

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

**For The Year Ended  
June 30, 2017**



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

To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The Honorable Jim Ward, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Letcher County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Letcher County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

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

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



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

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

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

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

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Letcher County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Letcher County Fiscal Court as of June 30, 2017, 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 Information*

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

The accompanying Budgetary Comparison Schedules and the Capital Asset Schedule 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 Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky  
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The Honorable Jim Ward, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2018, on our consideration of the Letcher County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Letcher County Fiscal Court's internal control over financial reporting and compliance.

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

- 2017-001 The Letcher County Fiscal Court Did Not Pay State Income Tax Withholdings Timely Resulting In Penalties And Interest Payments Of \$7,078
- 2017-002 The Letcher County Fiscal Court Did Not Include All County Funds On The Fourth Quarter Financial Report
- 2017-003 The Letcher County Fiscal Court Did Not Have Sufficient Controls Over The Payroll Process
- 2017-004 The Letcher County Jail Commissary Lacks Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations
- 2017-005 The Letcher County Fiscal Court Exceeded The Line Item Budget

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

August 7, 2018

**LETCHER COUNTY OFFICIALS****For The Year Ended June 30, 2017****Fiscal Court Members:**

Jim Ward	County Judge/Executive
Bobby Howard	Magistrate
Terry Adams	Magistrate
Keith Adams	Magistrate
Wayne Fleming	Magistrate
Woody Holbrook	Magistrate

**Other Elected Officials:**

Billy Jamie Hatton	County Attorney
Don McCall	Jailer
Winston Meade	County Clerk
Larry Adams	Circuit Court Clerk
Danny Webb	Sheriff
Richard Brown	Property Valuation Administrator
Lillie Renee Campbell	Coroner

**Appointed Personnel:**

Eddie Meade	Deputy County Judge/Executive/Solid Waste Coordinator
Phillip Hampton	County Treasurer
D.J. Frazier	Finance Officer
Jim Revis	911 Administrator



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

**For The Year Ended June 30, 2017**

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

**For The Year Ended June 30, 2017**

	<b>Budgeted Funds</b>			
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>RECEIPTS</b>				
Taxes	\$ 1,394,955	\$ 1,376	\$	\$ 13,573
Excess Fees	91,497			
Licenses and Permits	23,906			
Intergovernmental	292,589	1,644,361	545,228	1,899,810
Charges for Services	1,313,607		8,919	318,906
Miscellaneous	424,360	268,444	37,143	28,677
Interest	449	1,651	115	1,259
Total Receipts	<u>3,541,363</u>	<u>1,915,832</u>	<u>591,405</u>	<u>2,262,225</u>
<b>DISBURSEMENTS</b>				
General Government	1,045,690	26,593		83,474
Protection to Persons and Property	156,813		808,487	192,739
General Health and Sanitation	1,043,439			84,736
Social Services	22,896			5,850
Recreation and Culture				384,327
Roads		1,045,873		44,145
Airports				1,517
Debt Service	280,259	296,159		6,559,849
Capital Projects	93,841			324,627
Administration	791,391	480,047	276,399	119,638
Total Disbursements	<u>3,434,329</u>	<u>1,848,672</u>	<u>1,084,886</u>	<u>7,800,902</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>107,034</u>	<u>67,160</u>	<u>(493,481)</u>	<u>(5,538,677)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Financing Obligation Proceeds		257,090		6,030,000
Transfers From Other Funds	250,000	250,000	450,000	
Transfers To Other Funds	(250,000)	(250,000)		(450,000)
Total Other Adjustments to Cash (Uses)		<u>257,090</u>	<u>450,000</u>	<u>5,580,000</u>
Net Change in Fund Balance	107,034	324,250	(43,481)	41,323
Fund Balance - Beginning (Restated)	<u>633,988</u>	<u>310,581</u>	<u>147,701</u>	<u>189,631</u>
Fund Balance - Ending	<u>\$ 741,022</u>	<u>\$ 634,831</u>	<u>\$ 104,220</u>	<u>\$ 230,954</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 746,713	\$ 633,415	\$ 106,994	\$ 235,179
Plus: Deposits In Transit		3,216		625
Less: Outstanding Checks	(5,691)	(1,800)	(2,774)	(4,850)
Certificates of Deposit				
Fund Balance - Ending	<u>\$ 741,022</u>	<u>\$ 634,831</u>	<u>\$ 104,220</u>	<u>\$ 230,954</u>

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

**LETCHER COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2017**  
**(Continued)**

<u>Budgeted Funds</u>				<u>Unbudgeted Fund</u>	
<u>Forestry Fund</u>	<u>Senior Citizens Fund</u>	<u>Special Sewer Project Fund</u>	<u>Horse Trail Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
\$ 3,245	\$	\$	\$	\$	\$ 1,413,149
					91,497
					23,906
	108,398	\$ 112,411			4,602,797
	5,547			93,244	1,641,432
	210				857,415
<u>3,245</u>	<u>114,155</u>	<u>112,411</u>	<u></u>	<u>93,244</u>	<u>8,633,880</u>
					1,155,757
2,146					1,160,185
	4,682	129,584			1,262,441
	130,190				158,936
				90,782	475,109
					1,090,018
					1,517
					7,136,267
					418,468
	32,026				1,699,501
<u>2,146</u>	<u>166,898</u>	<u>129,584</u>	<u></u>	<u>90,782</u>	<u>14,558,199</u>
<u>1,099</u>	<u>(52,743)</u>	<u>(17,173)</u>	<u></u>	<u>2,462</u>	<u>(5,924,319)</u>
					6,287,090
					950,000
					(950,000)
					6,287,090
1,099	(52,743)	(17,173)		2,462	362,771
16,508	115,946	30,372	40,000	82,705	1,567,432
<u>\$ 17,607</u>	<u>\$ 63,203</u>	<u>\$ 13,199</u>	<u>\$ 40,000</u>	<u>\$ 85,167</u>	<u>\$ 1,930,203</u>
\$ 17,607	\$ 63,303	\$ 13,199	\$	\$ 91,179	\$ 1,907,589
				248	4,089
	(100)			(6,260)	(21,475)
			40,000		40,000
<u>\$ 17,607</u>	<u>\$ 63,203</u>	<u>\$ 13,199</u>	<u>\$ 40,000</u>	<u>\$ 85,167</u>	<u>\$ 1,930,203</u>

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

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**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2017**

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

**A. Reporting Entity**

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

**B. Basis of Accounting**

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

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

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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

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

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

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

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

**C. Basis of Presentation (Continued)**

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

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

Senior Citizens Fund - The primary purpose of this fund is to account for the senior citizens expenses of the county. The primary sources of receipts for this fund are state grants and transfers from the Local Government Economic Assistance Fund.

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

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

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted fund:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

**D. Budgetary Information**

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

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

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

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

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

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

**E. Letcher County Elected Officials**

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

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

**F. Deposits and Investments**

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

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

**G. Long-term Obligations**

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

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC 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.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 2. Deposits (Continued)**

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 KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, 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 2017.

	General Fund	Road Fund	Local Government Economic Assistance Fund	Total Transfers In
General Fund	\$	\$ 250,000	\$	\$ 250,000
Road Fund	250,000			250,000
Jail Fund			450,000	450,000
Total Transfers Out	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>\$ 450,000</u>	<u>\$ 950,000</u>

Reason for transfers:

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

**Note 4. Short-term Debt**

**A. 2015 KACoLT Truck Lease**

On October 7, 2015, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$269,804 with Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of two trucks. The lease agreement required monthly interest payments and one principal payment on April 20, 2017. The principal balance outstanding as of June 30, 2017, was \$0.

**B. 2016 KACoLT Truck Lease**

On October 20, 2016, the Letcher County Fiscal Court entered into a lease agreement in the amount of \$272,804 with Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of two trucks. The lease agreement required monthly interest payments and one principal payment on April 20, 2018. The principal balance outstanding as of June 30, 2017, was \$272,804.



**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 4. Short-term Debt (Continued)**

**C. Changes In Short-term Debt**

Short-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 269,804	\$ 272,804	\$ 269,804	\$ 272,804	\$ 272,804
Total Short-term Debt	<u>\$ 269,804</u>	<u>\$ 272,804</u>	<u>\$ 269,804</u>	<u>\$ 272,804</u>	<u>\$ 272,804</u>

**Note 5. Long-term Debt**

**A. Financing Obligation - Courthouse and Detention Center**

On August 15, 2013, the Letcher County Fiscal Court entered into a \$3,140,000 lease agreement related to the issuance of Kentucky Association of Counties Finance Corporation (KACoFC) Financing Program Revenue Bonds, First Series 2013B. The purpose of this debt was to retire the outstanding balance of the Letcher County Public Properties Corporation Revenue Bonds, Series 1999. The original purpose of the Series 1999 debt was to renovate the courthouse and detention center. The Public Properties Corporation and the Administrative Office of the Courts (AOC) entered into a lease agreement dated January 1, 1999, for the purpose of obtaining office rental space for AOC.

The premises leased by AOC will provide revenues to pay a portion of the bond principal interest. Under the terms of the lease, AOC has agreed to pay directly to the paying agents' bank their prorated share of the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county is in reliance upon the use allowance payment in order to meet a portion of the debt service requirement for the bonds.

The use allowance payment commenced with occupancy by AOC. AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 1, 2027, but the lease does not legally obligate AOC to do so. As of June 30, 2017, the principal balance remaining is \$2,335,000. Future principal and interest payment requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 200,000	\$ 81,018
2019	205,000	76,668
2020	210,000	71,184
2021	220,000	64,516
2022	225,000	57,531
2023-2027	<u>1,275,000</u>	<u>161,294</u>
Totals	<u>\$ 2,335,000</u>	<u>\$ 512,211</u>

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**B. Financing Obligation - Recreation Center Land**

On September 29, 2008, the Letcher County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of land for the construction of a recreation center. The lease agreement requires monthly interest payments and annual principal payments. The principal was \$500,000 and the interest rate is variable. As of June 30, 2017, the principal balance remaining is \$401,000. Future principal and interest payment requirements are:

Fiscal Year Ending June 30	Principal	Interest
2018	\$ 13,000	\$ 17,120
2019	14,000	16,550
2020	15,000	15,965
2021	15,000	15,310
2022	16,000	14,659
2023-2027	88,000	62,645
2028-2032	108,000	42,018
2033-2037	132,000	16,861
Totals	<u>\$ 401,000</u>	<u>\$ 201,128</u>

**C. Financing Obligation - Recreation Center (2011)**

On May 24, 2010, the Letcher County Fiscal Court entered into a \$7,000,000 lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for the construction of a recreation center. On March 1, 2011, before any principal payments were made, the lease was refinanced and the Letcher County Fiscal Court entered into a \$7,300,000 financing agreement related to the issuance of Kentucky Association of Counties Finance Corporation (KACoFC) Financing Program Revenue Bonds, First Series 2011A. In September 2016, the Letcher County Fiscal Court refinanced a portion (see Note 5.D.) of the lease, but the 2011 lease agreement still requires monthly principal and interest payments commencing on January 1, 2026. As of June 30, 2017, the principal balance remaining is \$1,455,000. Future principal and interest payment requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 130,417	\$ 68,752
2019	149,167	69,038
2020	157,083	62,164
2021	162,083	54,619
2022	169,167	46,459
2023-2026	687,083	90,903
Totals	<u>\$ 1,455,000</u>	<u>\$ 391,935</u>

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**D. Financing Obligation - Recreation Center (2017)**

In September 2016, the Letcher County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Finance Corporation in order to refinance a portion of the 2011 lease agreement in the amount of \$6,030,000. The refinancing of this debt was to reduce the overall debt payments for the 2011 lease agreement. The lease requires monthly principal and interest payments commencing on June 30, 2041. As of June 30, 2017, the principal balance remaining is \$5,975,000. Future principal and interest payment requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 52,500	\$ 191,606
2019	55,000	189,506
2020	55,000	187,306
2021	57,500	185,106
2022	60,000	182,806
2023-2027	662,500	876,681
2028-2032	1,590,000	704,416
2033-2037	1,910,000	422,625
2038-2041	1,532,500	106,350
Totals	<u>\$ 5,975,000</u>	<u>\$ 3,046,402</u>

**E. Financing Obligation - Utility Tractor**

On August 4, 2015, the Letcher County Fiscal Court purchased a John Deere utility tractor and a Chambers mower. An upfront payment of \$20,000 was made at closing and \$65,157 was financed with Deere Credit, Inc. The lease agreement requires 59 monthly payments of \$1,218.32, applied to principal and interest at a 4 percent nominal interest rate. A final payment of \$1 is due on August 4, 2020. As of June 30, 2017, the principal balance remaining is \$42,344. Future principal and interest payment requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 13,166	\$ 1,454
2019	13,702	918
2020	14,261	359
2021	1,215	4
Totals	<u>\$ 42,344</u>	<u>\$ 2,735</u>

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

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

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance (*Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations *	\$ 9,642,744	\$ 6,030,000	\$ 5,464,400	\$ 10,208,344	\$ 409,082
Total Long-term Debt	<u>\$ 9,642,744</u>	<u>\$ 6,030,000</u>	<u>\$ 5,464,400</u>	<u>\$ 10,208,344</u>	<u>\$ 409,082</u>

\* In the prior year audit, \$9,173,751 was listed as revenue bonds.

**Note 6. Employee Retirement System**

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (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 2015 was \$686,103, FY 2016 was \$485,389, and FY 2017 was \$445,712.

Nonhazardous

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

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

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Nonhazardous (Continued)

The county's contribution rate for nonhazardous employees was 18.68 percent.

Hazardous

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

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

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute eight percent of their annual creditable compensation and also contribute one 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 hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for hazardous employees was 31.06 percent.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

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

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

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Health Insurance Coverage (Continued)

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

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

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

**Note 7. Deferred Compensation**

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

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

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 8. Health Reimbursement Account/Flexible Spending Account**

The Letcher County Fiscal Court established a flexible spending account on May 12, 2012, to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$1,500 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction. The balance of the plan at June 30, 2017, is \$45,899.

**Note 9. Insurance**

For the fiscal year ended June 30, 2017, the Letcher County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Payroll Revolving Account**

The reconciled balance of the payroll revolving account as of June 30, 2017, had a deficit balance of \$6,711 due to penalties and interest paid for late payments to the Kentucky Department of Revenue for state income tax.

**Note 11. Prior Period Adjustments**

General Fund:

Prior Year Ending Fund Balance	\$ 387,591
Add: Debt Service Account	64,086 *
Depreciation Account	180,600 *
Unexplained Adjustment	<u>1,711</u>
Prior Year Ending Balance (Restated)	<u><u>\$ 633,988</u></u>

\* In the prior year audit report, these accounts were reported as Public Properties as an unbudgeted fund.

Local Government Economic Assistance Fund:

Prior Year Ending Fund Balance	\$ 231,642
Less: Horse Trail Fund CD	(40,000)
Fiscal Year 2016 Outstanding Check	<u>(2,011)</u>
Prior Year Ending Balance (Restated)	<u><u>\$ 189,631</u></u>

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

**For The Year Ended June 30, 2017**

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

**For The Year Ended June 30, 2017**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,392,000	\$ 1,622,098	\$ 1,394,955	\$ (227,143)
Excess Fees	2,185	2,185	91,497	89,312
Licenses and Permits	24,000	24,000	23,906	(94)
Intergovernmental	75,128	75,128	292,589	217,461
Charges for Services	1,680,000	1,680,000	1,313,607	(366,393)
Miscellaneous	198,600	198,600	424,360	225,760
Interest	550	550	449	(101)
Total Receipts	<u>3,372,463</u>	<u>3,602,561</u>	<u>3,541,363</u>	<u>(61,198)</u>
<b>DISBURSEMENTS</b>				
General Government	885,702	1,089,900	1,045,690	44,210
Protection to Persons and Property	161,435	182,435	156,813	25,622
General Health and Sanitation	1,251,260	1,251,260	1,043,439	207,821
Social Services	12,000	23,000	22,896	104
Debt Service	310,000	541,000	280,259	260,741
Capital Projects	50,000	105,000	93,841	11,159
Administration	916,593	1,013,795	791,391	222,404
Total Disbursements	<u>3,586,990</u>	<u>4,206,390</u>	<u>3,434,329</u>	<u>772,061</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(214,527)</u>	<u>(603,829)</u>	<u>107,034</u>	<u>710,863</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	214,527	214,527	250,000	35,473
Transfers To Other Funds			<u>(250,000)</u>	<u>(250,000)</u>
Total Other Adjustments to Cash (Uses)	<u>214,527</u>	<u>214,527</u>		<u>(214,527)</u>
Net Change in Fund Balance		(389,302)	107,034	496,336
Fund Balance - Beginning (Restated)		<u>389,302</u>	<u>633,988</u>	<u>244,686</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 741,022</u>	<u>\$ 741,022</u>

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
In Lieu of Taxes	\$ 6,000	\$ 6,000	\$ 1,376	\$ (4,624)
Intergovernmental	1,340,530	1,513,009	1,644,361	131,352
Miscellaneous	290,000	537,589	268,444	(269,145)
Interest	1,500	1,500	1,651	151
Total Receipts	<u>1,638,030</u>	<u>2,058,098</u>	<u>1,915,832</u>	<u>(142,266)</u>
<b>DISBURSEMENTS</b>				
General Government	27,120	27,620	26,593	1,027
Roads	505,200	1,486,504	1,045,873	440,631
Debt Service	296,683	299,683	296,159	3,524
Administration	594,500	613,149	480,047	133,102
Total Disbursements	<u>1,423,503</u>	<u>2,426,956</u>	<u>1,848,672</u>	<u>578,284</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>214,527</u>	<u>(368,858)</u>	<u>67,160</u>	<u>436,018</u>
<b>Other Adjustments to Cash (Uses)</b>				
Financing Obligation Proceeds		272,804	257,090	(15,714)
Transfers From Other Funds			250,000	250,000
Transfers To Other Funds	(214,527)	(214,527)	(250,000)	(35,473)
Total Other Adjustments to Cash (Uses)	<u>(214,527)</u>	<u>58,277</u>	<u>257,090</u>	<u>198,813</u>
Net Change in Fund Balance		(310,581)	324,250	634,831
Fund Balance - Beginning		<u>310,581</u>	<u>310,581</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 634,831</u>	<u>\$ 634,831</u>

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 433,352	\$ 473,675	\$ 545,228	\$ 71,553
Charges for Services	7,100	7,100	8,919	1,819
Miscellaneous	36,700	36,700	37,143	443
Interest	100	100	115	15
Total Receipts	<u>477,252</u>	<u>517,575</u>	<u>591,405</u>	<u>73,830</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	714,979	851,712	808,487	43,225
Administration	305,500	356,816	276,399	80,417
Total Disbursements	<u>1,020,479</u>	<u>1,208,528</u>	<u>1,084,886</u>	<u>123,642</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(543,227)</u>	<u>(690,953)</u>	<u>(493,481)</u>	<u>197,472</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>543,227</u>	<u>543,227</u>	<u>450,000</u>	<u>(93,227)</u>
Total Other Adjustments to Cash (Uses)	<u>543,227</u>	<u>543,227</u>	<u>450,000</u>	<u>(93,227)</u>
Net Change in Fund Balance		(147,726)	(43,481)	104,245
Fund Balance - Beginning		<u>147,726</u>	<u>147,701</u>	<u>(25)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 104,220</u>	<u>\$ 104,220</u>

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 21,000	\$ 21,000	\$ 13,573	\$ (7,427)
Intergovernmental	1,990,700	2,392,018	1,899,810	(492,208)
Charges for Services	350,000	350,000	318,906	(31,094)
Miscellaneous	12,000	12,000	28,677	16,677
Interest	1,560	1,560	1,259	(301)
Total Receipts	<u>2,375,260</u>	<u>2,776,578</u>	<u>2,262,225</u>	<u>(514,353)</u>
<b>DISBURSEMENTS</b>				
General Government	28,625	88,825	83,474	5,351
Protection to Persons and Property	174,059	196,059	192,739	3,320
General Health and Sanitation	75,569	87,319	84,736	2,583
Social Services	4,000	6,850	5,850	1,000
Recreation and Culture	321,459	399,759	384,327	15,432
Roads	408,300	408,300	44,145	364,155
Airports		1,217	1,517	(300)
Debt Service	558,000	560,200	6,559,849	(5,999,649)
Capital Projects	200	324,627	324,627	
Administration	115,521	205,823	119,638	86,185
Total Disbursements	<u>1,685,733</u>	<u>2,278,979</u>	<u>7,800,902</u>	<u>(5,521,923)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>689,527</u>	<u>497,599</u>	<u>(5,538,677)</u>	<u>(6,036,276)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Financing Obligation Proceeds			6,030,000	6,030,000
Transfers To Other Funds	<u>(689,527)</u>	<u>(689,527)</u>	<u>(450,000)</u>	<u>239,527</u>
Total Other Adjustments to Cash (Uses)	<u>(689,527)</u>	<u>(689,527)</u>	<u>5,580,000</u>	<u>6,269,527</u>
Net Change in Fund Balance		(191,928)	41,323	233,251
Fund Balance - Beginning		<u>191,928</u>	<u>189,631</u>	<u>(2,297)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 230,954</u>	<u>\$ 230,954</u>

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

<b>FORESTRY FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 4,000	\$ 4,000	\$ 3,245	\$ (755)
Total Receipts	4,000	4,000	3,245	(755)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	4,000	4,000	2,146	1,854
Total Disbursements	4,000	4,000	2,146	1,854
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			1,099	1,099
Net Change in Fund Balance			1,099	1,099
Fund Balance - Beginning			16,508	16,508
Fund Balance - Ending	\$ 0	\$ 0	\$ 17,607	\$ 17,607

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>SENIOR CITIZENS FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 110,000	\$ 110,000	\$ 108,398	\$ (1,602)
Miscellaneous	3,500	3,500	5,547	2,047
Interest	200	200	210	10
Total Receipts	<u>113,700</u>	<u>113,700</u>	<u>114,155</u>	<u>455</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation			4,682	(4,682)
Social Services	202,000	202,500	130,190	72,310
Administration	58,000	57,500	32,026	25,474
Total Disbursements	<u>260,000</u>	<u>260,000</u>	<u>166,898</u>	<u>93,102</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(146,300)</u>	<u>(146,300)</u>	<u>(52,743)</u>	<u>93,557</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	146,300	146,300		(146,300)
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)	<u>146,300</u>	<u>146,300</u>		<u>(146,300)</u>
Net Change in Fund Balance			(52,743)	(52,743)
Fund Balance - Beginning			<u>115,946</u>	<u>115,946</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 63,203</u>	<u>\$ 63,203</u>



**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

**SPECIAL SEWER PROJECT FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$	101,903	\$ 112,411	\$ 10,508
Total Receipts		101,903	112,411	10,508
<b>DISBURSEMENTS</b>				
General Health and Sanitation		132,275	129,584	2,691
Total Disbursements		132,275	129,584	2,691
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(30,372)	(17,173)	13,199
Net Change in Fund Balance		(30,372)	(17,173)	13,199
Fund Balance - Beginning		30,372	30,372	
Fund Balance - Ending	\$	0	\$ 13,199	\$ 13,199

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

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

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

**June 30, 2017**

**Note 1. Budgetary Information**

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

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

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

**Note 2. Excess of Disbursements Over Appropriations**

Local government economic assistance (LGEA) fund debt service exceeded budgeted appropriations by \$5,999,649 because of financing proceeds and subsequent debt service payments that were not included in the original budget. In addition, LGEA airports exceeded budgeted appropriations by \$300 and senior citizen fund general health and sanitation exceeded budgeted appropriations by \$4,682, due to inadequate budgeting.

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

**For The Year Ended June 30, 2017**

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

**For The Year Ended June 30, 2017**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Land and Land Improvements	\$ 2,023,500	\$	\$	\$ 2,023,500
Buildings	15,463,833			15,463,833
Vehicles	2,680,561			2,680,561
Vehicles - Jail Commissary	66,173			66,173
Equipment	502,669			502,669
Infrastructure	4,309,472	63,239		4,372,711
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Capital Assets	<u>\$ 25,046,208</u>	<u>\$ 63,239</u>	<u>\$ 0</u>	<u>\$ 25,109,447</u>

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

**June 30, 2017**

**Note 1. Capital Assets**

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

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



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

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

The Honorable Jim Ward, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Letcher County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Letcher County Fiscal Court's financial statement and have issued our report thereon dated August 7, 2018.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-003 and 2017-004 to be material weaknesses.



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

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Letcher County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-003, and 2017-005.

**Views of Responsible Officials and Planned Corrective Action**

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

**Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

August 7, 2018

**LETCHER COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2017**

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**LETCHER COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2017**

FINANCIAL STATEMENT FINDINGS:

2017-001 The Letcher County Fiscal Court Did Not Pay State Income Tax Withholdings Timely Resulting In Penalties And Interest Payments Of \$7,078

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The Letcher County Fiscal Court is withholding state income taxes on employees; however, they did not pay the withholdings timely to the Kentucky Department of Revenue and have accrued penalties and interest for late payments totaling \$7,078 for fiscal year 2017. The following late payments were noted for state income tax:

- September 2016 state income tax withholdings paid on December 8, 2016, incurring penalties and interest of \$309
- October 2016 state income tax withholdings paid during December 2016, incurring penalties and interest of \$293
- February 2017 state income tax withholdings paid on July 31, 2017, incurring penalties and interest of \$716
- March 2017 state income tax withholdings paid on September 21, 2017, incurring penalties and interest of \$1,838
- April 2017 state income tax withholdings paid on September 21, 2017 and September 25, 2017, incurring penalties and interest of \$1,561
- May 2017 state income tax withholdings paid on September 25, 2017, incurring penalties and interest of \$1,138
- June 2017 state income tax withholdings paid on September 25, 2017, incurring penalties and interest of \$1,123
- Charge for late submission of 2017 W-2s on February 7, 2018, totaling \$100

It was also noted, based upon confirmation received from the Kentucky Department of Revenue, that the fiscal court had subsequently paid \$4,067 for late payments of state income tax withholdings for fiscal year 2018.

The fiscal court finance officer had not completed state tax returns for February 2017 through June 2017. The county judge/executive said that the money was available in the payroll account to make these payments.

The payroll clerk had generated liability checks totaling \$32,144 for state income tax withholdings for this period, but the checks were never received by the Kentucky Department of Revenue, resulting in penalties and interest of \$7,078.

103 KAR 18:010 provides that “[e]very employer incorporated in Kentucky, qualified to do business in Kentucky, doing business in Kentucky, or subject to the jurisdiction of Kentucky in any manner, and making payment of wages subject to withholding shall deduct, withhold, and pay to the department the tax required to be withheld.” And the Kentucky Department of Revenue’s Withholding Kentucky Income Tax Instructions for Employers (May 2015) states “[e]mployers withholding \$2,000-\$49,999 Kentucky income tax a year must file and pay on a monthly basis.”

KRS 141.330(4) states, “[i]f the employer withholds but fails to pay the amounts withheld to the department, the lien shall accrue as of the date the amounts withheld were required to be paid to the department. If the employer fails to withhold, the lien shall accrue at the time the liability of the employer becomes fixed.”

We recommend the Letcher County Fiscal Court contact the Kentucky Department of Revenue to determine the actual amount due, with penalties and interest assessed, for the February 2017 state income tax payment of \$3,771. We also recommend controls be established to ensure withholdings are paid timely. This control could be as simple as comparing the payroll summary to actual payments made to the entity on the bank reconciliation and documenting the review by signatures or initials on the summary or bank statement.

**LETCHER COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2017  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-001 The Letcher County Fiscal Court Did Not Pay State Income Tax Withholdings Timely Resulting In Penalties And Interest Payments Of \$7,078 (Continued)

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Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The county has requested that these penalties be evaluated and consideration given for a refund. The county has a new payroll clerk. Controls have been changed to timely file tax payments.*

2017-002 The Letcher County Fiscal Court Did Not Include All County Funds On The Fourth Quarter Financial Report

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The Letcher County Fiscal Court's fourth quarter financial report did not include all of the county's accounts. Two checking accounts were not included in the county's year-end financial report. These accounts are used to accumulate funds for future debt payments and also to process receipts from the Commonwealth of Kentucky for debt payments. Material adjustments were made to the beginning balances for the current year financial statement for the general fund, appropriations for the general fund, and receipts for the general fund:

- \$244,686 increase in beginning cash balance for balance in the general fund.
- \$260,720 decrease in debt service appropriations in the general fund.
- \$152,259 decrease in receipts for the general fund.

The fourth quarter financial report did not include the activity in the debt service account and the depreciation account because the Letcher County Treasurer failed to include them on financial reports. In addition, the fiscal court failed to realize these accounts were not included on the fourth quarter report. Failure to record the activity in these accounts on the fourth quarter financial report resulted in a materially inaccurate financial statements.

KRS 68.020(4) requires the county treasurer to "keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer." Additionally, the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* states, "[a]ll county money is to be reported on the financial statement whether it is included in the budget or not."

We recommend the Letcher County Treasurer include all financial activity of the Letcher County Fiscal Court on the fourth quarter financial report.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The Letcher County Courthouse was remodeled in 1998. Financing was secured through USDA. USDA required that enough money be kept in an account to make one payment and also that the general fund make a monthly payment to a depreciation reserve account in the amount of \$2,560 to aid in making those semi-annual payments to USDA. The county has continued to hold these funds in accounts separate from the general fund to meet those requirements. The county will add those funds to the general fund for reporting purposes on our quarterly report.*



**LETCHER COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Letcher County Fiscal Court Did Not Have Sufficient Controls Over The Payroll Process

The Letcher County Fiscal Court did not establish sufficient controls over the processing of payroll and payroll liabilities. The lack of internal controls over payroll resulted in the following deficiencies:

- Two employees' compensatory time earned over 40 hours worked for the week was calculated incorrectly per the county's personnel policy by including holiday time in the calculation, resulting in the employee being given credit for more compensatory time than he had actually earned for the work week.
- Of 16 employees tested, one timecard was not complete for the pay period, two timecards did not have an employee and supervisor signature, and three timecards did not have a supervisor signature.
- Employee state income tax withholdings were not paid timely resulting in penalties and interest paid totaling \$7,078 for fiscal year 2017. See finding 2017-001.
- The payroll account had a deficit of \$6,711 as of June 30, 2017, as a result of penalties and interest paid to the Kentucky Department of Revenue for late payments of employee state income tax withholdings.
- Occupational tax had not been withheld from one employee's wages

Weak internal controls failed to prevent or detect these issues with the payroll process.

The lack of sufficient controls over payroll allowed employees accumulated compensatory time to be incorrect by including days off for holidays with hours worked in the calculation of compensatory time. Without oversight, supervisors may not be aware of the time charged by the employees. Additionally, the county was not in compliance with certain Kentucky Revised Statutes (KRS).

Good internal controls are essential to ensure that all timecards are complete with time worked and signed by employee and supervisor, compensatory time is calculated correctly, and state income tax liabilities are paid timely.

Letcher County's Personnel Policy states, "(5) [o]ther employees, such as clerical and manual workers, who are not exempt for the overtime provisions of the federal Fair Labor Standards Act, 29 U.S.C., section 207, may be granted compensatory leave at a rate of one and one half hours for each hour worked in excess of forty hours in a work week."

KRS 337.285(1) states, "[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed."

KRS 141.330(4) states, "[i]f the employer withholds but fails to pay the amounts withheld to the department, the lien shall accrue as of the date the amounts withheld were required to be paid to the department. If the employer fails to withhold, the lien shall accrue at the time the liability of the employer becomes fixed."

103 KAR 18:010 states, "[e]very employer incorporated in Kentucky, qualified to do business in Kentucky, doing business in Kentucky, or subject to the jurisdiction of Kentucky in any manner, and making payment of wages subject to withholding shall deduct, withhold, and pay to the department the tax required to be withheld." And the Kentucky Department of Revenue's Withholding Kentucky Income Tax Instructions for Employers (May 2015) states, "[e]mployers withholding \$2,000-\$49,999 Kentucky income tax a year must file and pay on a monthly basis."

**LETCHER COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2017  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Letcher County Fiscal Court Did Not Have Sufficient Controls Over The Payroll Process  
(Continued)

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The City of Whitesburg Occupational Payroll Tax Ordinance Section 3(1) states, “[t]he occupational payroll tax shall be measured by 1.5% of all wages and compensation paid or payable in the City for work done or services performed or rendered in the City by every resident and nonresident who is an employee[.]” Section 5(3) states, “[e]very employer who fails to withhold or pay to the City any sums required by this Ordinance to be withheld and paid shall be personally and individually liable to the city for any sum or sums withheld or required to be withheld in accordance with the provisions of this section.”

We recommend the fiscal court implement procedures to ensure that timesheets are maintained and properly documented with approval by the supervisor. We also recommend compensatory time is calculated in accordance with the personnel policy and occupational tax is withheld in accordance to the City of Whitesburg Occupation Payroll Tax Ordinance. Furthermore, the fiscal court should establish procedures to ensure all payroll liabilities for state income tax withholdings are submitted timely in accordance with 103 KAR 18:010 and KRS 141.330(4).

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive’s Response: The county has a new payroll clerk. Controls have been corrected and improved.*

2017-004 The Letcher County Jail Commissary Lacks Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

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The Letcher County jailer’s duties include posting receipts, preparing and posting disbursements, and completing the bank reconciliation. When one employee is responsible for the receipt, disbursement, and reconciliation process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases.

According to the jailer, the limited number of jail employees prevents a proper segregation of duties. This could result in undetected misappropriation of assets and incorrect reporting.

Effective internal controls require proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

We recommend the jailer segregate duties over receipts, disbursements, and the bank reconciliation process. If segregation of duties is not possible, then the jailer should implement compensating controls and maintain evidence of compensating controls.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive’s Response: Please refer to Jailer’s response given to auditors.*

*County Jailer’s Response: Due to lack of additional funding to hire more staff to enable duty segregation, we must continue to segregate as we are now.*

**LETCHER COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Letcher County Fiscal Court Exceeded The Line Item Budget

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In September 2016, the Letcher County Fiscal Court refinanced a portion of their 2011 lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the Letcher County Recreation Center to reduce total debt payments over the life of the lease. The amount refinanced was \$6,030,000 and was not included in the Letcher County Fiscal Court budget for the Local Government Economic Assistance Fund (LGEA) as lease proceeds and debt payment. As a result, the Letcher County Fiscal Court Fourth Quarter Financial Report, for the LGEA fund exceeded the debt service line item budget by \$5,999,649.

The county was unaware that the refinanced portion of the 2011 lease agreement had to be treated as a debt payment; therefore, they did not include the debt payment or lease proceeds of \$6,030,000, which caused the line item to exceed the amount budgeted for debt payments by \$5,999,649.

Failing to properly budget or amend line items as necessary resulted in non-compliance with applicable statutes and the quarterly report was materially misstated by \$6,030,000.

KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.”

We recommend the Letcher County Fiscal Court ensure all line items are properly budgeted or prepare budget amendments if necessary.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive’s Response: The county was not aware that we should have amended into the budget the portion of the recreation center debt that was refinanced by Kentucky Association of Counties. We will amend that amount so it will be reflected on our quarterly reports.*

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

**LETCHER COUNTY FISCAL COURT**

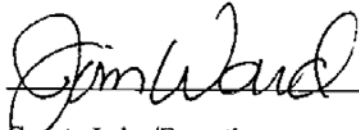
**For The Year Ended June 30, 2017**

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CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
LETCHER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

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

  
\_\_\_\_\_  
County Judge/Executive

  
\_\_\_\_\_  
County Treasurer