

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

**For The Fiscal Year Ended  
June 30, 2019**

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To the People of Kentucky  
Honorable Andy Beshear, Governor  
Holly McCoy-Johnson, 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, 2019, 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, 2019, 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, 2019, 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 (other information) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

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

To the People of Kentucky

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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 14, 2020 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 the 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:

- 2019-001 The Fiscal Court Lacks Adequate Oversight Over An Agreement With Another Agency
- 2019-002 The Fiscal Court Lacks Adequate Internal Controls Over Fuel Purchases
- 2019-003 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements

*Morgan and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky

August 14, 2020

## LEE COUNTY OFFICIALS

For The Year Ended June 30, 2019

### Fiscal Court Members:

Steve Mays	Former County Judge/Executive (7/1 - 12/31/2018)
Charles Caudill, Jr.	County Judge/Executive (1/1 - 6/30/2019)
Tim Brandenburg	Former Magistrate (7/1 - 12/31/2018)
Ronnie Begley	Magistrate (1/1 - 6/30/2019)
Dean Noe	Magistrate
Leonard Carl Ross	Former Magistrate (7/1 - 12/31/2018)
Harvey Pelfrey	Magistrate (1/1 - 6/30/2019)
Everett Lee Marshall	Former Magistrate (7/1 - 12/31/2018)
Dennis Pelfrey	Magistrate (1/1 - 6/30/2019)

### Other Elected Officials:

Thomas Hollon	County Attorney
Corbett Dunaway	Jailer
Kimberly Noe	County Clerk
Brenda Shuller	Former Circuit Court Clerk (7/1 - 12/31/2018)
Tyler Phillips	Circuit Court Clerk (1/1 - 6/30/2019)
Wendell Childers	Sheriff
Elizabeth Roach	Property Valuation Administrator
Ray Shuler	Former Coroner (7/1 - 12/31/2018)
Timothy Fox	Coroner (1/1 - 6/30/2019)

### Appointed Personnel:

Jodi Coldiron	Former County Treasurer (7/1 - 12/31/2018)
Pearl Spencer	County Treasurer (1/1 - 6/30/2019)
Angie Williams	Assistant Treasurer

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

**For The Year Ended June 30, 2019**

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

**For The Year Ended June 30, 2019**

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
<b>RECEIPTS</b>			
Taxes	\$ 1,484,824	\$	\$
In Lieu Tax Payments	44,596	14,740	
Excess Fees	7,590		
Licenses and Permits	18,986		
Intergovernmental	547,755	1,307,735	94,908
Charges for Services	5,589		
Miscellaneous	132,496	271,040	
Interest	38	21	3
Total Receipts	<u>2,241,874</u>	<u>1,593,536</u>	<u>94,911</u>
<b>DISBURSEMENTS</b>			
Current:			
General Government	927,336		
Protection to Persons and Property	397,551		456,845
General Health and Sanitation	30,338		
Social Services	45,475		
Recreation and Culture	89,477		
Roads		1,126,233	
Debt Service	87,734	459,741	
Capital Projects	18,500		
Administration	387,417	160,854	24,029
Total Disbursements	<u>1,983,828</u>	<u>1,746,828</u>	<u>480,874</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	258,046	(153,292)	(385,963)
<b>Other Adjustments to Cash (Uses)</b>			
Leasing Receipts		291,894	
Transfers From Other Funds	476,209	400,000	383,120
Transfers To Other Funds	(560,400)	(476,209)	
Total Other Adjustments to Cash (Uses)	<u>(84,191)</u>	<u>215,685</u>	<u>383,120</u>
Net Change in Fund Balance	173,855	62,393	(2,843)
Fund Balance - Beginning	333,464	39,250	3,219
Fund Balance - Ending	<u>\$ 507,319</u>	<u>\$ 101,643</u>	<u>\$ 376</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 361,356	\$ 252,004	\$ 21,057
Plus: Deposits in Transit	161,175		
Less: Outstanding Checks	<u>(15,212)</u>	<u>(150,361)</u>	<u>(20,681)</u>
Fund Balance - Ending	<u>\$ 507,319</u>	<u>\$ 101,643</u>	<u>\$ 376</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, 2019**  
**(Continued)**

	<b>Budgeted Funds</b>		
	<b>Local Government Economic Assistance Fund</b>	<b>Solid Waste Fund</b>	<b>Total Funds</b>
<b>RECEIPTS</b>			
Taxes	\$	\$	\$ 1,484,824
In Lieu Tax Payments			59,336
Excess Fees			7,590
Licenses and Permits			18,986
Intergovernmental	217,387	20,689	2,188,474
Charges for Services		516,564	522,153
Miscellaneous		3,984	407,520
Interest		11	73
Total Receipts	217,387	541,248	4,688,956
<b>DISBURSEMENTS</b>			
Current:			
General Government			927,336
Protection to Persons and Property			854,396
General Health and Sanitation		371,184	401,522
Social Services			45,475
Recreation and Culture			89,477
Roads			1,126,233
Debt Service		59,690	607,165
Capital Projects			18,500
Administration		65,826	638,126
Total Disbursements		496,700	4,708,230
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	217,387	44,548	(19,274)
<b>Other Adjustments to Cash (Uses)</b>			
Leasing Receipts			291,894
Transfers From Other Funds			1,259,329
Transfers To Other Funds	(222,720)		(1,259,329)
Total Other Adjustments to Cash (Uses)	(222,720)		291,894
Net Change in Fund Balance	(5,333)	44,548	272,620
Fund Balance - Beginning	5,507	91,158	472,598
Fund Balance - Ending	\$ 174	\$ 135,706	\$ 745,218
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 174	\$ 135,720	\$ 770,311
Plus: Deposits in Transit			161,175
Less: Outstanding Checks		(14)	(186,268)
Fund Balance - Ending	\$ 174	\$ 135,706	\$ 745,218

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

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENT**

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**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2019**

**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, 2019**  
**(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.

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. 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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

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

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

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.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(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 1<sup>st</sup> 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, 2019**  
**(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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Long-term Debt**

**A. 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. As of June 30, 2019, the principal was paid in full.

**B. 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, 2019 was \$34,826. Future lease principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2020	\$ 34,826	\$ 513
Totals	<u>\$ 34,826</u>	<u>\$ 513</u>

**C. 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. As of June 30, 2019, the principal was paid in full.

**D. 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 an ambulance. 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, 2019 was \$37,770. Future principal and interest requirements are:

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 3. Long-term Debt (Continued)**

**D. Ambulance – Financing Obligation (Continued)**

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2020	\$ 34,239	\$ 733
2021	3,531	22
Totals	<u>\$ 37,770</u>	<u>\$ 755</u>

**E. Dodge 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. As of June 30, 2019, the principal was paid in full.

**F. Courthouse Repairs – Financing Obligation**

In October 2016, Lee County Fiscal Court entered into a lease agreement for \$80,000 with 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 in October 2021. The outstanding principal as of June 30, 2019 was \$39,325. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2020	\$ 16,393	\$ 1,903
2021	17,081	904
2022	5,851	74
Totals	<u>\$ 39,325</u>	<u>\$ 2,881</u>

**G. 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 a fixed interest rate of 3.68% to end in March 2023. The outstanding principal as of June 30, 2019 was \$133,356. Future lease principal and interest requirements are:



**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 3. Long-term Debt (Continued)**

**G. Grader – Financing Obligation (Continued)**

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2020	\$ 35,562	\$ 4,975
2021	35,562	3,455
2022	35,561	1,948
2023	<u>26,671</u>	<u>473</u>
Totals	<u>\$ 133,356</u>	<u>\$ 10,851</u>

**H. Trucks – Financing Obligation**

In June 2019, Lee County Fiscal Court entered into a financing obligation agreement for \$291,894 with the Citizens Bank & Trust to purchase Mack trucks. The county purchased heavy trucks to use for twelve months; then the trucks are to be sold at auction. The terms of the agreement stipulate a twelve month repayment schedule, with principal and interest due in June 2020 at an interest rate of 3.75 percent. The outstanding principal as of June 30, 2019 was \$291,894. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2020	\$ 291,894	\$ 10,833
Totals	<u>\$ 291,894</u>	<u>\$ 10,833</u>

**I. 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 month; 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 debt was paid in full as of June 30, 2019.

**J. Long-term Debt Maturity in the Aggregate**

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2020	\$ 412,914	\$ 18,957
2021	56,174	4,381
2022	41,412	2,022
2023	<u>26,671</u>	<u>473</u>
Totals	<u>\$ 537,171</u>	<u>\$ 25,833</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 3. Long-term Debt (Continued)**

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

Long-term Debt activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 788,879	\$ 291,894	\$ 543,602	\$ 537,171	\$ 412,914
Total Long-term Debt	<u>\$ 788,879</u>	<u>\$ 291,894</u>	<u>\$ 543,602</u>	<u>\$ 537,171</u>	<u>\$ 412,914</u>

**Note 4. Transfers**

The table below shows the interfund operating transfers for fiscal year 2019.

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 476,209	\$	\$ 476,209
Road Fund	400,000			400,000
Jail Fund	160,400		222,720	383,120
Total Transfers Out	<u>\$ 560,400</u>	<u>\$ 476,209</u>	<u>\$ 222,720</u>	<u>\$ 1,259,329</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 5. 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 2017 was \$216,125, the FY 2018 was \$217,174, and the FY 2019 was \$234,769.

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.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 5. Employee Retirement System (Continued)**

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 21.48 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:

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

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

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 5. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

*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.

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.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 6. Insurance**

For the fiscal year ended June 30, 2019, 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 7. Subsequent Events**

As of October 2019, Lee County Fiscal Court resumed operating an ambulance service. Before October 2019, a private owned company operated the ambulance service, borrowing funds from the fiscal court for payroll. A settlement was reached for repayment of the borrowed funds.

Subsequent events have been evaluated through August 14, 2020, which is the date the financial statements were available to be issued.

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

**For The Year Ended June 30, 2019**

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

**For The Year Ended June 30, 2019**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 1,379,300	\$ 1,379,300	\$ 1,484,824	\$ 105,524
In Lieu Tax Payments	32,800	32,800	44,596	11,796
Excess Fees	5,000	5,000	7,590	2,590
Licenses and Permits	20,000	20,000	18,986	(1,014)
Intergovernmental	382,536	409,211	547,755	138,544
Charges for Services	5,000	5,000	5,589	589
Miscellaneous	51,528	51,528	132,496	80,968
Interest	30	30	38	8
Total Receipts	1,876,194	1,902,869	2,241,874	339,005
<b>DISBURSEMENTS</b>				
General Government	977,485	1,047,634	927,336	120,298
Protection to Persons and Property	343,424	408,812	397,551	11,261
General Health and Sanitation	33,200	30,664	30,338	326
Social Services	38,750	47,164	45,475	1,689
Recreation and Culture	53,133	96,761	89,477	7,284
Debt Service	53,848	88,475	87,734	741
Capital Projects	18,500	18,500	18,500	0
Administration	455,320	407,045	387,417	19,628
Total Disbursements	1,973,660	2,145,055	1,983,828	161,227
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(97,466)	(242,186)	258,046	500,232
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	76,209	76,209	476,209	400,000
Transfers To Other Funds	(228,743)	(167,023)	(560,400)	(393,377)
Total Other Adjustments to Cash (Uses)	(152,534)	(90,814)	(84,191)	6,623
Net Change in Fund Balance	(250,000)	(333,000)	173,855	506,855
Fund Balance - Beginning	250,000	333,000	333,464	464
Fund Balance - Ending	\$ 0	\$ 0	\$ 507,319	\$ 507,319

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information – Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 5,000	\$ 5,000	\$ 14,740	\$ 9,740
Intergovernmental	1,222,873	1,384,522	1,307,735	(76,787)
Miscellaneous	275,600	275,600	271,040	(4,560)
Interest	100	100	21	(79)
Total Receipts	1,503,573	1,665,222	1,593,536	(71,686)
DISBURSEMENTS				
Roads	797,194	1,287,596	1,126,233	161,363
Debt Service	458,418	460,788	459,741	1,047
Administration	176,752	171,772	160,854	10,918
Total Disbursements	1,432,364	1,920,156	1,746,828	173,328
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	71,209	(254,934)	(153,292)	101,642
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			400,000	400,000
Transfers To Other Funds	(76,209)	(76,209)	(476,209)	(400,000)
Leasing Receipts		291,894	291,894	0
Total Other Adjustments to Cash (Uses)	(76,209)	215,685	215,685	0
Net Change in Fund Balance	(5,000)	(39,249)	62,393	101,642
Fund Balance - Beginning	5,000	39,249	39,250	1
Fund Balance - Ending	\$ 0	\$ 0	\$ 101,643	\$ 101,643



**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information – Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 71,912	\$ 89,912	\$ 94,908	\$ 4,996
Interest	10	10	3	(7)
Total Receipts	71,922	89,922	94,911	4,989
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	442,012	457,596	456,845	751
Administration	21,653	25,069	24,029	1,040
Total Disbursements	463,665	482,665	480,874	1,791
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(391,743)	(392,743)	(385,963)	6,780
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	389,743	389,743	383,120	(6,623)
Total Other Adjustments to Cash (Uses)	389,743	389,743	383,120	(6,623)
Net Change in Fund Balance	(2,000)	(3,000)	(2,843)	157
Fund Balance - Beginning	2,000	3,000	3,219	219
Fund Balance - Ending	\$ 0	\$ 0	\$ 376	\$ 376

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information – Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 160,890	\$ 217,210	\$ 217,387	\$ 177
Interest	10	10		(10)
Total Receipts	160,900	217,220	217,387	167
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(161,000)	(222,720)	(222,720)	0
Total Other Adjustments to Cash (Uses)	(161,000)	(222,720)	(222,720)	0
Net Change in Fund Balance	(100)	(5,500)	(5,333)	167
Fund Balance - Beginning	100	5,500	5,507	7
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 174</u>	<u>\$ 174</u>

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information – Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

<b>SOLID WASTE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$	\$ 16,689	\$ 20,689	\$ 4,000
Charges for Services	518,400	518,400	516,564	(1,836)
Miscellaneous	200	200	3,984	3,784
Interest	20	20	11	(9)
Total Receipts	518,620	535,309	541,248	5,939
<b>DISBURSEMENTS</b>				
General Health and Sanitation	418,294	441,979	371,184	70,795
Debt Service	59,688	59,692	59,690	2
Administration	90,638	83,638	65,826	17,812
Total Disbursements	568,620	585,309	496,700	88,609
Net Change in Fund Balance	(50,000)	(50,000)	44,548	94,548
Fund Balance - Beginning	50,000	50,000	91,158	41,158
Fund Balance - Ending	\$ 0	\$ 0	\$ 135,706	\$ 135,706

**LEE COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION – BUDGETARY COMPARISON SCHEDULES**

**June 30, 2019**

**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, 2019**

**LEE COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Other Information – Regulatory Basis**

**For The Year Ended June 30, 2019**

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 347,211	\$	\$ 69,000	\$ 278,211
Construction In Progress	34,446			34,446
Land Improvements	362,083		68,619	293,464
Buildings and Building Improvements	3,261,318			3,261,318
Vehicles and Equipment	3,723,114	128,802	1,905	3,850,011
Infrastructure	7,609,390	191,075		7,800,465
 Total Capital Assets	 <u>\$ 15,337,562</u>	 <u>\$ 319,877</u>	 <u>\$ 139,524</u>	 <u>\$ 15,517,915</u>

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

**June 30, 2019**

**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  
The Honorable Steve Mays, Former 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 fiscal year ended June 30, 2019, 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 14, 2020.

### **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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control 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 did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 2019-001 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 deficiencies described in the accompanying comments and recommendations as items 2019-002 and 2019-003 to be significant deficiencies.

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 Standards*.

**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 14, 2020

**LEE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2019**

**LEE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2019**

**MATERIAL WEAKNESS**

**2019-001 The Fiscal Court Lacks Adequate Oversight Over An Agreement With Another Agency**

Condition: This is, in part, a repeat finding from the prior year listed as 2018-004.

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 ten years (2014-2023); rent 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, 2019, the Mountain Mission owes rent for seven (7) years/84 months \* \$300 or \$25,200 and five and one half (5 ½) years/66 months \* \$500 or \$30,000 for a total of \$55,200. 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.

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

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: Fiscal court and judge executive in discussion on equitable resolution for this issue, court wants to donate building to ministry, judge wants to enforce contract.*

**SIGNIFICANT DEFICIENCIES**

**2019-002 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 2018-002.

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.
- 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.

**LEE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2019**

**SIGNIFICANT DEFICIENCIES (Continue)**

**2019-002    The Fiscal Court Lacks Adequate Internal Controls Over Fuel Purchases (Continued)**

Criteria (Continued): Lowering the credit card limit would serve to reduce the risk of fraud.

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: Since 2019, additional training has been provided to ensure correct use of cards by personnel and will be adjusted downward.*

**2019-003    The Fiscal Court Lacks Adequate Internal Controls Over Disbursements**

Condition: During our disbursement testing of 25 invoices, we noted the following:

- Eighteen (18) instances in which a purchase order was not attached to the invoice; seven (7) of those instances were standing orders. Although a purchase order ledger is maintained with consecutively numbered purchase orders, purchase orders are not signed for approval, nor are account codes indicated.
- One (1) instance in which a transaction was miscoded.
- Vendors lists were not maintained as part of the official minutes book. The assistant treasurer maintains a list of approved disbursements separate from the official minutes book. Disbursements were not traced to those lists as they were not a part of the official minutes.

We also noted during disbursements testing that there were transactions, i.e. supplies, repairs, inmate meals, etc. miscoded to 578 account codes (Uniform System of Accounts minor account code for utilities). There are multiple accounts ending in the 578 minor account code, five (5) of which are on the standing order list. The dollar amount of transactions miscoded to these accounts was significant.

Criteria:

- The County Budget Preparation and State Local Finance Officer Policy Manual requires the fiscal courts to use a purchase order system. At a minimum, this system shall adhere to the following: 1. Purchases shall not be made without approval by the Judge/Executive (or designee), and/or a department head. 2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted. 3. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made. 4. Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.
- Per KRS 68.210, the Department for Local Government prescribes the Uniform System of Accounting. Further, only recurring payments should be coded to standing order accounts.

**LEE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2019**

**SIGNIFICANT DEFICIENCIES (Continue)**

**2019-003      The Fiscal Court Lacks Adequate Internal Controls Over Disbursements (Continued)**

Criteria (Continued): The Department for Local Government (DLG) suggests counties use the purchase order system for standing orders since the purpose of the purchasing system is to ensure availability of funds.

Effect: Purchases are being made without proper authorization or consideration of the budgeted amounts for each account code.

Cause: Failure to follow established procedures and statutory requirements.

Recommendation: We recommend the Fiscal Court reevaluate their controls over disbursements to determine the controls that would best address the finding 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: Since July 2019 county judge executive reviews and approves all purchase every two weeks.*

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

**LEE COUNTY FISCAL COURT**

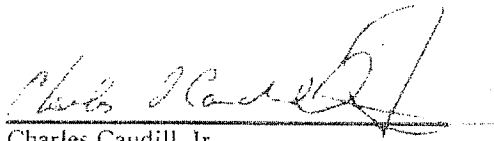
**For The Fiscal Year Ended  
June 30, 2019**

Appendix A

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

For The Fiscal Year Ended June 30, 2019

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