

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

**For The Fiscal Year Ended
June 30, 2015**

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

Independent Auditors' Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis of Lee County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise Lee 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. 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.

Auditors' 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 auditors' 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 auditors consider 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 more fully in Note 1, the financial statement is prepared by Lee 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 Lee County Fiscal Court as of June 30, 2015, 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 Lee County Fiscal Court as of June 30, 2015, 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 Lee County Fiscal Court. The budgetary comparison schedules and schedule of capital assets 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 schedule of capital assets 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 capital assets are fairly stated in all material respects in relation to the financial statement.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2016 on our consideration of Lee 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 Lee County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2015-001 The Fiscal Court Lacks Adequate Internal Controls Over Credit Cards
- 2015-002 The Fiscal Court Lacks Adequate Internal Controls Over Payroll

Morgan - Franklin, LLC

Morgan-Franklin, LLC
West Liberty, Kentucky

February 8, 2016

LEE COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Steve Mays	County Judge/Executive
Tim Brandenburg	Magistrate
Dean Noe	Magistrate
Leonard Carl Ross	Magistrate
Everett Lee Marshall	Magistrate

Other Elected Officials:

Thomas Hollon	County Attorney
Corbett Dunaway	Jailer
Kimberly Noe	County Clerk
Brenda Shuler	Circuit Court Clerk
Wendell Childers, Jr.	Sheriff
Elizabeth Roach	Property Valuation Administrator
Ray Shuler	Coroner

Appointed Personnel:

Jodi Coldiron	County Treasurer
Pearl Spencer	Finance Officer

**LEE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES – REGULATORY BASIS**

For The Year Ended June 30, 2015

LEE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES – REGULATORY BASIS

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,451,394	\$	\$
In Lieu Tax Payments	8,908	20,418	
Excess Fees	24,536		
Licenses and Permits	20,208		
Intergovernmental	355,704	1,423,100	85,167
Charges for Services	6,630		
Miscellaneous	112,227	299,123	
Interest	60	26	4
Total Receipts	1,979,667	1,742,667	85,171
DISBURSEMENTS			
Current:			
General Government	950,787		
Protection to Persons and Property	182,298	273	338,667
General Health and Sanitation	19,065		
Social Services	66,551		
Recreation and Culture	52,737		
Roads		1,547,994	
Debt Service		331,164	
Capital Projects	25,500		
Administration	364,163	147,458	18,083
Total Disbursements	1,661,101	2,026,889	356,750
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	318,566	(284,222)	(271,579)
Other Adjustments to Cash (Uses)			
Loan Refinancing			
Leasing Receipts		271,854	
Transfers From Other Funds	185,000	185,000	255,000
Transfers To Other Funds	(357,088)	(185,000)	
Total Other Adjustments to Cash (Uses)	(172,088)	271,854	255,000
Net Change in Fund Balance	146,478	(12,368)	(16,579)
Fund Balance - Beginning (Restated)	461,118	95,160	31,085
Fund Balance - Ending	\$ 607,596	\$ 82,792	\$ 14,506
Composition of Fund Balance			
Bank Balance	\$ 632,308	\$ 85,126	\$ 12,720
Plus: Deposits in Transit	2,697		2,265
Less: Outstanding Checks	27,409	2,334	479
Fund Balance - Ending	\$ 607,596	\$ 82,792	\$ 14,506

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

LEE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES – REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

	Budgeted Funds			
	Local Government Economic Assistance Fund	Ambulance Fund	Solid Waste Fund	Total Funds
RECEIPTS				
Taxes	\$	\$	\$	\$ 1,451,394
In Lieu Tax Payments				29,326
Excess Fees				24,536
Licenses and Permits				20,208
Intergovernmental	423,491	35,000	42,159	2,364,621
Charges for Services		857,127	439,310	1,303,067
Miscellaneous		2,627	8,371	422,348
Interest	10	5	7	112
Total Receipts	<u>423,501</u>	<u>894,759</u>	<u>489,847</u>	<u>5,615,612</u>
DISBURSEMENTS				
Current:				
General Government				950,787
Protection to Persons and Property		887,339		1,408,577
General Health and Sanitation	35,973		459,065	514,103
Social Services				66,551
Recreation and Culture	6,120			58,857
Roads	9,145			1,557,139
Debt Service	203,353	6,012	53,678	594,207
Capital Projects	17,520			43,020
Administration	10,218	288,436	77,934	906,292
Total Disbursements	<u>282,329</u>	<u>1,181,787</u>	<u>590,677</u>	<u>6,099,533</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	141,172	(287,028)	(100,830)	(483,921)
Other Adjustments to Cash (Uses)				
Loan Refinancing	99,140			99,140
Leasing Receipts				271,854
Transfers From Other Funds		244,635	22,088	891,723
Transfers To Other Funds	(349,635)			(891,723)
Total Other Adjustments to Cash (Uses)	<u>(250,495)</u>	<u>244,635</u>	<u>22,088</u>	<u>370,994</u>
Net Change in Fund Balance	(109,323)	(42,393)	(78,742)	(112,927)
Fund Balance - Beginning (Restated)	149,844	76,366	158,686	972,259
Fund Balance - Ending	<u>\$ 40,521</u>	<u>\$ 33,973</u>	<u>\$ 79,944</u>	<u>\$ 859,332</u>
Composition of Fund Balance				
Bank Balance	\$ 40,906	\$ 40,874	\$ 81,164	\$ 893,098
Plus: Deposits in Transit				4,962
Less: Outstanding Checks	385	6,901	1,220	38,728
Fund Balance - Ending	<u>\$ 40,521</u>	<u>\$ 33,973</u>	<u>\$ 79,944</u>	<u>\$ 859,332</u>

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

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TO THE FINANCIAL STATEMENT**

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**LEE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Lee County includes all budgeted and unbudgeted funds under the control of the Lee 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 include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation created 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, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government 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 and 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 source of receipts for this fund is state payments for truck licenses 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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(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 government 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.

Ambulance Fund – The primary purpose of this fund is to account for the ambulance service expenses of the county. The primary source of receipts for this fund is the ambulance service billings.

Solid Waste Fund – The primary purpose of this fund is to account for garbage collections expenses of the county. The primary source of receipts for this fund is from monthly billing of solid waste collections to users.

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 *Government 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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Lee County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Lee 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 Lee 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 the following, including but not limited to, 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.

H. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of Lee County Fiscal Court: Three Forks Regional Jail.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Venture (Continued)

Three Forks Regional Jail

On October 6, 2000, the Counties of Lee, Owsley and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 of first mortgage revenue bonds.

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements on the bonds are the rental payments from the participating counties, as stipulated in the lease and sublease agreements dated October 1, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bond as follows (the “proportionate share” or “use allowance”): 40% for Lee County, 22% for Owsley County and 38% for Wolfe County.

On December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping, and operation of the Three Forks Regional Jail.

The Three Forks Regional Jail Authority and the Three Forks Public Property Corporation are comprised of an eight-member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee County Jailer is a required member of the board.

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(4), 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 county 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 KRS 41.240(4). As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 3. Short-term Debt

A. Mack Trucks

In March 2014, Lee County Fiscal Court entered into a financing obligation agreement for \$259,490 with People’s Exchange Bank to purchase Mack trucks. The county purchased heavy trucks to use for one year; then the trucks are to be sold at auction. The terms of the agreement stipulate a one-year repayment schedule, with principal and interest due on March 25, 2015 with an interest rate of 2.5 percent. The outstanding principal as of June 30, 2015 was \$0.

B. Health Department Building

In March 2014, Lee County Fiscal Court entered into a financing obligation agreement for \$199,140 with People’s Exchange Bank to purchase the Health Department Building. The terms of the agreement stipulate a one-year repayment schedule, with principal and interest due on March 28, 2015 with an interest rate of 2.5 percent. The outstanding principal as of June 30, 2015 was \$0. The Fiscal Court paid \$100,000 in principal on this financing obligation and refinanced the remaining principal in the amount of \$99,140.

In March 2015, Lee County Fiscal Court entered into a financing obligation agreement for \$99,140 with People’s Exchange Bank to refinance a previous financing obligation. The terms of the agreement stipulate a one-year repayment schedule, with principal and interest due on March 23, 2016 with an interest rate of 2.0 percent. The outstanding principal as of June 30, 2015 was \$99,140.

C. Mack Trucks

In March 2015, Lee County Fiscal Court entered into a financing obligation agreement for \$271,854 with People’s Exchange Bank to purchase two (2) Mack trucks. The county purchased heavy trucks to use for one year; then the trucks are to be sold at auction. The terms of the agreement stipulate a one-year repayment schedule, with principal and interest due on March 23, 2016 with an interest rate of 2.0 percent. The outstanding principal as of June 30, 2015 was \$271,854.

D. Changes in Short-term Debt

Short-term debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 458,630	\$ 370,994	\$ 458,630	\$ 370,994	\$ 370,994
Total Short-term Debt	<u>\$ 458,630</u>	<u>\$ 370,994</u>	<u>\$ 458,630</u>	<u>\$ 370,994</u>	<u>\$ 370,994</u>

Note 4. Long-term Debt

A. Rear Loader – Financing Obligation

In February 2008, Lee County Fiscal Court entered into a financing obligation agreement for \$111,800 with the Kentucky Association of Counties Leasing Trust Program to purchase a rear loader. The terms of the agreement stipulate an eight-year repayment schedule, with variable monthly payments and variable monthly principal payments to end on March 20, 2016. The outstanding principal as of June 30, 2015 was \$11,462. Future lease principal and interest requirements are:

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

A. Rear Loader – Financing Obligation (Continued)

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 11,462	\$ 339
Totals	<u>\$ 11,462</u>	<u>\$ 339</u>

B. Blacktop Project – Financing Obligation

In August 2009, Lee County Fiscal Court entered into a financing obligation agreement for \$300,000 with the Kentucky Association of Counties Leasing Trust Program to pave county roads. The terms of the agreement stipulate an eight-year repayment schedule with variable monthly payments and variable monthly principal payments to end on August 20, 2017. The outstanding principal as of June 30, 2015 was \$90,927. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 40,990	\$ 3,372
2017	42,660	1,600
2018	<u>7,277</u>	<u>89</u>
Totals	<u>\$ 90,927</u>	<u>\$ 5,061</u>

C. Heart Start Monitor – Financing Obligation

In April 2013, Lee County Fiscal Court entered into a financing obligation agreement for \$21,808 with Phillips Medical Capital to purchase a heart monitor. The terms of the agreement stipulate a forty-eight month repayment schedule with variable monthly payments and variable monthly principal payments to end on April 15, 2017. The outstanding principal as of June 30, 2015 was \$10,530. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 5,629	\$ 383
2017	<u>4,901</u>	<u>109</u>
Totals	<u>\$ 10,530</u>	<u>\$ 492</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

D. Dodge Garbage Trucks – Financing Obligation

In January 2014, Lee County Fiscal Court entered into a financing obligation agreement for \$171,847 with Branch Banking and Trust Company – Governmental Finance (BB&T) to purchase two new Dodge garbage trucks. The terms of the agreement stipulate a sixty month repayment schedule with an interest rate of 2.11 percent and variable monthly principal payments to end on January 10, 2019. The outstanding principal as of June 30, 2015 was \$124,982. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 33,934	\$ 2,310
2017	34,657	1,587
2018	35,396	849
2019	<u>20,995</u>	<u>148</u>
Totals	<u>\$ 124,982</u>	<u>\$ 4,894</u>

E. Case Tractor Loader Backhoe – Financing Obligation

On February 10, 2014, Lee County Fiscal Court entered into a lease agreement for \$92,861 with CNH Capital to lease a Case tractor loader backhoe. The terms of the agreement stipulate a fifty-eight month repayment schedule with an interest rate of 6.77 percent fixed rate and variable monthly payments to end on December 10, 2019. The outstanding principal as of June 30, 2015 was \$67,171 future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 17,676	\$ 4,025
2017	18,910	2,791
2018	20,231	1,470
2019	<u>10,354</u>	<u>210</u>
Totals	<u>\$ 67,171</u>	<u>\$ 8,496</u>

F. Long-term Debt Maturity in the Aggregate

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 109,691	\$ 10,429
2017	101,128	6,087
2018	62,904	2,408
2019	<u>31,349</u>	<u>358</u>
Totals	<u>\$ 305,072</u>	<u>\$ 19,282</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

G. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 416,106	\$	\$ 111,034	\$ 305,072	\$ 109,691
Total Long-term Debt	<u>\$ 416,106</u>	<u>\$ 0</u>	<u>\$ 111,034</u>	<u>\$ 305,072</u>	<u>\$ 109,691</u>

Note 5. Employee Retirement System

A. Plan Description

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

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 the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

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 account. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board 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% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$385,953, FY 2014 was \$307,256, and FY 2015 was \$ 286,135.

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 (members 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.

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Employee Retirement System (Continued)

A. Plan Description (Continued)

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.

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.

B. Net Pension Liability

As promulgated by GASB Statement 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for employers participating in CERS was determined by an actuarial valuation as for June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Lee County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	\$ 2,608,000	\$ 2,305,000
Totals	<u>\$ 2,608,000</u>	<u>\$ 2,305,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 6. Subsequent Events

Subsequent events have been evaluated through February 8, 2016, which is the date the financial statements were available to be issued.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2015, Lee County 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 a 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. There have been no settlements that have exceeded insurance coverage for each of the past three fiscal years.

Note 8. Related Party Transactions

The county paid \$2,025 to Marshall's Catering to cater the county employees' Christmas dinner. Marshall's Catering is owned by Everett Marshall, a magistrate.

The county paid Chris Noe \$75 to provide the sound system for county functions. David is the son of Dean Noe, a magistrate.

The county paid Rodney Ross \$12,125 for repairs on county vehicles. Rodney is the son of Leonard Carl Ross, a magistrate.

Note 9. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 185,000	\$	\$ 185,000
Road Fund	185,000			185,000
Jail Fund			255,000	255,000
Ambulance Fund	150,000		94,635	244,635
Solid Waste Fund	22,088			22,088
	<u>\$ 357,088</u>	<u>\$ 185,000</u>	<u>\$ 349,635</u>	<u>\$ 891,723</u>
Total Transfers Out	<u>\$ 357,088</u>	<u>\$ 185,000</u>	<u>\$ 349,635</u>	<u>\$ 891,723</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 10. Prior Period Adjustment

General Fund Balance – Beginning as previously reported has been restated and increased by \$690 for a prior year voided check and a reimbursement.

**LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis**

For The Year Ended June 30, 2015

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,279,206	\$ 1,279,206	\$ 1,451,394	\$ 172,188
In Lieu Tax Payments	4,800	4,800	8,908	4,108
Excess Fees	23,128	23,128	24,536	1,408
Licenses and Permits	18,000	18,000	20,208	2,208
Intergovernmental	302,443	302,443	355,704	53,261
Charges for Services	8,000	8,000	6,630	(1,370)
Miscellaneous	76,531	76,531	112,227	35,696
Interest	100	100	60	(40)
Total Receipts	<u>1,712,208</u>	<u>1,712,208</u>	<u>1,979,667</u>	<u>267,459</u>
DISBURSEMENTS				
General Government	1,010,420	988,174	950,787	37,387
Protection to Persons and Property	198,598	191,238	182,298	8,940
General Health and Sanitation	12,000	22,022	19,065	2,957
Social Services	66,620	72,422	66,551	5,871
Recreation and Culture	52,133	56,835	52,737	4,098
Capital Projects	28,500	25,500	25,500	0
Administration	366,920	379,000	364,163	14,837
Total Disbursements	<u>1,735,191</u>	<u>1,735,191</u>	<u>1,661,101</u>	<u>74,090</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(22,983)	(22,983)	318,566	341,549
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			185,000	185,000
Transfers To Other Funds	(208,790)	(208,790)	(357,088)	(148,298)
Total Other Adjustments to Cash (Uses)	<u>(208,790)</u>	<u>(208,790)</u>	<u>(172,088)</u>	<u>36,702</u>
Net Change in Fund Balance	(231,773)	(231,773)	146,478	378,251
Fund Balance - Beginning (Restated)	<u>231,773</u>	<u>231,773</u>	<u>461,118</u>	<u>229,345</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 607,596</u>	<u>\$ 607,596</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 25,000	\$ 25,000	\$ 20,418	\$ (4,582)
Intergovernmental	1,351,000	1,417,100	1,423,100	6,000
Miscellaneous	194,324	238,324	299,123	60,799
Interest	200	200	26	(174)
Total Receipts	<u>1,570,524</u>	<u>1,680,624</u>	<u>1,742,667</u>	<u>62,043</u>
DISBURSEMENTS				
Protection to Persons and Property		274	273	1
Roads	1,165,200	1,577,793	1,547,994	29,799
Debt Service	332,910	332,412	331,164	1,248
Administration	182,600	152,185	147,458	4,727
Total Disbursements	<u>1,680,710</u>	<u>2,062,664</u>	<u>2,026,889</u>	<u>35,775</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(110,186)	(382,040)	(284,222)	97,818
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			185,000	185,000
Transfers To Other Funds			(185,000)	(185,000)
Leasing Receipts		271,854	271,854	0
Total Other Adjustments to Cash (Uses)		<u>271,854</u>	<u>271,854</u>	<u>0</u>
Net Change in Fund Balance	(110,186)	(110,186)	(12,368)	97,818
Fund Balance - Beginning	<u>110,186</u>	<u>110,186</u>	<u>95,160</u>	<u>(15,026)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 82,792</u>	<u>\$ 82,792</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 54,600	\$ 54,600	\$ 85,167	\$ 30,567
Miscellaneous	100	100		(100)
Interest	50	50	4	(46)
Total Receipts	<u>54,750</u>	<u>54,750</u>	<u>85,171</u>	<u>30,421</u>
DISBURSEMENTS				
Protection to Persons and Property	374,800	374,800	338,667	36,133
Administration	19,459	19,459	18,083	1,376
Total Disbursements	<u>394,259</u>	<u>394,259</u>	<u>356,750</u>	<u>37,509</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(339,509)	(339,509)	(271,579)	67,930
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	309,509	309,509	255,000	(54,509)
Total Other Adjustments to Cash (Uses)	<u>309,509</u>	<u>309,509</u>	<u>255,000</u>	<u>(54,509)</u>
Net Change in Fund Balance	(30,000)	(30,000)	(16,579)	13,421
Fund Balance - Beginning	<u>30,000</u>	<u>30,000</u>	<u>31,085</u>	<u>1,085</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,506</u>	<u>\$ 14,506</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 483,671	\$ 514,827	\$ 423,491	\$ (91,336)
Interest	50	50	10	(40)
Total Receipts	483,721	514,877	423,501	(91,376)
DISBURSEMENTS				
General Health and Sanitation	42,255	42,255	35,973	6,282
Recreation and Culture	12,240	12,240	6,120	6,120
Roads		9,347	9,145	202
Debt Service	202,916	203,361	203,353	8
Capital Projects		17,520	17,520	0
Administration	12,166	16,010	10,218	5,792
Total Disbursements	269,577	300,733	282,329	18,404
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	214,144	214,144	141,172	(72,972)
Other Adjustments to Cash (Uses)				
Loan Refinancing			99,140	99,140
Transfers To Other Funds	(404,144)	(404,144)	(349,635)	54,509
Total Other Adjustments to Cash (Uses)	(404,144)	(404,144)	(250,495)	153,649
Net Change in Fund Balance	(190,000)	(190,000)	(109,323)	80,677
Fund Balance - Beginning	190,000	190,000	149,844	(40,156)
Fund Balance - Ending	\$ 0	\$ 0	\$ 40,521	\$ 40,521

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 11,000	\$ 36,000	\$ 35,000	\$ (1,000)
Charges For Services	760,081	843,081	857,127	14,046
Miscellaneous	2,000	2,000	2,627	627
Interest	100	100	5	(95)
Total Receipts	<u>773,181</u>	<u>881,181</u>	<u>894,759</u>	<u>13,578</u>
DISBURSEMENTS				
Protection to Persons and Property	796,187	894,881	887,339	7,542
Debt Service	6,013	6,013	6,012	1
Administration	282,318	291,624	288,436	3,188
Total Disbursements	<u>1,084,518</u>	<u>1,192,518</u>	<u>1,181,787</u>	<u>10,731</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(311,337)	(311,337)	(287,028)	24,309
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	281,337	281,337	244,635	(36,702)
Total Other Adjustments to Cash (Uses)	<u>281,337</u>	<u>281,337</u>	<u>244,635</u>	<u>(36,702)</u>
Net Change in Fund Balance	(30,000)	(30,000)	(42,393)	(12,393)
Fund Balance - Beginning	30,000	30,000	76,366	46,366
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 33,973</u>	<u>\$ 33,973</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)	
	Original	Final			
RECEIPTS					
Intergovernmental	\$		\$ 38,159	\$ 42,159	\$ 4,000
Charges for Services		408,000	428,000	439,310	11,310
Miscellaneous		3,100	3,100	8,371	5,271
Interest		500	500	7	(493)
Total Receipts		<u>411,600</u>	<u>469,759</u>	<u>489,847</u>	<u>20,088</u>
DISBURSEMENTS					
General Health and Sanitation		418,738	488,113	459,065	29,048
Debt Service		53,790	53,839	53,678	161
Administration		92,160	80,895	77,934	2,961
Total Disbursements		<u>564,688</u>	<u>622,847</u>	<u>590,677</u>	<u>32,170</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(153,088)	(153,088)	(100,830)	52,258
Other Adjustments to Cash (Uses)					
Transfers From Other Funds		22,088	22,088	22,088	0
Total Other Adjustments to Cash (Uses)		<u>22,088</u>	<u>22,088</u>	<u>22,088</u>	<u>0</u>
Net Change in Fund Balance		(131,000)	(131,000)	(78,742)	52,258
Fund Balance - Beginning		131,000	131,000	158,686	27,686
Fund Balance - Ending	\$	<u>0</u>	\$ <u>0</u>	\$ <u>79,944</u>	\$ <u>79,944</u>

LEE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION – BUDGETARY COMPARISON SCHEDULES

June 30, 2015

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 *Government 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.

**LEE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2015**

LEE COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information – Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 337,211	\$	\$	\$ 337,211
Construction In Progress	34,446			34,446
Land Improvements	344,583	17,500		362,083
Buildings and Building Improvements	3,220,040			3,220,040
Vehicles and Equipment (Restated)	3,299,634	42,510	8,000	3,334,144
Infrastructure	5,154,289	395,690		5,549,979
Total Capital Assets	\$ 12,390,203	\$ 455,700	\$ 8,000	\$ 12,837,903

**LEE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION – SCHEDULE OF CAPITAL ASSETS**

June 30, 2015

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

Note 2. Construction in Progress

Construction in progress consisted of \$34,446 for an emergency services building.

Note 3. Prior Period Adjustment

Vehicle and Equipment line items were combined for presentation.

**INDEPENDENT AUDITORS' 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***

Morgan-Franklin, LLC

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The Honorable Steve Mays, Lee County Judge/Executive
Members of Lee County Fiscal Court

Independent Auditors' 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*

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 Lee County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement, which collectively comprise Lee County Fiscal Courts' financial statement and have issued our report thereon dated February 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Lee 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 Lee County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of Lee 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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be a material weakness and 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 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 deficiency described in the accompanying comments and recommendations as item 2015-001 to be a material weakness.

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 comments and recommendations as item 2015-002 to be a significant deficiency.

Independent Auditors' 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 Lee 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lee County Judge/Executive's Responses to Findings

Lee County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. Lee County Judge/Executive'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.

Morgan - Franklin, LLC

Morgan-Franklin, LLC
West Liberty, Kentucky

February 8, 2016

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2015

MATERIAL WEAKNESS

2015-001 The Fiscal Court Lacks Adequate Internal Controls Over Credit Cards

Condition: While performing our disbursement testing, we noted the following:

- The County has three (3) credit accounts but only utilizes one (1) on a regular basis by multiple cardholders. We haphazardly selected the month of January 2015 to test.

While performing our credit card testing, we noted the following:

- One (1) instance where there was insufficient documentation to support the expenditures.
- Two (2) instances in which there was no supporting documentation for the disbursement.
- Four (4) instances where tips were paid at restaurants totaling \$51.
- We reviewed the credit card invoices paid in January, 2015 and found one (1) instance where an employee charged personal expenditures to a credit card. Subsequently this employee provided a personal check made payable to the credit card provider to cover the cost of these expenses. As follow up we scanned the remaining credit card statements for the fiscal year. We found an additional four (4) instances for the same employee and one (1) instance for a different employee in which a credit card was used to charge personal expenditures. The total amount of all charges noted for personal expenditures was \$4,705. In all instances the employee submitted personal checks written to the credit card provider for the full amounts charged.

Criteria:

- Claims/Invoices should have sufficient documentation to support expenditures.
- Tips for meals are not an allowable cost.
- Employees should not use the County's credit cards to charge personal expenses.

Effect:

- Insufficient documentation for vendor claims could result in the Fiscal Court making errors in payments to vendor claims.
- The County had employees using the Fiscal Court's credit cards to charge personal expenses with the potential to avoid paying sales tax as the County is Tax Exempt.

Cause: Lack of adequate internal controls over credit card purchases.

Recommendation: We recommend purchases only be made on the credit card if they are a reasonable and allowable expense of the County. We further recommend that sufficient documentation is obtained to support all expenditures. We also recommend that the Fiscal Court advise employees who have access to the Court's credit cards that they are not to be utilized for charging personal expenditures.

Lee County Judge/Executive's Response: Will correct

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)**

SIGNIFICANT DEFICIENCY

2015-002 The Fiscal Court Lacks Adequate Internal Controls Over Payroll

Condition: During our testing of payroll, we tested twenty (20) employees and we noted the following:

- Four (4) employees, as of their tested paycheck, have accrued vacation hours in excess of their allowable maximum, per the County's administrative code.
- Of the twenty (20) employees pay checks tested, eleven (11) accrued totals for sick and vacation time did not match the accrued totals on the Employee Leave Benefits History detail report.

Criteria:

- Leave balance reports should be maintained by the payroll administrator and include the total of sick and vacation leave accrued and used for each employee.
- Per the County's current administrative code, "Vacation time shall not be accumulated in excess of two (2) regular full-time workweeks based on a forty (40) hour workweek beginning the second calendar year of full-time employment. After ten (10) years of continuous employment an employee shall accumulate three (3) regular full-time workweeks based on a forty (40) hour workweek..."

Effect:

- Misappropriation of sick and vacation leave balances or misappropriation of employee wages could occur and not be detected and corrected on a timely basis.
- Misappropriation of public funds could occur.

Cause: Lack of internal controls over payroll processing.

Recommendation: We recommend the Fiscal Court reevaluate their controls over payroll to determine the controls that would best address the findings listed under the condition section above. The Fiscal Court may determine the controls listed above under the criteria section are adequate or may decide to implement other controls to eliminate such internal control weaknesses in the future.

Lee County Judge/Executive's Response: The Fiscal Court has no liability beyond 80 hours annual time by termination of the employee. As stated in the Admin code – sick leave is not compensated @ termination

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

LEE COUNTY FISCAL COURT

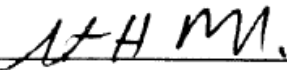
**For The Fiscal Year Ended
June 30, 2015**

Appendix A

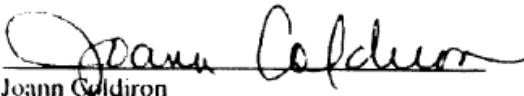
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LEE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

Lee 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.



Steven May
County Judge/Executive



Joann Calderon
County Treasurer