

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

**For The Fiscal Year Ended
June 30, 2018**

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To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum, III, Secretary
Finance and Administration Cabinet
Honorable Charles Caudill, Jr., Lee County Judge/Executive
Honorable Steve Mays, Former Lee County Judge/Executive
Members of the Lee 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 Lee County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the 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. 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 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 the Lee County Fiscal Court as of June 30, 2018, 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 Lee County Fiscal Court as of June 30, 2018, 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 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 as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2019 on our consideration of the 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 discuss the following report findings:

- 2018-001 The Fiscal Court Lacks Adequate Internal Controls Over Payroll
- 2018-002 The Fiscal Court Lacks Adequate Internal Controls Over Credit Card Purchases
- 2018-003 The Fiscal Court Lacks Adequate Internal Controls Over Fuel Purchases
- 2018-004 The Fiscal Court Lacks Adequate Oversight Over Agreements With Other Entities

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky

August 27, 2019

LEE COUNTY OFFICIALS

For The Year Ended June 30, 2018

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
Tyler Phillips	Circuit Court Clerk
Wendell Childers, Jr.	Sheriff
Elizabeth Roach	Property Valuation Administrator
Joshua Hagan	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, 2018

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

For The Year Ended June 30, 2018

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,544,815	\$ 26,891	\$
In Lieu Tax Payments	53,094	19,993	
Excess Fees	6,864		
Licenses and Permits	20,221		
Intergovernmental	376,109	1,152,470	81,718
Charges for Services	4,780		
Miscellaneous	106,823	284,686	181
Interest	1,289	4,286	3
Total Receipts	<u>2,113,995</u>	<u>1,488,326</u>	<u>81,902</u>
DISBURSEMENTS			
Current:			
General Government	1,023,324		
Protection to Persons and Property	282,854		429,612
General Health and Sanitation	32,931		
Social Services	46,503		
Recreation and Culture	65,847		
Roads		1,310,636	
Debt Service	18,873	497,036	
Capital Projects	18,500		
Administration	403,841	159,222	16,750
Total Disbursements	<u>1,892,673</u>	<u>1,966,894</u>	<u>446,362</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	221,322	(478,568)	(364,460)
Other Adjustments to Cash (Uses)			
Leasing Receipts		463,702	
Transfers From Other Funds	217,500	78,271	365,000
Transfers To Other Funds	(330,771)	(200,000)	
Total Other Adjustments to Cash (Uses)	<u>(113,271)</u>	<u>341,973</u>	<u>365,000</u>
Net Change in Fund Balance	108,051	(136,595)	540
Fund Balance - Beginning (Restated)	225,413	175,845	2,679
Fund Balance - Ending	<u>\$ 333,464</u>	<u>\$ 39,250</u>	<u>\$ 3,219</u>
Composition of Fund Balance			
Bank Balance	\$ 339,913	\$ 42,423	\$ 3,702
Plus: Deposits in Transit	2,000		
Less: Outstanding Checks	<u>8,449</u>	<u>3,173</u>	<u>483</u>
Fund Balance - Ending	<u>\$ 333,464</u>	<u>\$ 39,250</u>	<u>\$ 3,219</u>

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, 2018
(Continued)

	Budgeted Funds			
	Local Government Economic Assistance Fund	Ambulance Fund	Solid Waste Fund	Total Funds
RECEIPTS				
Taxes	\$	\$	\$	\$ 1,571,706
In Lieu Tax Payments				73,087
Excess Fees				6,864
Licenses and Permits				20,221
Intergovernmental	197,169	22,038	33,453	1,862,957
Charges for Services		792	522,989	528,561
Miscellaneous		800	4,200	396,690
Interest	1	2	9	5,590
Total Receipts	197,170	23,632	560,651	4,465,676
DISBURSEMENTS				
Current:				
General Government				1,023,324
Protection to Persons and Property		11,460		723,926
General Health and Sanitation			391,488	424,419
Social Services				46,503
Recreation and Culture				65,847
Roads	62,398		3,004	1,376,038
Debt Service		37,320	74,789	628,018
Capital Projects				18,500
Administration			72,602	652,415
Total Disbursements	62,398	48,780	541,883	4,958,990
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	134,772	(25,148)	18,768	(493,314)
Other Adjustments to Cash (Uses)				
Leasing Receipts				463,702
Transfers From Other Funds	17,500			678,271
Transfers To Other Funds	(147,500)			(678,271)
Total Other Adjustments to Cash (Uses)	(130,000)			463,702
Net Change in Fund Balance	4,772	(25,148)	18,768	(29,612)
Fund Balance - Beginning (Restated)	735	25,148	72,390	502,210
Fund Balance - Ending	\$ 5,507	\$ 0	\$ 91,158	\$ 472,598
Composition of Fund Balance				
Bank Balance	\$ 18,259	\$	\$ 92,016	\$ 496,313
Plus: Deposits in Transit				2,000
Less: Outstanding Checks	12,752		858	25,715
Fund Balance - Ending	\$ 5,507	\$ 0	\$ 91,158	\$ 472,598

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, 2018

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 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, 2018
(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 a state grant and management agreement fees.

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.

E. 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).

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. 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

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 Ventures

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 are considered joint ventures of Lee County Fiscal Court: Three Forks Regional Jail and Multi-County Regional Board, Inc.

Three Forks Regional Jail

On October 6, 2000, the Counties of Lee, Owsley and Wolfe (the participating counties) entered into an Inter-local 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 inter-local 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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Venture (Continued)

Three Forks Regional Jail (Continued)

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.

Multi-County Recreational Board, Inc.

On May 14, 2013 the Counties of Estill, Lee, Powell and Wolfe (the participating counties) entered in to an Inter-local Cooperation Agreement in order to jointly provide for recreational, economic development, alternative transportation, environmental, safety and quality of life resources in the communities. The Multi-County Recreational Board, Inc. entered into two (2) leases for land to establish a Multi-County ATV Park, the first lease is for 400 acres at a price of \$12,198 annually; the second lease is for 2023 acres of land at a price of \$61,502 annually. Lee County is responsible for one-fourth of the annual payments, totaling \$18,425 for the two leases. The Multi-County Recreational Board, Inc. has the option to purchase the property after seven (7) years with 100% of the rental payments applied to the purchase price.

The costs associated with the implementation of the authorities outlined in the agreement are to be borne as follows: Participating government jurisdictions will pay a fee of \$500 on January 1st of each year to cover the direct costs. All indirect costs associated with a specific jurisdiction will be paid by the local government whose project or program is directly benefited. Any matching of grants or funding will be borne by the jurisdiction or jurisdictions that the funds will benefit; if the grant funds are for the entire membership a pro-rata determination for the match will be decided by membership before the funds are requested. The Recreational Board has the right to apply reasonable charges or fees and the selling of recreational permits for funding and maintenance of the projects within the adopted Multi-County Recreational Board Development Plan.

The Multi-County Recreational Board, Inc. is comprised of a twelve member board of directors. Each of the participating counties appoints three members to 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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(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 41.240(4). As of June 30, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Long-term Debt

A. 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. As of June 30, 2018, the principal was paid in full.

B. 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, 2018 was \$20,995. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2019	\$ 20,995	\$ 148
Totals	\$ 20,995	\$ 148

C. Trucks – Financing Obligation

In May 2016, Lee County Fiscal Court entered into a financing obligation agreement for \$277,858 with the Kentucky Association of Counties to purchase Mack trucks. The county purchased heavy trucks to use for eighteen months; then the trucks are to be sold at auction. The terms of the agreement stipulate an eighteen month repayment schedule, with principal and interest due in October 2018 at an interest rate of 3.8 percent. As of June 30, 2018, the principal was paid in full.

D. Trucks – Financing Obligation

In April 2018, Lee County Fiscal Court entered into a financing obligation agreement for \$285,938 with the People's Exchange Bank, Inc. to purchase Mack trucks. The county purchased heavy trucks to use for eighteen months; then the trucks are to be sold at auction. The terms of the agreement stipulate an eighteen month repayment schedule, with principal and interest due in June 2019 at an interest rate of 3.75 percent. The outstanding principal as of June 30, 2018 was \$285,894. Future lease principal and interest requirements are:

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 3. Long-term Debt (Continued)

D. Trucks – Financing Obligation (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 285,894	\$ 12,689
Totals	<u>\$ 285,894</u>	<u>\$ 12,689</u>

E. Rear Loader with Attachments and Accessories – Financing Obligation

In June 2016, Lee County Fiscal Court entered into a financing obligation agreement for \$145,301 with TCF Equipment Finance to purchase of a rear loader with attachments and accessories. The terms of the agreement stipulate a forty-eight month repayment schedule with an interest rate of 2.94 percent fixed rate and variable monthly payments to end on May 4, 2020. The outstanding principal as of June 30, 2018 was \$71,758. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	36,932	1,612
2020	<u>34,826</u>	<u>513</u>
Totals	<u>\$ 71,758</u>	<u>\$ 2,125</u>

F. Bridge Repair – Financing Obligation

In May 2016, Lee County Fiscal Court entered into a lease agreement for \$490,000 with the Kentucky Association of Counties Leasing Trust Program to repair a bridge. The terms of the agreement stipulate a two-year repayment schedule of yearly principal and interest payments with variable interest rates to end on May 20, 2018. The outstanding principal as of June 30, 2018 was \$99,366. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	<u>\$ 99,366</u>	<u>\$ 5,823</u>
Totals	<u>\$ 99,366</u>	<u>\$ 5,823</u>

G. Ambulance – Financing Obligation

In August 2015, Lee County Fiscal Court entered into a financing obligation agreement for \$162,212 with People's Exchange Bank to purchase two ambulances. The terms of the agreement stipulate a sixty-month repayment schedule with an interest rate of 2.95 percent fixed rate and variable monthly payments to end on August 21, 2020. The outstanding principal as of June 30, 2018 was \$71,011. Future principal and interest requirements are:

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 3. Long-term Debt (Continued)

G. Ambulance – Financing Obligation (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 30,965	\$ 1,739
2020	34,239	733
2021	5,807	22
Totals	<u>\$ 71,011</u>	<u>\$ 2,494</u>

H. Trucks with Salt Spreading Attachments – Financing Obligation

In January, 2016, Lee County Fiscal Court entered into a financing obligation agreement for \$78,500 with People's Exchange Bank to purchase Dodge trucks. The terms of the agreement stipulate a thirty-six month repayment schedule of monthly principal and interest to end on January 28, 2019 with an interest rate of 3.25 percent. The outstanding principal as of June 30, 2018 was \$15,876. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 15,876	\$ 176
Totals	<u>\$ 15,876</u>	<u>\$ 176</u>

I. Courthouse Repairs – Financing Obligation

In October 2016, Lee County Fiscal Court entered into a lease agreement for \$80,000 with the Kentucky Association of Counties Leasing Trust Program for courthouse repairs. The terms of the agreement stipulate a sixty month repayment schedule of yearly principal and interest payments with variable interest rates to end on October 2021. The outstanding principal as of June 30, 2018 was \$55,062. Future lease principal and interest requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 15,737	\$ 2,852
2020	16,393	1,903
2021	17,081	904
2022	5,851	74
Totals	<u>\$ 55,062</u>	<u>\$ 5,733</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 3. Long-term Debt (Continued)

J. Grader – Financing Obligation

On March 14, 2018, Lee County Fiscal Court entered into a financing obligation agreement for \$177,808 with the Kentucky Association of Counties to purchase a grader. The terms of the agreement stipulate a sixty month repayment schedule of monthly principal and interest payments with fixed interest rate of 3.68% to end in March 2023. The outstanding principal as of June 30, 2018 was \$168,918. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 35,562	\$ 6,496
2020	35,562	4,975
2021	35,562	3,455
2022	35,561	1,948
2023	26,671	473
Totals	<u>\$ 168,918</u>	<u>\$ 17,347</u>

K. Long-term Debt Maturity in the Aggregate

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 541,327	\$ 31,535
2020	121,020	8,124
2021	58,450	4,381
2022	41,412	2,022
2023	26,671	473
Totals	<u>\$ 788,880</u>	<u>\$ 46,535</u>

L. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Financing Obligations	\$ 916,602	\$ 463,702	\$ 591,424	\$ 788,880	\$ 541,327
Total Long-term Debt	<u>\$ 916,602</u>	<u>\$ 463,702</u>	<u>\$ 591,424</u>	<u>\$ 788,880</u>	<u>\$ 541,327</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 4. 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 that 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 the FY 2016 was \$284,633, the FY 2017 was \$216,125, and the FY 2018 was \$217,174.

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 account. 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.

The county's contribution rate for nonhazardous employees was 19.18 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage – Tier 1

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:

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%

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 4. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage – Tier 1

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

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage – Tier 2 and Tier 3 – Nonhazardous

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. The dollar amount is subject to adjustment annually by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

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

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments – Tier 1

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

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

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

E. Death Benefit

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 4. Employee Retirement System (Continued)

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 5. Insurance

For the fiscal year ended June 30, 2018, 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. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 6. Related Party Transactions

The following are relate party transactions paid by the county:

- \$1,680 to a catering company owned by a magistrate to cater the Christmas dinner.
- \$100 to the son of a magistrate to provide the sound system for county functions.
- \$1,978 for repairs on county vehicles to a company owned by the son of a magistrate.

Note 7. Transfers

The table below shows the interfund operating transfers for fiscal year 2018.

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 200,000	\$ 17,500	\$ 217,500
Road Fund	78,271			78,271
Jail Fund	235,000		130,000	365,000
LGEA Fund	17,500			17,500
Total Transfers Out	<u>\$ 330,771</u>	<u>\$ 200,000</u>	<u>\$ 147,500</u>	<u>\$ 678,271</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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 8. Subsequent Events

Subsequent events have been evaluated through August 29, 2019, which is the date the financial statements were available to be issued. Subsequent to June 30, 2018, the Lee County Fiscal Court reached a settlement agreement in a civil action filed by the United States to pay \$236,695 in Medicare reimbursement for transports deemed non-emergency. The reimbursement will be made in seven equal payments of \$33,814 beginning in March 2019.

Note 9. Prior Period Adjustment

General Fund Balance – Beginning as previously reported has been restated and increased by \$578 for a prior year voided check.

Solid Waste Fund Balance – Beginning as previously reported has been restated and increased by \$22 for a prior year voided check.

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

For The Year Ended June 30, 2018

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,304,300	\$ 1,354,300	\$ 1,544,815	\$ 190,515
In Lieu Tax Payments	32,800	32,800	53,094	20,294
Excess Fees	12,351	12,351	6,864	(5,487)
Licenses and Permits	20,000	20,000	20,221	221
Intergovernmental	309,046	391,746	376,109	(15,637)
Charges for Services	5,000	5,000	4,780	(220)
Miscellaneous	51,528	51,528	106,823	55,295
Interest	30	30	1,289	1,259
Total Receipts	1,735,055	1,867,755	2,113,995	246,240
DISBURSEMENTS				
General Government	885,844	1,061,207	1,023,324	37,883
Protection to Persons and Property	252,814	303,212	282,854	20,358
General Health and Sanitation	26,300	33,706	32,931	775
Social Services	38,750	49,452	46,503	2,949
Recreation and Culture	41,133	71,158	65,847	5,311
Debt Service	18,875	18,956	18,873	83
Capital Projects	18,500	18,500	18,500	0
Administration	444,800	414,525	403,841	10,684
Total Disbursements	1,727,016	1,970,716	1,892,673	78,043
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	8,039	(102,961)	221,322	324,283
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	121,729	121,729	217,500	95,771
Transfers To Other Funds	(243,590)	(243,590)	(330,771)	(87,181)
Total Other Adjustments to Cash (Uses)	(121,861)	(121,861)	(113,271)	8,590
Net Change in Fund Balance	(113,822)	(224,822)	108,051	332,873
Fund Balance - Beginning (Restated)	113,822	224,822	225,413	591
Fund Balance - Ending	\$ 0	\$ 0	\$ 333,464	\$ 333,464

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$	\$ 26,891	\$ 26,891	\$ 0
In Lieu Tax Payments	20,000	20,000	19,993	(7)
Intergovernmental	1,231,198	1,392,847	1,152,470	(240,377)
Miscellaneous	280,600	280,600	284,686	4,086
Interest	100	100	4,286	4,186
Total Receipts	1,531,898	1,720,438	1,488,326	(232,112)
DISBURSEMENTS				
Roads	783,713	1,490,830	1,310,636	180,194
Debt Service	591,204	587,145	497,036	90,109
Administration	175,252	160,269	159,222	1,047
Total Disbursements	1,550,169	2,238,244	1,966,894	271,350
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(18,271)	(517,806)	(478,568)	39,238
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			78,271	78,271
Transfers To Other Funds	(121,729)	(121,729)	(200,000)	(78,271)
Leasing Receipts		463,701	463,702	1
Total Other Adjustments to Cash (Uses)	(121,729)	341,972	341,973	1
Net Change in Fund Balance	(140,000)	(175,834)	(136,595)	39,239
Fund Balance - Beginning	140,000	175,834	175,845	11
Fund Balance - Ending	\$ 0	\$ 0	\$ 39,250	\$ 39,250

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 66,912	\$ 78,912	\$ 81,718	\$ 2,806
Miscellaneous			181	181
Interest	10	10	3	(7)
Total Receipts	66,922	78,922	81,902	2,980
DISBURSEMENTS				
Protection to Persons and Property	423,812	436,499	429,612	6,887
Administration	18,700	18,013	16,750	1,263
Total Disbursements	442,512	454,512	446,362	8,150
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(375,590)	(375,590)	(364,460)	11,130
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	373,590	373,590	365,000	(8,590)
Total Other Adjustments to Cash (Uses)	373,590	373,590	365,000	(8,590)
Net Change in Fund Balance	(2,000)	(2,000)	540	2,540
Fund Balance - Beginning	2,000	2,000	2,679	679
Fund Balance - Ending	\$ 0	\$ 0	\$ 3,219	\$ 3,219

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 129,890	\$ 196,890	\$ 197,169	\$ 279
Interest	10	10	1	(9)
Total Receipts	129,900	196,900	197,170	270
DISBURSEMENTS				
Roads		67,000	62,398	4,602
Total Disbursements		67,000	62,398	4,602
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	129,900	129,900	134,772	4,872
Other Adjustments to Cash (Uses)				
Transfers from Other Funds			17,500	17,500
Transfers to Other Funds	(130,000)	(130,000)	(147,500)	(17,500)
Total Other Adjustments to Cash (Uses)	(130,000)	(130,000)	(130,000)	0
Net Change in Fund Balance	(100)	(100)	4,772	4,872
Fund Balance - Beginning	100	100	735	635
Fund Balance - Ending	\$ 0	\$ 0	\$ 5,507	\$ 5,507

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 41,160	\$ 41,160	\$ 22,038	\$ (19,122)
Charges For Services	100	100	792	692
Miscellaneous			800	800
Interest	10	10	2	(8)
Total Receipts	41,270	41,270	23,632	(17,638)
DISBURSEMENTS				
Protection to Persons and Property	21,120	21,120	11,460	9,660
Debt Service	39,150	39,150	37,320	1,830
Administration	1,000	1,000		1,000
Total Disbursements	61,270	61,270	48,780	12,490
Net Change in Fund Balance	(20,000)	(20,000)	(25,148)	(5,148)
Fund Balance - Beginning	20,000	20,000	25,148	5,148
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$ 29,453	\$ 33,453	\$ 4,000
Charges for Services	518,400	518,400	522,989	4,589
Miscellaneous	200	200	4,200	4,000
Interest	20	20	9	(11)
Total Receipts	518,620	548,073	560,651	12,578
DISBURSEMENTS				
General Health and Sanitation	382,740	411,269	391,488	19,781
Roads		3,005	3,004	1
Debt Service	74,789	74,797	74,789	8
Administration	88,238	86,149	72,602	13,547
Total Disbursements	545,767	575,220	541,883	33,337
Net Change in Fund Balance	(27,147)	(27,147)	18,768	45,915
Fund Balance - Beginning (Restated)	27,147	27,147	72,390	45,243
Fund Balance - Ending	\$ 0	\$ 0	\$ 91,158	\$ 91,158

LEE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION – BUDGETARY COMPARISON SCHEDULES

June 30, 2018

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, 2018

LEE COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information – Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 347,211	\$	\$	\$ 347,211
Construction In Progress	34,446			34,446
Land Improvements	362,083			362,083
Buildings and Building Improvements	3,261,318			3,261,318
Vehicles and Equipment	3,653,790	218,469	149,145	3,723,114
Infrastructure	7,426,808	182,582		7,609,390
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 15,085,656</u>	<u>\$ 401,051</u>	<u>\$ 149,145</u>	<u>\$ 15,337,562</u>

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

June 30, 2018

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

In 2006, the fiscal court amended the policy so items could also be added to the schedule of capital assets regardless of the cost of an item or group of items that the court wants to track for inventory.

Note 2. Construction in Progress

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

**INDEPENDENT AUDITOR'S 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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The Honorable Charles Caudill, Jr., Lee County Judge/Executive
Members of Lee County Fiscal Court

Independent Auditor's 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 the Lee County Fiscal Court for the year ended June 30, 2018, and the related notes to the financial statement, which collectively comprise the Lee County Fiscal Court's financial statement and have issued our report thereon dated August 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the 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 the Lee County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lee County Fiscal Court's internal control.

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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying comments and recommendations as items 2018-001, 2018-002, 2018-003, and 2018-004 that we consider to be material weaknesses.

Independent Auditor's 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 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 Standard*.

Lee County Judge/Executive's Responses to Findings

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

Morgan and Associates, LLC
West Liberty, Kentucky

August 27, 2019

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2018**

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2018

MATERIAL WEAKNESSES

2018-001 The Fiscal Court Lacks Adequate Internal Controls Over Payroll

Condition: This is a repeat finding and was included in the prior year audit report as finding 2017-002.

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

- The approved salary schedule was not updated as increases to existing wages were made and/or new employees were added
- Four (4) instances in which employees did not have a time sheet.
- One (1) instance in which a supervisor signed their own time sheet.
- One (1) instance, while the information agreed to the pay stub tested, the time sheet was not dated.
- One (1) instance in which there was no statement on record indicating a magistrate worked 100 hours per month to participate in retirement.
- One (1) instance in which it could not be determined whether an employee worked the required 100 hours per month to participate in retirement.
- One (1) instance in which the gross salary was less than the amount on the approved salary schedule.

Criteria:

- Pursuant to KRS 337.320 (1), Every employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.
- Good internal controls would dictate that an employee does not sign their own time sheet. The judge/executive should be signing the time sheets of all supervisors.
- Employees working on average greater than 100 hours per month should participate in county retirement; conversely, employees not working on average greater than 100 hours per month should not participate in county retirement. An employee will work more than 100 hours on average when they consistently work 23.07 hours per week (1200 hours/52 weeks) or 46.15 bi-weekly (1200 hours/26 weeks).
- Although no time sheet is required for elected officials, when an elected official participates in the county employee retirement system it should be documented that the elected official worked on average 100 hours per month on county business. This could be documented by creating a form that states, "I have worked on county business on average 100 hours or greater for the month ended (month)."

Effect:

- Employees are receiving benefits when they are not eligible or are not receiving benefits when they are eligible.
- Paychecks are being paid without proper authorization.
- Employees are being paid without presenting a time sheet as required by Kentucky Revised Statutes.

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2018

MATERIAL WEAKNESSES (Continued)

2018-001 The Fiscal Court Lacks Adequate Internal Controls Over Payroll (Continued)

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: Judge Exec., Chief Financial Officer, and Asst Treasurer implemented spot checks and have added redundancy to the monitoring of payroll preparation

2018-002 The Fiscal Court Lacks Adequate Internal Controls Over Credit Card Purchases

Condition: This is a repeat finding and was included in the prior year audit report as finding 2017-003.

We reviewed all credit card transactions for the FY 2018 and noted the following:

- Transactions for personal purchases. (These purchases were paid by personal check or money order made out to the credit card company and not a reimbursement to the fiscal court.)
- Meal tickets showed only the total of the purchase with no indication of how many people were served, who was served, etc. No determination could be made whether the expense was allowable or the responsibility of the fiscal court. Several meal tickets were over \$100 in total.
- Supporting documentation was missing or inadequate.
- State taxes were paid on some invoices

Criteria: KRS 68.275 requires "The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid".

Also, good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained including any additional supporting documentation and agreed to the corresponding purchase order and reports. Supporting documentation should be such that determination of fiscal court responsibility for a transaction can readily be made.

State tax should not be made on disbursements as the fiscal court is tax exempt.

The fiscal court should not allow personal purchases to be made with the credit card. Good internal controls dictate the card be maintained in a central locked location for use only when deemed necessary for allowable transactions.

Effect: Credit card statement claims tested lacked itemized invoices/receipts. There is not always sufficient documentation to determine if a charge is a valid fiscal court expense. In addition, without proper documentation fraudulent charges could occur and not be detected.

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2018

MATERIAL WEAKNESSES (Continued)

**2018-002 The Fiscal Court Lacks Adequate Internal Controls Over Credit Card Purchases
(Continued)**

Cause: Lack of oversight by the fiscal court over the use of credit cards allowed the officials to make charges that did not meet a public purpose for the county. Credit card statements without proper supporting documentation are being submitted to fiscal court for payment. Fiscal court is approving payment of the credit card bills without proper supporting documentation. It appears there is not enough oversight by those involved in preparing and approving the claims.

Recommendation: The Fiscal Court must apply best practices when exercising its fiduciary responsibility to act as agents of the public trust. We also recommend that the Fiscal Court have more control of credit card usage and require documentation of the reason the card was used with supporting documentation attached. We further recommend fiscal court not approve payment of any claims that lack sufficient supporting documentation or original invoices. We remind the fiscal court that use of credit cards is a convenience only, and without adequate oversight, does create greater opportunity for fraud to occur.

Lee County Judge/Executive's Response: Individual credit cards have been reduced to one. All travel and lodging and expenses are reviewed by Asst Treasurer and Judge and all users are trained with KRS rules.

2018-003 The Fiscal Court Lacks Adequate Internal Controls Over Fuel Purchases

Condition: This is a repeat finding and was included in the prior year audit report as finding 2017-004.

The fiscal court lacks controls over fuel purchases. Receipts are not maintained for fuel purchased. The fiscal court utilizes a 3rd party fuel purchasing system, but does not follow the procedures for fuel purchases the system is designed to monitor. The fiscal court receives a monthly invoice from the vendor used for purchasing fuel with each vehicle assigned an individual card. These invoices list each person purchasing fuel along with the vehicle mileage, quantity, and price. We tested one month's invoice of detailed fuel purchasing activities and noted the following issues regarding fuel purchases:

- Fuel card users routinely did not list the accurate vehicle mileage when purchasing fuel.
- Several instances a higher grade of fuel than necessary was purchased.
- One instance in which two purchases were made with the same 12 hour period with the card assigned to a particular vehicle.
- One instance of diesel fuel and gasoline purchased with a card assigned to the same vehicle.
- Credit card limit appears excessive.
- No receipts were maintained for purchases.

Criteria: Good internal controls over fuel purchases require the fiscal court to ensure that adequate documentation is maintained to support the disbursement, which includes the odometer readings for all vehicles, the person purchasing the fuel, and a receipt of each transaction. Strong internal controls over the current fuel card system would specify that cards only used for the vehicle assigned. This creates accountability for each user of the fuel cards.

Lowering the credit card limit would serve to reduce the risk of fraud.

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2018

MATERIAL WEAKNESSES (Continued)

2018-003 The Fiscal Court Lacks Adequate Internal Controls Over Fuel Purchases (Continued)

Effect: Without proper documentation of these fuel purchases by vehicle unit number and by the assigned employee, the risk of fuel being purchased for personal use or by unauthorized users greatly increases. Fraud could occur and not be detected in a timely manner.

Cause: The fiscal court did not have controls in place to adequately monitor fuel purchases.

Recommendations: We recommend the fiscal court properly use this third party fuel purchasing system and ensure that all fuel purchases are properly supported by proper documentation, which includes accurate odometer readings and designation of proper vehicle unit numbers. We also recommend the fiscal court review and reconcile the third party fuel reports monthly to note any employees not following proper fuel purchase procedures.

Lee County Judge/Executive's Response: Deputy Judge, EMA Director, Road Supervisor or Judge Executive will review purchases weekly for inconsistencies.

2018-004 The Fiscal Court Lacks Adequate Oversight Over Agreements With Other Entities

Condition: During our audit, we noted the fiscal court has entered into agreements/contracts with other entities; two (2) in particular, the Kentucky Mountain Mission of Eastern Kentucky, Inc. (Mountain Mission) and McIntosh Ambulance Service, Inc.

We were provided a copy of a rental agreement that the fiscal court entered into in January 2004 with the Mountain Mission to rent the Lee County Farm Cooperative Building owned by the fiscal court. The length of the agreement is for five (5) ten-year periods for a total of fifty (50) years. Terms of the agreement were \$0 rent for three (3) years (2004-2006); \$300 per month for the next seven (7) years (2007-2013); \$500 per month for the next ten years (2014-2023); and rent is to increase \$200 per month in each of the next ten-year periods. The Mountain Mission has never paid rent in accordance with the agreement. At June 30, 2018, the Mountain Mission owes rent for seven (7) years/84 months * \$300 or \$25,200 and four and one half (4 ½) years/54 months * \$500 or \$27,000 for a total of 52,200. Also according to the contract, the Mountain Mission is responsible for liability insurance on the building. No proof of insurance was provided at our request.

We were provided a copy of an agreement between McIntosh Ambulance Service, Inc. (McIntosh) and the fiscal court entered into in July 2017, an extension of a previous agreement. Terms of the agreement are summarized as follows:

- The agreement is for five (5) years.
- The fiscal court will provide and insure three (3) ambulances for McIntosh to use. McIntosh will pay a monthly fee of \$3,887 to cover the cost of purchasing two Mercedes ambulances. Once the debt service is complete the fee will be reduced to the monthly cost of insurance.
- McIntosh will provide the fiscal court with a Certificate of Insurance (general and professional liability).
- McIntosh will provide adequate documentation that payroll, Work's Comp, unemployment, and any other insurance, tax or other assessment required by governmental or regulatory agency has been paid.

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2018

MATERIAL WEAKNESSES

**2018-004 The Fiscal Court Lacks Adequate Oversight Over Agreements With Other Entities
(Continued)**

Condition (Continued): At June 30, 2018, McIntosh owed the fiscal court nine (9) months * \$3,887 or \$34,983 in monthly payments. Further, we inquired as to the required information listed above. We were not provided with a copy of any of the required information.

Criteria: Good internal controls would dictate that proper oversight be given when agreements are entered into. For an agreement to be beneficial to both parties, both parties must adhere to their part of the agreement.

Per KRS 65,710, agreements with ambulance services can only be for one year.

Effect: Failure to uphold the terms of an agreement could cause loss of property, loss of revenue, legal liability, etc.

Cause: The fiscal court lacks oversight of agreements with other entities.

Recommendation: We recommend the fiscal court take steps to bring agreements with other entities into compliance.

Lee County Judge/Executive's Response: Judge Executive will review and renegotiate contracts with entities and establish an annual review.

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

LEE COUNTY FISCAL COURT

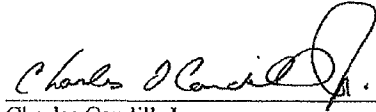
**For The Fiscal Year Ended
June 30, 2018**

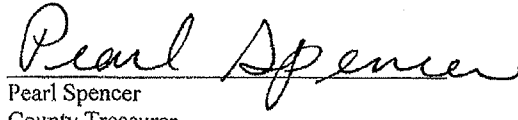
Appendix A

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

For The Fiscal Year Ended June 30, 2018

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.


Charles Caudill, Jr.
County Judge/Executive


Pearl Spencer
County Treasurer