project or any portion thereof; or take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreements under this lease and to recover damages for the breach thereof. As of June 30, 2020, the principal outstanding was \$1,180,000. Future principle and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2021	\$ 132,500	\$ 55,365
2022	140,000	48,740
2023	147,500	41,135
2024	155,000	34,365
2025	162,500	26,615
2026-2027	<u>442,500</u>	<u>31,316</u>
Totals	<u>\$ 1,180,000</u>	<u>\$ 237,536</u>

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

Note 6. Long-Term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

2. Commercial Building And Lot

On August 29, 2019, Estill County Fiscal Court entered into a \$245,850 business loan agreement with Citizens Guaranty Bank. The purpose of this loan was to purchase a commercial building and lot and requires monthly principle and interest payments, with the final payment due on August 29, 2039. In case of default, all commitments and obligations will immediately terminate, and all indebtedness immediately will become due and payable, all without notice of any kind to the borrower, except that in the case of an event of default due to insolvency. In addition, the lender shall have all the rights and remedies provided or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of the lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of borrower or of any grantor shall not affect lender's right to declare a default and to exercise its rights and remedies. As of June 30, 2020, the principle outstanding was \$ 239,246. Future principle and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2021	\$ 8,275	\$ 9,994
2022	8,619	9,650
2023	8,993	9,276
2024	9,370	8,899
2025	9,801	8,468
2026-2030	55,688	35,657
2031-2035	68,847	22,508
2036-2039	69,653	6,475
Totals	<u>\$ 239,246</u>	<u>\$ 110,927</u>

B. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	<u>\$ 1,305,000</u>	<u>\$ 245,850</u>	<u>\$ 131,604</u>	<u>\$ 1,419,246</u>	<u>\$ 140,775</u>
Total Long-term Debt	<u>\$ 1,305,000</u>	<u>\$ 245,850</u>	<u>\$ 131,604</u>	<u>\$ 1,419,246</u>	<u>\$ 140,775</u>

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

Note 6. Long-term Debt (Continued)

C. Aggregate Debt Schedule

The aggregate debt schedule is as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 140,775	\$ 65,359
2022	148,619	58,390
2023	156,493	50,411
2024	164,370	43,264
2025	172,301	35,083
2026-2030	498,188	66,973
2031-2035	68,847	22,508
2036-2039	69,653	6,475
	<u>\$ 1,419,246</u>	<u>\$ 348,463</u>
Totals		

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 \$299,927, FY 2019 was \$324,289, and FY 2020 was \$449,244.

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.

ESTILL 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.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

Benefits are covered under KRS 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.

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

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, 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.

Note 8. Deferred Compensation

The Estill 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.

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

Note 8. Deferred Compensation (Continued)

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

The Estill County Fiscal Court has an HRA account for employees to participate in for their health care needs. The plan is administered through the counties insurance company. The plan provides \$500 for each employee to offset their medical expenses.

Note 10. Insurance

For the fiscal year ended June 30, 2020, the Estill 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. Related Party Transactions

The Estill County Judge/Executive's son-in-law's father owns a garage that provided minor repairs during the fiscal year that totaled \$740.

Note 12. Conduit Debt

From time to time, the county has issued bonds to provide financial assistance to Berea College for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear Estill County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2020, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 13. Prior Period Adjustments

General Fund Balance – Due to an error, the beginning balance has been restated and decreased by \$1,085.

Road Fund Balance – Due to an error, the beginning balance has been restated and increased by \$464.

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

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ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 2,831,975	\$ 2,831,975	\$ 2,655,568	\$ (176,407)
In Lieu Tax Payments	14,500	14,500	11,185	(3,315)
Excess Fees	80,000	80,000	27,980	(52,020)
Licenses and Permits	16,600	16,600	11,577	(5,023)
Intergovernmental	113,034	113,034	133,168	20,134
Charges for Services	252,650	252,650	253,960	1,310
Miscellaneous	408,000	408,000	431,765	23,765
Interest	100	100		(100)
Total Receipts	<u>3,716,859</u>	<u>3,716,859</u>	<u>3,525,203</u>	<u>(191,656)</u>
DISBURSEMENTS				
General Government	862,719	870,439	835,912	34,527
Protection to Persons and Property	534,855	641,770	566,235	75,535
General Health and Sanitation	82,115	89,370	82,951	6,419
Social Services	129,300	130,033	103,107	26,926
Recreation and Culture	97,850	3,905	933	2,972
Debt Service	192,100	212,226	205,764	6,462
Capital Projects		274,112	274,111	1
Administration	1,026,433	973,517	807,252	166,265
Total Disbursements	<u>2,925,372</u>	<u>3,195,372</u>	<u>2,876,265</u>	<u>319,107</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>791,487</u>	<u>521,487</u>	<u>648,938</u>	<u>127,451</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		270,000	245,850	(24,150)
Transfers From Other Funds	228,513	228,513	209,399	(19,114)
Transfers To Other Funds	(1,220,000)	(1,220,000)	(966,209)	253,791
Total Other Adjustments to Cash (Uses)	<u>(991,487)</u>	<u>(721,487)</u>	<u>(510,960)</u>	<u>210,527</u>
Net Change in Fund Balance	(200,000)	(200,000)	137,978	337,978
Fund Balance - Beginning (Restated)	<u>200,000</u>	<u>200,000</u>	<u>170,628</u>	<u>(29,372)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 308,606</u>	<u>\$ 308,606</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 9,494	\$ 9,494	\$ 10,123	\$ 629
Intergovernmental	3,196,981	3,196,981	2,245,316	(951,665)
Charges for Services	520,500	520,500	26	(520,474)
Miscellaneous	1,000	1,000	7,868	6,868
Interest	100	100		(100)
Total Receipts	<u>3,728,075</u>	<u>3,728,075</u>	<u>2,263,333</u>	<u>(1,464,742)</u>
DISBURSEMENTS				
Roads	1,441,484	2,640,878	1,646,398	994,480
Debt Service	22,000	22,000	20,591	1,409
Capital Projects	170,000	146,340	17,500	128,840
Administration	1,871,078	695,344	254,059	441,285
Total Disbursements	<u>3,504,562</u>	<u>3,504,562</u>	<u>1,938,548</u>	<u>1,566,014</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>223,513</u>	<u>223,513</u>	<u>324,785</u>	<u>101,272</u>
Other Adjustments to Cash (Uses)				
Transfers To 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			324,785	324,785
Fund Balance - Beginning (Restated)			<u>88,970</u>	<u>88,970</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 413,755</u>	<u>\$ 413,755</u>

ESTILL 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	\$ 107,600	\$ 107,600	\$ 92,237	\$ (15,363)
Miscellaneous	3,500	3,500	22,597	19,097
Interest	100	100	46	(54)
Total Receipts	<u>111,200</u>	<u>111,200</u>	<u>114,880</u>	<u>3,680</u>
DISBURSEMENTS				
Protection to Persons and Property	1,228,630	1,210,247	995,087	215,160
Administration	<u>102,570</u>	<u>120,953</u>	<u>85,306</u>	<u>35,647</u>
Total Disbursements	<u>1,331,200</u>	<u>1,331,200</u>	<u>1,080,393</u>	<u>250,807</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,220,000)</u>	<u>(1,220,000)</u>	<u>(965,513)</u>	<u>254,487</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,220,000	1,220,000	966,209	(253,791)
Total Other Adjustments to Cash (Uses)	<u>1,220,000</u>	<u>1,220,000</u>	<u>966,209</u>	<u>(253,791)</u>
Net Change in Fund Balance			696	696
Fund Balance - Beginning			<u>1,512</u>	<u>1,512</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,208</u>	<u>\$ 2,208</u>

ESTILL 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				
Intergovernmental	\$ 25,000	\$ 25,000	\$ 13,835	\$ (11,165)
Miscellaneous	1,000	1,000		(1,000)
Interest	50	50	16	(34)
Total Receipts	<u>26,050</u>	<u>26,050</u>	<u>13,851</u>	<u>(12,199)</u>
DISBURSEMENTS				
General Government	11,000	11,000		11,000
Protection to Persons and Property	15,234	15,234	5,251	9,983
Social Services	500	500		500
Administration	1,316	1,316		1,316
Total Disbursements	<u>28,050</u>	<u>28,050</u>	<u>5,251</u>	<u>22,799</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,000)</u>	<u>(2,000)</u>	<u>8,600</u>	<u>10,600</u>
Net Change in Fund Balance	(2,000)	(2,000)	8,600	10,600
Fund Balance - Beginning	<u>2,000</u>	<u>2,000</u>	<u>10,232</u>	<u>8,232</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,832</u>	<u>\$ 18,832</u>

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

	STATE GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 156,700	\$ 156,700	\$ 82,238	\$ (74,462)
Charges for Services	5,000	5,000	2,500	(2,500)
Total Receipts	<u>161,700</u>	<u>161,700</u>	<u>84,738</u>	<u>(76,962)</u>
DISBURSEMENTS				
Protection to Persons and Property	11,000	11,000	10,000	1,000
General Health and Sanitation	95,000	97,684	36,732	60,952
Recreation and Culture	30,000	30,000		30,000
Administration	80,700	78,016		78,016
Total Disbursements	<u>216,700</u>	<u>216,700</u>	<u>46,732</u>	<u>169,968</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(55,000)</u>	<u>(55,000)</u>	<u>38,006</u>	<u>93,006</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(5,000)</u>	<u>(5,000)</u>		<u>5,000</u>
Total Other Adjustments to Cash (Uses)	<u>(5,000)</u>	<u>(5,000)</u>		<u>5,000</u>
Net Change in Fund Balance	(60,000)	(60,000)	38,006	98,006
Fund Balance - Beginning	<u>60,000</u>	<u>60,000</u>	<u>79,708</u>	<u>19,708</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 117,714</u>	<u>\$ 117,714</u>

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

	FEDERAL GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 500,000	\$ 500,000	\$	\$ (500,000)
Total Receipts	500,000	500,000		(500,000)
DISBURSEMENTS				
Recreation and Culture	500,000	500,000		500,000
Total Disbursements	500,000	500,000		500,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

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

	EMERGENCY SERVICE COMMUNICATIONS FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Charges for Services	\$ 19,500	\$ 19,500	\$ 19,996	\$ 496
Interest	50	50		(50)
Total Receipts	<u>19,550</u>	<u>19,550</u>	<u>19,996</u>	<u>446</u>
DISBURSEMENTS				
Protection to Persons and Property	110,545	110,545	25,497	85,048
Administration	19,005	19,005		19,005
Total Disbursements	<u>129,550</u>	<u>129,550</u>	<u>25,497</u>	<u>104,053</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(110,000)</u>	<u>(110,000)</u>	<u>(5,501)</u>	<u>104,499</u>
Net Change in Fund Balance	(110,000)	(110,000)	(5,501)	104,499
Fund Balance - Beginning	<u>110,000</u>	<u>110,000</u>	<u>115,007</u>	<u>5,007</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 109,506</u>	<u>\$ 109,506</u>

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

CHEMICAL STOCKPILE EMERGENCY
PREPARDNESS PROGRAM FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 3,650,358	\$ 3,650,358	\$ 762,564	\$ (2,887,794)
Miscellaneous			327,390	327,390
Total Receipts	<u>3,650,358</u>	<u>3,650,358</u>	<u>1,089,954</u>	<u>(2,560,404)</u>
DISBURSEMENTS				
Protection to Persons and Property	3,462,358	3,221,881	772,117	2,449,764
Capital Projects		200,000	197,331	2,669
Administration	<u>188,000</u>	<u>228,477</u>	<u>164,791</u>	<u>63,686</u>
Total Disbursements	<u>3,650,358</u>	<u>3,650,358</u>	<u>1,134,239</u>	<u>2,516,119</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(44,285)</u>	<u>(44,285)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			<u>(10,757)</u>	<u>(10,757)</u>
Total Other Adjustments to Cash (Uses)			<u>(10,757)</u>	<u>(10,757)</u>
Net Change in Fund Balance			(55,042)	(55,042)
Fund Balance - Beginning			<u>69,664</u>	<u>69,664</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,622</u>	<u>\$ 14,622</u>

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

	CMRS 911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$ 82,155	\$ 76,551	\$ (5,604)
Charges for Services	120,000	120,000	81,415	(38,585)
Total Receipts	120,000	202,155	157,966	(44,189)
DISBURSEMENTS				
Protection to Persons and Property	73,090	155,245	38,829	116,416
Administration	146,910	146,910	146,910	146,910
Total Disbursements	220,000	302,155	38,829	263,326
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(100,000)	(100,000)	119,137	219,137
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(178,300)	(178,300)
Total Other Adjustments to Cash (Uses)			(178,300)	(178,300)
Net Change in Fund Balance	(100,000)	(100,000)	(59,163)	40,837
Fund Balance - Beginning	100,000	100,000	154,731	54,731
Fund Balance - Ending	\$ 0	\$ 0	\$ 95,568	\$ 95,568

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

PLANNING AND PREPAREDNESS FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$	\$	\$
Total Receipts				
DISBURSEMENTS				
Protection to Persons and Property	2,500	2,500		2,500
Total Disbursements	2,500	2,500		2,500
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,500)	(2,500)		2,500
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(2,500)	(2,500)
Total Other Adjustments to Cash (Uses)			(2,500)	(2,500)
Net Change in Fund Balance	(2,500)	(2,500)	(2,500)	
Fund Balance - Beginning	2,500	2,500	2,500	
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

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

EMERGENCY MANAGEMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 13,380	\$ 13,380	\$ 7,274	\$ (6,106)
Total Receipts	13,380	13,380	7,274	(6,106)
DISBURSEMENTS				
Protection to Persons and Property	20,380	20,380		20,380
Total Disbursements	20,380	20,380		20,380
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(7,000)	(7,000)	7,274	14,274
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(14,021)	(14,021)
Total Other Adjustments to Cash (Uses)			(14,021)	(14,021)
Net Change in Fund Balance	(7,000)	(7,000)	(6,747)	253
Fund Balance - Beginning	7,000	7,000	8,036	1,036
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,289	\$ 1,289

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

CITIZENS EMERGENCY RESPONSE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$	\$	\$	\$
Total Receipts				
DISBURSEMENTS				
Protection to Persons and Property	3,821	3,821		3,821
Total Disbursements	3,821	3,821		3,821
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(3,821)	(3,821)		3,821
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(3,821)	(3,821)
Total Other Adjustments to Cash (Uses)			(3,821)	(3,821)
Net Change in Fund Balance	(3,821)	(3,821)	(3,821)	
Fund Balance - Beginning	3,821	3,821	3,821	
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

ESTILL 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.

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**ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2020

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ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<u>U. S. Department of Homeland Security</u>				
<i>Passed-Through Kentucky Department of Military Affairs</i>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4428	\$	\$ 47,625
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4358		11,742
Chemical Stockpile Emergency Preparedness Program	97.040	EMA-2019-CA-5820		<u>1,134,239</u>
Total U.S. Department of Homeland Security				<u><u>1,193,606</u></u>
<u>U. S. Department of Treasury</u>				
<i>Passed-Through Kentucky Department for Local Government</i>				
COVID-19 Coronavirus Relief Fund	21.019	C246		<u>254,966</u>
Total U.S. Department of Treasury				<u><u>254,966</u></u>
Total Expenditures of Federal Awards			\$ 0	<u><u>\$ 1,448,572</u></u>

The accompanying notes are an integral part of this schedule

ESTILL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2020

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Estill County, Kentucky under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Estill County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Estill County, Kentucky.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

Estill County has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

ESTILL COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2020

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ESTILL 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	\$ 603,227	\$	\$	\$ 603,227
Construction In Progress	188,680			188,680
Land Improvements	76,071			76,071
Buildings	5,768,813			5,768,813
Equipment	4,556,935			4,556,935
Vehicles	1,576,081	37,931		1,614,012
Infrastructure	6,534,821			6,534,821
 Total Capital Assets	 <u>\$ 19,304,628</u>	 <u>\$ 37,931</u>	 <u>\$ 0</u>	 <u>\$ 19,342,559</u>

ESTILL 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.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 10,000	3-25
Vehicles	\$ 10,000	5-10
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 Donnie Watson, Estill County Judge/Executive
Members of the Estill 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 Estill County Fiscal Court for the fiscal year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Estill County Fiscal Court's financial statement and have issued our report thereon dated November 23, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Estill 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 Estill County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Estill 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 Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2020-001, 2020-002, 2020-003, 2020-004, and 2020-005 to be material weaknesses.



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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2020-006 to be a significant deficiency.

Compliance And Other Matters

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

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

November 23, 2021

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Watson, Estill County Judge/Executive
Members of the Estill County Fiscal Court

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

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited the Estill County Fiscal Court's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Estill County Fiscal Court's major federal programs for the year ended June 30, 2020. The Estill County Fiscal Court's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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



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

Opinion on Each Major Federal Program

In our opinion, the Estill County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

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

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

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

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

November 23, 2021

**ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2020

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ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2020

Section I: Summary of Auditor's Results

Financial Statement

Type of report auditor issued: Adverse on GAAP and Unmodified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any noncompliances material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs: Unmodified		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.040	Chemical Stockpile Emergency Preparedness Program

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

Section II: Financial Statement Findings

2020-001 The Estill County Fiscal Court Does Not Have Adequate Controls Over Financial Accounting Software Program

This is a repeat finding and was included in the prior year audit report as finding 2019-002. The fiscal court utilizes a financial accounting software program to post financial transactions. This system is shared among several employees on a computer network. The employees that have access to this system do not have unique usernames and passwords. One username and password is shared among several employees. Management failed to identify the risk associated with financial accounting data and failed to implement adequate policies and procedures to protect such data and ensure that it is complete, accurate, and free of material misstatement.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2020
(Continued)

Section II: Financial Statement Findings

2020-001 The Estill County Fiscal Court Does Not Have Adequate Controls Over Financial Accounting Software Program (Continued)

Shared usernames and passwords increase the risk that undetected fraud, errors, and misstatements will occur. Without proper controls over financial data, it is harder to determine which employees are responsible for problems that may arise. Employees are also in violation of the county's administrative code as it pertains to passwords.

The Estill County Administrative Code page 77 under "Security" states, "[p]asswords and sign on access codes shall not be shared with anyone including co-workers, family members, or other unauthorized personnel." Furthermore, strong internal controls require each employee to have a unique user name and password that is changed at regular intervals. Computer programs should have a log that lists changes to data and the person performing such changes so that an appropriate level of management can periodically review to ensure all changes are necessary and approved. Passwords should never be shared among employees and employees should be restricted to certain parts of the program they can access based on their job duties.

We recommend the fiscal court review the policies and procedures regarding computer information and implement adequate controls to ensure data is complete, accurate, and free of material misstatement.

Views of Responsible Official and Planned Corrective Action:

Software program is restricted as far as can be done at this time. All passwords have been changed and each individual has their own username to access network. Currently working with IT Specialist to complete additional safeguards.

2020-002 The Estill County Fiscal Court Failed To Implement Adequate Internal Controls And Oversight For Disbursements

This is a repeat finding and was reported in the prior year audit report as finding 2019-003. Our tests of disbursements included an examination from the county's operating funds. We noted numerous noncompliance issues:

- Four disbursements totaling \$224,080 were not paid timely (within 30 working days of receiving the invoice or bill).
- Fifteen disbursements totaling \$547,168, did not have a properly executed purchase order because the description of items being purchased was vague or incomplete, the account code listed was absent or incorrect, and the estimated amount for the purchase was not filled out until after the purchase order had been issued.

The fiscal court did not implement adequate procedures and oversight regarding the documentation, preparation, and authorization of disbursements. The county's administrative code outlines proper procedures for disbursements. The absence of significant review procedures or oversight also allowed numerous invoices to not be processed timely and this occurred without detection or knowledge of the fiscal court. Another contributing factor to untimely payments was the absence of an effective purchase order system, which allows management to track outstanding obligations to ensure commitments are not made in excess of available resources/fund balances. Some invoices were not paid timely simply because the funds were not available when the invoice was received.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2020
(Continued)

Section II: Financial Statement Findings (Continued)

2020-002 The Estill County Fiscal Court Failed To Implement Adequate Internal Controls And Oversight For Disbursements (Continued)

The fiscal court's failure to establish effective internal controls over disbursements resulted in numerous instances of noncompliance, violations of statutes, and violations of the county's administrative code as reflected above. The lack of proper accounting practices, internal controls, and oversight increases the risk that undetected misstatements and fraud will occur. Failure to pay obligations timely is indicative of poor financial management practices and can result in late fees and finance charges, which are a wasteful use of taxpayer resources. We noted \$2,717 of late fees and finance charges that were incurred. It is also a violation of statute for failure to pay invoices within 30 working days of receipt of the invoice or bill. The risk of overspending the budget or spending in excess of funds available increases significantly without an effective purchase order system in place. It is also a violation of Department for Local Government (DLG) requirements for disbursements to be processed without a purchase order. Without proper procedures in place to mitigate the risks discussed above, the fiscal court is exposing public resources to potential misstatements and fraud.

Effective internal controls provide for adequate segregation of duties and prevent the same person from having a significant role in incompatible functions. Segregation of duties and proper oversight helps prevent fraud or misappropriation of assets and protects employees in the normal course of performing their daily responsibilities. Effective internal controls and proper oversight also help ensure compliance with laws, regulations, and grant agreements.

The most basic requirement of strong internal controls is to maintain adequate supporting documentation to substantiate disbursements. Additionally, KRS 68.020(1) states, "[t]he county treasurer shall receive and receipt for all money due the county from its collecting officers or from any other person whose duty it is to pay money into the county treasury, and shall disburse such money in such manner and for such purpose as may be authorized by appropriate authority of the fiscal court. He shall not disburse any money received by him for any purpose other than that for which it was collected and paid over to him, and when he pays out money he shall take a receipt therefor."

KRS 65.140(2) stipulates timely payments to vendors by stating, "[u]nless the purchaser and vendor otherwise contract, all bills for goods and 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."

Purchase order requirements are by outlined the Department for Local Government. 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*, page 57, requires purchasing procedures include the following:

1. Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head.
2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
3. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.
4. Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2020
(Continued)

Section II: Financial Statement Findings (Continued)

2020-002 The Estill County Fiscal Court Failed To Implement Adequate Internal Controls And Oversight For Disbursements (Continued)

We recommend the fiscal court implement adequate, effective internal control procedures for disbursements, including segregation of duties, to address each of the areas previously discussed. Additionally, strong management oversight and review procedures should be implemented to prevent and detect errors or fraud. Effective review procedures could be achieved if performed by an employee independent of the person or department initially performing those functions. All oversight and review procedures must be properly documented by initialing source documents, ledgers, reports, or other supporting documentation.

Views of Responsible Official and Planned Corrective Action:

We have implemented stronger controls to resolve this issue. All purchases require purchase orders. Invoices are processed in timely manner.

2020-003 Internal Controls Over Occupational Tax Collections Are Not Adequate

This is a repeat finding and was reported in the prior year audit report as finding 2019-005. Occupational tax collections comprise about 52% of the county's general fund operating revenue - by far the single biggest source of revenue for this fund. Internal controls over occupational taxes are not adequate to ensure amounts reported are complete, accurate, and free of material misstatement due to the following issues:

- Occupational taxes were sometimes batched and posted to the ledgers in a lump sum rather than listing each individual taxpayer.
- Occupational taxes were not reconciled to the ledgers by someone independent of receiving and posting occupational tax receipts.
- Delinquent occupational tax notices are not sent out with any regularity or consistency.
- Records could not be located to support occupational tax payments handled in person (i.e. three part receipt books).
- There are no effective review or oversight procedures for occupational tax collections.

The fiscal court failed to adequately assess risk associated with occupational tax collections and has not implemented effective internal controls, review procedures, or oversight for occupational tax collections. Failure to implement adequate controls over occupational tax collections increases the risk that undetected material misstatements and fraud will occur, especially considering occupational taxes comprise such a large portion of general fund revenues.

Strong internal controls over occupational taxes require each transaction be recorded separately so that finding errors, discrepancies, etc. is possible. Additionally, a log or receipt books should be maintained that lists each transactions so that a comparison can be made to deposit slips and to the ledgers by someone independent of the receiving and posting functions. Delinquent notices should be sent out regularly and consistently in order to collect amounts owed to the county and to detect any misstatements, errors, or misappropriation of funds. The delinquent notices should direct any questions or concerns to someone independent of occupational tax collections so that discrepancies can be investigated and resolved without risk of alteration of records by staff involved in the collection process.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2020
(Continued)

Section II: Financial Statement Findings (Continued)

2020-003 Internal Controls Over Occupational Tax Collections Are Not Adequate (Continued)

In order for internal controls to be effective in preventing and detecting errors, misstatements, and fraud, the functions of any significant area should be separated. If segregation is not possible or practical, the fiscal court could implement and document compensating controls to reduce the risk associated with inadequate segregation of duties. A strong compensating control could include review of deposit tickets, tax returns, and occupational tax ledger by someone independent of occupational tax collections. This could be documented by initialing all supporting documentation after the review is complete.

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for occupational tax collections and document the procedures performed that ensure recorded amounts are complete, accurate, and free of material misstatement.

Views of Responsible Official and Planned Corrective Action:

Occupational tax is processed daily as received and deposits are made. Notices are sent for late payments and records are maintained.

2020-004 Internal Controls, Review Procedures, And Oversight For Payroll Processing Are Not Adequate

This is a repeat finding and was included in the prior year audit report as finding 2019-009. The following issues were noted for payroll processing:

- The fiscal court did not provide the same level of health insurance coverage to all employees (see finding 2020-005 for additional details).
- Health insurance premiums in two pay periods, were not paid timely.
- Pay rates were not properly implemented and documented. The fiscal court approved a salary schedule for all employees on August 20, 2018, but the pay rates and ranges approved were not implemented and applied to all employees and these wage rate changes were not documented in personnel files.
- Payroll was not properly supported. Employees did not have a supervisor signature or approval on timesheets.

The fiscal court failed to adequately assess the risk associated with payroll processing and failed to implement adequate internal controls regarding the documentation, preparation, and authorization of payroll. There were no significant review procedures in place nor adequate oversight for the majority of the audit period to ensure the completeness and accuracy of payroll information. Failure to implement adequate controls over payroll increases the risk that undetected material misstatements and fraud will occur, especially considering payroll accounts for a large portion of the county's budget. Numerous undetected errors were noted for payroll processing and the fiscal court is in violation of various statutes.

In order for internal controls to be effective in preventing and detecting errors, misstatements, and fraud, the functions of any significant area should be separated. If segregation is not possible or practical, the fiscal court should implement and document compensating controls to reduce the risks associated with inadequate segregation of duties. A strong compensating control could include review of payroll reports, review of payroll payments, comparison of payroll documentation to amounts recorded, and reconciliation of withholding and matching reports to supporting documentation. Further, review procedures and oversight should be exercised consistently to detect errors and to reconcile payroll to supporting documentation.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2020
(Continued)

Section II: Financial Statement Findings (Continued)

2020-004 Internal Controls, Review Procedures, And Oversight For Payroll Processing Are Not Adequate
 (Continued)

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for payroll processing to ensure the completeness and accuracy of all payroll information.

Views of Responsible Official and Planned Corrective Action:

Timesheets are reviewed and approved by department head and Judge. Finance Officer and Treasurer proof timesheets. Review procedures have been implemented. Salary schedule has been implemented as approved.

2020-005 The Estill County Fiscal Court Did Not Provide The Same Level Of Health Insurance Coverage To
 All County Employees

This is a repeat finding and was included in the prior year audit report as finding 2019-012. Three county employees received health insurance coverage that was not made available to all other county employees. County employees are provided individual health insurance coverage. If the employee chooses to elect additional coverage for a spouse, children, or family coverage they may do so but are responsible for the cost of the health insurance premium that exceeds the individual coverage premium. For fiscal year 2020, the cost of an individual health insurance premium was \$500. Three employees elected to add coverage for dependents, which was an additional \$399 per month per employee. This additional cost was not paid by the employees via payroll deduction. The fiscal court did not have adequate internal controls in place to ensure health insurance benefits were applied equally among all classes of employees and that proper wage deductions were applied to employees that requested coverage in excess of standard county employee coverage. As a result, the fiscal court has applied employee benefits in an unequitable manner. Additionally, county funds are being spent for the personal benefit of select employees that could have been expended on other items to benefit the entire county.

OAG 94-15 states, “[t]he basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute.”

We recommend management ensure that employee benefits are applied equally among all employees and that proper amounts are withheld from employees’ wages for elective/optional employee benefits.

Views of Responsible Official and Planned Corrective Action:

This was corrected July 1, 2021.

2020-006 The Remaining Balance Of The Line Of Credit Was Not Paid By The End Of The Fiscal Year

On July 23, 2019, the fiscal court was approved for an operating line of credit in the amount of \$500,000 to provide the fiscal court a mechanism to pay for the CSEPP funded projects and subsequently seek financial reimbursement from the Kentucky Division of Emergency Management (KyEM). The line of credit was for one year and renewable on an annual basis. As of fiscal year ended June 30, 2020, the fiscal court owed \$131,866. The treasurer was waiting on reimbursement from CSEPP and was unaware that the loan had to be paid off at the end of the fiscal year. As a result, the fiscal court is not in compliance with requirements set by the Department for Local Government when entering into financial obligations. The Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* allows bank notes, however, they must be paid off before the end of the fiscal year in which they are borrowed.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2020
(Continued)

Section II: Financial Statement Findings (Continued)

2020-006 The Remaining Balance Of The Line Of Credit Was Not Paid By The End Of The Fiscal Year
(Continued)

We recommend the fiscal court seek guidance from the Department for Local Government before entering into any financial obligation of any nature, to ensure they are in compliance with the state local debt officer.

Views of Responsible Official and Planned Corrective Action:

This is due to Federal reimbursements not being received in time to pay by end of fiscal year.

Section III: Federal Award Findings And Questioned Costs

None.

Section IV: Summary Schedule of Prior Audit Findings

Finding Number	Prior Year Finding Title	Status	Corrective Action
2019-001	The Estill County Fiscal Court's Internal Control Environment Is Ineffective	Resolved	Anything we've found ineffective we have corrected.
2019-002	The Estill County Fiscal Court Does Not Have Adequate Controls Over Financial Accounting Software Program	Resolved	Personnel have access only to areas they are responsible for in financial software program.
2019-003	The Estill County Fiscal Court Failed To Implement Adequate Internal Controls And Oversight For Disbursements	Resolved	Claims reviewed, submitted to fiscal court for approval before payment.
2019-004	The Estill County Fiscal Court Did Not Adhere To Fourth Year Expenditure Restrictions	NA To 2019	
2019-005	Internal Controls Over Occupational Tax Collections Are Not Adequate	Partially Resolved	Still working on this.
2019-006	Cash Collected Offsite Was Missing From Deposits	Resolved	Employee suspended, resigned.
2019-007	Interfund Transfers Were Not Approved By The Fiscal Court	Resolved	Transfers approved by fiscal court.
2019-008	The Estill County Fiscal Court Did Not Properly Record And Classify All Debt Related Disbursements	Resolved	As far as we know, will correct as become aware.
2019-009	Internal Controls, Review Procedures, And Oversight For Payroll Processing Are Not Adequate	Resolved	Payroll reviewed by finance officer and treasurer.
2019-010	Amounts Paid To County Employees Retirement System (CERS) For Retirement Deductions And Matching Contributions Are Not Accurate	Resolved	Outstanding invoices have been paid/refunds made to employees.
2019-011	The Revolving Payroll Account Reconciliation Was Not Complete And Accurate	Resolved	Account is reconciled.
2019-012	The Fiscal Court Did Not Provide The Same Level Of Health Insurance Coverage To All County Employees	Resolved	Corrected July 1, 2021.
2019-013	The Estill County Fiscal Court Lacks Adequate Internal Controls Over Federal Programs	Resolved	Funds are monitored, documented and guidelines followed to the best of our knowledge.

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

ESTILL COUNTY FISCAL COURT

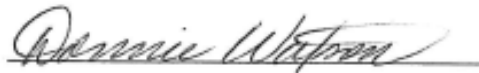
For The Year Ended June 30, 2020

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
ESTILL COUNTY FISCAL COURT

For The Year Ended June 30, 2020

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



County Judge/Executive



County Treasurer