

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

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

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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
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, as of and for the year ended June 30, 2020, 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, 2020, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Lee County Fiscal Court as of June 30, 2020, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary 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.

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Finance and Administration Cabinet
Honorable Charles Caudill, Jr., Lee County Judge/Executive
Members of the Lee County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2021 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 solely 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 effectiveness of Lee County Fiscal Court's 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 Comment and Recommendation included herein, which discusses the following report finding:

2020-001 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements

Morgan and Associates, LLC

Morgan and Associates, LLC
West Liberty, Kentucky

August 31, 2021

LEE COUNTY OFFICIALS

For The Year Ended June 30, 2020

| | |
|----------------------|------------------------|
| Charles Caudill, Jr. | County Judge/Executive |
| Ronnie Begley | Magistrate |
| Dean Noe | Magistrate |
| Harvey Pelfrey | Magistrate |
| Dennis Pelfrey | 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 |
| Timothy Fox | Coroner |

Appointed Personnel:

| | |
|----------------|------------------------|
| Pamela Barrett | Deputy Judge/Executive |
| Pearl Spencer | County Treasurer |
| Angie Williams | Assistant Treasurer |
| Jon Allen | EMA Director |

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

For The Year Ended June 30, 2020

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

For The Year Ended June 30, 2020

| | <u>Budgeted Funds</u> | | |
|--|-------------------------|----------------------|----------------------|
| | <u>General Fund</u> | <u>Road Fund</u> | <u>Jail Fund</u> |
| RECEIPTS | | | |
| Taxes | \$ 1,424,497 | \$ | \$ |
| In Lieu Tax Payments | 46,930 | 16,974 | |
| Excess Fees | 8,578 | | |
| Licenses and Permits | 22,574 | | |
| Intergovernmental | 354,600 | 2,415,686 | 96,059 |
| Charges for Services | 6,511 | | |
| Miscellaneous | 272,503 | 461,108 | 211 |
| Interest | 50 | 43 | 3 |
| Total Receipts | <u>2,136,243</u> | <u>2,893,811</u> | <u>96,273</u> |
| DISBURSEMENTS | | | |
| Current: | | | |
| General Government | 855,992 | | |
| Protection to Persons and Property | 392,977 | | 354,612 |
| General Health and Sanitation | 33,263 | | |
| Social Services | 40,278 | | |
| Recreation and Culture | 60,322 | | |
| Roads | | 2,169,091 | |
| Debt Service | 67,890 | 505,604 | |
| Capital Projects | 18,500 | | |
| Administration | 493,173 | 177,580 | 22,223 |
| Total Disbursements | <u>1,962,395</u> | <u>2,852,275</u> | <u>376,835</u> |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | 173,848 | 41,536 | (280,562) |
| Other Adjustments to Cash (Uses) | | | |
| Leasing Receipts | | 294,894 | |
| Transfers From Other Funds | 102,741 | | 297,000 |
| Transfers To Other Funds | (275,000) | (102,741) | |
| Total Other Adjustments to Cash (Uses) | <u>(172,259)</u> | <u>192,153</u> | <u>297,000</u> |
| Net Change in Fund Balance | 1,589 | 233,689 | 16,438 |
| Fund Balance - Beginning (Restated) | 507,320 | 101,643 | 376 |
| Fund Balance - Ending | <u>\$ 508,909</u> | <u>\$ 335,332</u> | <u>\$ 16,814</u> |
| Composition of Fund Balance | | | |
| Bank Balance | \$ 513,950 | \$ 339,213 | \$ 16,814 |
| Less: Outstanding Checks | (5,041) | (3,881) | |
| Fund Balance - Ending | <u>\$ 508,909</u> | <u>\$ 335,332</u> | <u>\$ 16,814</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, 2020
(Continued)

| | Budgeted Funds | | | |
|--|--|---------------------------|-----------------------------|------------------------|
| | Local Government Economic Assistance Fund | Ambulance Fund | Solid Waste Fund | Total Funds |
| RECEIPTS | | | | |
| Taxes | \$ | \$ | \$ | \$ 1,424,497 |
| In Lieu Tax Payments | | | | 63,904 |
| Excess Fees | | | | 8,578 |
| Licenses and Permits | | | | 22,574 |
| Intergovernmental | 172,100 | 15,095 | 92,123 | 3,145,663 |
| Charges for Services | | 372,829 | 521,122 | 900,462 |
| Miscellaneous | | | 9,685 | 743,507 |
| Interest | 1 | 5 | 11 | 113 |
| Total Receipts | 172,101 | 387,929 | 622,941 | 6,309,298 |
| DISBURSEMENTS | | | | |
| Current: | | | | |
| General Government | | | | 855,992 |
| Protection to Persons and Property | | 419,804 | | 1,167,393 |
| General Health and Sanitation | | | 434,101 | 467,364 |
| Social Services | | | | 40,278 |
| Recreation and Culture | | | | 60,322 |
| Roads | | | | 2,169,091 |
| Debt Service | | 23,315 | 35,332 | 632,141 |
| Capital Projects | | | | 18,500 |
| Administration | | 48,338 | 88,747 | 830,061 |
| Total Disbursements | | 491,457 | 558,180 | 6,241,142 |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | 172,101 | (103,528) | 64,761 | 68,156 |
| Other Adjustments to Cash (Uses) | | | | |
| Leasing Receipts | | | | 294,894 |
| Transfers From Other Funds | | 150,000 | | 549,741 |
| Transfers To Other Funds | (172,000) | | | (549,741) |
| Total Other Adjustments to Cash (Uses) | (172,000) | 150,000 | | 294,894 |
| Net Change in Fund Balance | 101 | 46,472 | 64,761 | 363,050 |
| Fund Balance - Beginning (Restated) | 174 | | 135,720 | 745,233 |
| Fund Balance - Ending | \$ 275 | \$ 46,472 | \$ 200,481 | \$ 1,108,283 |
| Composition of Fund Balance | | | | |
| Bank Balance | \$ 275 | \$ 47,558 | \$ 200,874 | \$ 1,118,684 |
| Less: Outstanding Checks | | (1,086) | (393) | (10,401) |
| Fund Balance - Ending | \$ 275 | \$ 46,472 | \$ 200,481 | \$ 1,108,283 |

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, 2020

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, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal 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 expenses related to the county-run ambulance service. The primary source of receipts for this fund is from charges for ambulance runs.

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, 2020
(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, 2020
(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, 2020
(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, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Long-Term Debt

Direct Borrowings or Direct Placements

A. Rear Loader with Attachments and Accessories

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. As of June 30, 2020, the principal was paid in full.

B. Ambulance

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 agreement is secured by the two 2015 Mercedes ambulances purchased. 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.

If any default, other than a default in payment, is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured if Borrower, after Lender sends written notice to Borrower demanding cure of such default: (1) cures the default within ten (10) days; or (2) if the cure requires more than ten (10) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonable practical.

The outstanding principal as of June 30, 2020 was \$3,531. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Principal | Scheduled Interest |
|------------------------------|-----------------|-----------------------|
| 2021 | \$ 3,531 | \$ 22 |
| Totals | <u>\$ 3,531</u> | <u>\$ 22</u> |

C. Courthouse Repairs

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 lease is secured by the project. 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.

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

Note 3. Long-Term Debt (Continued)

Direct Borrowings or Direct Placements (Continued)

C. Courthouse Repairs (Continued)

Upon the occurrence of an Event of Default, and as long as the Event of Default is continuing, Lessor may, at its option, exercise any one or more of the following remedies as to the Project, to whichever the Event of Default pertains: (a) Terminate the Lease Term and give notice to the Lessee to vacate or surrender the Project within 60 days from the date of such notice; (b) By written notice to Lessee, enter and take immediate possession of the Project; (c) Recover from the Lessee: (i) the Lease Payments which would otherwise have been payable hereunder during any period in which the Lessee continues to use, occupy or retain possession of the Project; and (ii) Lease Payments which would otherwise have been payable hereunder after the Lessee vacates or surrenders the Project during the remainder of the fiscal year in which such Event of Default occurs; (d) Sell or lease the Project or sublease it for the account of Lessee, holding Lessee liable for all Lease Payments and other payments due during the remaining Lease Term to the extent that such selling, leasing or subleasing fails to provide amounts which are sufficient to pay the remaining Lease Payments when due, with any proceeds of the sale of the Project being applied first to all past due Lease Payments and then to the portion of Lease Payments applicable to the Principal Component in inverse order of their due date; and (e) Exercise any other right, remedy or privilege which may be available to it under the applicable laws of the Commonwealth or any other applicable law, subject to the limitations contained in this Lease with respect to the Lessee's obligations upon the occurrence of an Event of Nonappropriation; or proceed by appropriate court action to enforce the terms of this Lease or to recover damages for the breach of this Lease or to rescind this Lease as to any or all of the Project, including, but not limited to, any one or more remedial steps available to secured parties under Article 9 of the UCC and which are otherwise accorded to Lessor by applicable law.

Lessee will remain liable for all covenants and obligations under this Lease, and for all legal fees and other costs and expenses, including court costs awarded by a court of competent jurisdiction, incurred by Lessor with respect to the enforcement of any of the remedies under this Lease, when a court of competent jurisdiction has finally adjudicated that an Event of Default has occurred and enforced the remedies set forth in this Section.

The outstanding principal as of June 30, 2020 was \$22,932. 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> |
|--|------------------|-------------------------------------|
| 2021 | \$ 17,081 | \$ 904 |
| 2022 | 5,851 | 74 |
| Totals | <u>\$ 22,932</u> | <u>\$ 978</u> |

D. Grader

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. As of June 30, 2020, the principal was paid in full.

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

Note 3. Long-term Debt (Continued)

Direct Borrowings or Direct Placements (Continued)

E. Trucks

In June 2020, 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. As of June 30, 2020, the principal was paid in full.

F. Trucks

In April 2020, Lee County Fiscal Court entered into a financing obligation agreement for \$294,894 with the Republic Bank 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 October 2021 at an interest rate of 3.56 percent.

The outstanding principal as of June 30, 2020 was \$294,894. Future principal and interest requirements are:

| <u>Fiscal Year Ended June 30</u> | <u>Principal</u> | <u>Scheduled Interest</u> |
|--------------------------------------|-------------------|-------------------------------|
| 2021 | \$ 294,894 | \$ 14,105 |
| Totals | <u>\$ 294,894</u> | <u>\$ 14,105</u> |

G. Long-term Debt Maturity in the Aggregate

| <u>Fiscal Year Ended June 30</u> | <u>Principal</u> | <u>Scheduled Interest</u> |
|--------------------------------------|-------------------|-------------------------------|
| 2021 | \$ 315,506 | \$ 15,031 |
| 2022 | 5,851 | 74 |
| Totals | <u>\$ 321,357</u> | <u>\$ 15,105</u> |

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

Note 3. Long-term Debt (Continued)

H. Changes In Long-term Debt

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|-------------------|-------------------|-------------------|------------------------|
| Direct Borrowings or Direct Placements | \$ 537,170 | \$ 294,894 | \$ 510,707 | \$ 321,357 | \$ 315,506 |
| Total Long-term Debt | <u>\$ 537,170</u> | <u>\$ 294,894</u> | <u>\$ 510,707</u> | <u>\$ 321,357</u> | <u>\$ 315,506</u> |

Note 4. Transfers

The table below shows the interfund operating transfers for fiscal year 2020.

| | General Fund | Road Fund | LGEA Fund | Total Transfers In |
|---------------------|-------------------|-------------------|-------------------|-----------------------|
| General Fund | \$ | \$ 102,741 | \$ | \$ 102,741 |
| Jail Fund | 125,000 | | 172,000 | 297,000 |
| Ambulance Fund | 150,000 | | | 150,000 |
| Total Transfers Out | <u>\$ 275,000</u> | <u>\$ 102,741</u> | <u>\$ 172,000</u> | <u>\$ 549,741</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 CERS Board of Trustees under the administrative guidance of the Kentucky Public Pension Authority (KPPA). 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 2018 was \$217,174, the FY 2019 was \$234,769, and the FY 2020 was \$314,815.

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 KPPA insurance fund.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(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 CDRS 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 24.06 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% |

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, 2020
(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 CERS 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, CERS 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.

KPPA Annual Financial Report and Proportionate Share Audit Report

KPPA 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 Public Pension Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KPPA 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, 2020
(Continued)

Note 6. Insurance

For the fiscal year ended June 30, 2020, 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

Subsequent events have been evaluated through August 31, 2021, which is the date the financial statements were available to be issued.

Note 8. Prior Period Adjustment

The Solid Waste Fund Beginning Balance was increased by \$14 for a voided check.

Note 9. Leases

A. John Deere Loader Backhoe

In September 2019, the Fiscal Court entered into a lease agreement with Deere Credit, Inc., for a 2019 John Deere Loader Backhoe valued at \$83,250. The length of the lease is thirty-six months with payments of \$760 per month beginning in October 2019 with a purchase option of \$73,600 at the end of the lease. Payments made on the lease are reflected in the Road Fund debt service.

B. John Deere Grader

In July 2019, the Fiscal Court entered into a lease agreement with Deere Credit, Inc., for a 2019 John Deere Grader valued at \$244,787. The Fiscal Court received a \$45,977 trade-in for a CAT Grader (See Note 4E). The length of the lease is thirty-six months with monthly payments of \$1,595 beginning in August 2019, with a purchase option of \$183,000 at the end of the lease. Payments made on the lease are reflected in the Road Fund debt service.

Note 10. Medicare Settlement

In February 2019, 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. Payments made on the settlement are reflected in the General Fund debt service.

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

For The Year Ended June 30, 2020

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis

For The Year Ended June 30, 2020

| | GENERAL FUND | | | |
|--|---------------------|--------------|----------------------------------|--|
| | Budgeted Amounts | | Actual | Variance with |
| | Original | Final | Amounts, (Budgetary Basis) | Final Budget Positive (Negative) |
| RECEIPTS | | | | |
| Taxes | \$ 1,416,186 | \$ 1,416,186 | \$ 1,424,497 | \$ 8,311 |
| In Lieu Tax Payments | 32,800 | 32,800 | 46,930 | 14,130 |
| Excess Fees | 7,400 | 7,400 | 8,578 | 1,178 |
| Licenses and Permits | 20,000 | 20,000 | 22,574 | 2,574 |
| Intergovernmental | 333,133 | 333,133 | 354,600 | 21,467 |
| Charges for Services | 4,000 | 4,000 | 6,511 | 2,511 |
| Miscellaneous | 53,100 | 53,100 | 272,503 | 219,403 |
| Interest | 30 | 30 | 50 | 20 |
| Total Receipts | 1,866,649 | 1,866,649 | 2,136,243 | 269,594 |
| DISBURSEMENTS | | | | |
| General Government | 901,681 | 940,414 | 855,992 | 84,422 |
| Protection to Persons and Property | 258,356 | 408,412 | 392,977 | 15,435 |
| General Health and Sanitation | 27,200 | 34,584 | 33,263 | 1,321 |
| Social Services | 50,750 | 46,128 | 40,278 | 5,850 |
| Recreation and Culture | 72,770 | 69,232 | 60,322 | 8,910 |
| Debt Service | 91,130 | 68,190 | 67,890 | 300 |
| Capital Projects | 18,500 | 18,500 | 18,500 | 0 |
| Administration | 534,512 | 495,363 | 493,173 | 2,190 |
| Total Disbursements | 1,954,899 | 2,080,823 | 1,962,395 | 118,428 |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | (88,250) | (214,174) | 173,848 | 388,022 |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers From Other Funds | 102,741 | 102,741 | 102,741 | 0 |
| Transfers To Other Funds | (395,886) | (395,886) | (275,000) | 120,886 |
| Total Other Adjustments to Cash (Uses) | (293,145) | (293,145) | (172,259) | 120,886 |
| Net Change in Fund Balance | (381,395) | (507,319) | 1,589 | 508,908 |
| Fund Balance - Beginning | 381,395 | 507,319 | 507,320 | 1 |
| Fund Balance - Ending | \$ 0 | \$ 0 | \$ 508,909 | \$ 508,909 |

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

| ROAD FUND | | | | |
|--|------------------|-----------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| In Lieu Tax Payments | \$ 10,000 | \$ 10,000 | \$ 16,974 | \$ 6,974 |
| Intergovernmental | 2,071,001 | 2,397,136 | 2,415,686 | 18,550 |
| Miscellaneous | 269,300 | 269,300 | 461,108 | 191,808 |
| Interest | 30 | 30 | 43 | 13 |
| Total Receipts | 2,350,331 | 2,676,466 | 2,893,811 | 217,345 |
| DISBURSEMENTS | | | | |
| Roads | 1,795,953 | 2,442,080 | 2,169,091 | 272,989 |
| Debt Service | 333,218 | 336,647 | 505,604 | (168,957) |
| Administration | 218,419 | 189,892 | 177,580 | 12,312 |
| Total Disbursements | 2,347,590 | 2,968,619 | 2,852,275 | 116,344 |
| Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses) | 2,741 | (292,153) | 41,536 | 333,689 |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers To Other Funds | (102,741) | (102,741) | (102,741) | 0 |
| Leasing Receipts | | 294,894 | 294,894 | 0 |
| Total Other Adjustments to Cash (Uses) | (102,741) | 192,153 | 192,153 | 0 |
| Net Change in Fund Balance | (100,000) | (100,000) | 233,689 | 333,689 |
| Fund Balance - Beginning | 100,000 | 100,000 | 101,643 | 1,643 |
| Fund Balance - Ending | \$ 0 | \$ 0 | \$ 335,332 | \$ 335,332 |

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

| JAIL FUND | | | | |
|--|------------------|-----------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 70,512 | \$ 70,512 | \$ 96,059 | \$ 25,547 |
| Miscellaneous | | | 211 | 211 |
| Interest | 10 | 10 | 3 | (7) |
| Total Receipts | 70,522 | 70,522 | 96,273 | 25,751 |
| DISBURSEMENTS | | | | |
| Protection to Persons and Property | 447,972 | 445,972 | 354,612 | 91,360 |
| Administration | 22,436 | 24,436 | 22,223 | 2,213 |
| Total Disbursements | 470,408 | 470,408 | 376,835 | 93,573 |
| Excess (Deficiency) of Receipts Over Adjustments to Cash (Uses) | (399,886) | (399,886) | (280,562) | 119,324 |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers From Other Funds | 398,886 | 398,886 | 297,000 | (101,886) |
| Total Other Adjustments to Cash (Uses) | 398,886 | 398,886 | 297,000 | (101,886) |
| Net Change in Fund Balance | (1,000) | (1,000) | 16,438 | 17,438 |
| Fund Balance - Beginning | 1,000 | 1,000 | 376 | (624) |
| Fund Balance - Ending | \$ 0 | \$ 0 | \$ 16,814 | \$ 16,814 |

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

| LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND | | | | |
|--|------------------|------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 213,890 | \$ 213,890 | \$ 172,100 | \$ (41,790) |
| Interest | 10 | 10 | 1 | (9) |
| Total Receipts | 213,900 | 213,900 | 172,101 | (41,799) |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers To Other Funds | (214,000) | (214,000) | (172,000) | 42,000 |
| Total Other Adjustments to Cash (Uses) | (214,000) | (214,000) | (172,000) | 42,000 |
| Net Change in Fund Balance | (100) | (100) | 101 | 201 |
| Fund Balance - Beginning | 100 | 100 | 174 | 74 |
| Fund Balance - Ending | \$ 0 | \$ 0 | \$ 275 | \$ 275 |

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

| AMBULANCE FUND | | | | |
|--|------------------|-----------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ 0 | \$ 0 | \$ 15,095 | \$ 15,095 |
| Charges For Services | 324,000 | 324,000 | 372,829 | 48,829 |
| Interest | | | 5 | 5 |
| Total Receipts | 324,000 | 324,000 | 387,929 | 63,929 |
| DISBURSEMENTS | | | | |
| Protection to Persons and Property | 374,000 | 443,340 | 419,804 | 23,536 |
| Debt Service | | 23,540 | 23,315 | 225 |
| Administration | 161,000 | 68,120 | 48,338 | 19,782 |
| Total Disbursements | 535,000 | 535,000 | 491,457 | 43,543 |
| Excess (Deficiency) of Receipts Over Adjustments to Cash (Uses) | (211,000) | (211,000) | (103,528) | 107,472 |
| Other Adjustments to Cash (Uses) | | | | |
| Transfers From Other Funds | 211,000 | 211,000 | 150,000 | (61,000) |
| Total Other Adjustments to Cash (Uses) | 211,000 | 211,000 | 150,000 | (61,000) |
| Net Change in Fund Balance | | | 46,472 | 46,472 |
| Fund Balance - Beginning | | | | |
| Fund Balance - Ending | \$ 0 | \$ 0 | \$ 46,472 | \$ 46,472 |

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

| SOLID WASTE FUND | | | | |
|-------------------------------------|------------------|-----------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| RECEIPTS | | | | |
| Intergovernmental | \$ | \$ 30,623 | \$ 92,123 | \$ 61,500 |
| Charges for Services | 516,000 | 516,000 | 521,122 | 5,122 |
| Miscellaneous | 200 | 200 | 9,685 | 9,485 |
| Interest | 20 | 20 | 11 | (9) |
| Total Receipts | 516,220 | 546,843 | 622,941 | 76,098 |
| DISBURSEMENTS | | | | |
| General Health and Sanitation | 483,820 | 552,295 | 434,101 | 118,194 |
| Debt Service | 35,325 | 35,333 | 35,332 | 1 |
| Administration | 129,075 | 94,915 | 88,747 | 6,168 |
| Total Disbursements | 648,220 | 682,543 | 558,180 | 124,363 |
| Net Change in Fund Balance | (132,000) | (135,700) | 64,761 | 200,461 |
| Fund Balance - Beginning (Restated) | 132,000 | 135,700 | 135,720 | 20 |
| Fund Balance - Ending | \$ 0 | \$ 0 | \$ 200,481 | \$ 200,481 |

LEE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION – BUDGETARY COMPARISON SCHEDULES

June 30, 2020

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *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.

The fiscal court overspent the budgeted amount for Road Fund Debt Service.

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

For The Year Ended June 30, 2020

LEE COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information – Regulatory Basis

For The Year Ended June 30, 2020

The fiscal court reports the following schedule of capital assets:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|-------------------------------------|----------------------|---------------------|-------------------|----------------------|
| Land | \$ 278,211 | \$ | | \$ 278,211 |
| Construction In Progress | 362,083 | | | 362,083 |
| Land Improvements | 3,192,699 | | | 3,192,699 |
| Buildings and Building Improvements | 34,446 | | | 34,446 |
| Vehicles and Equipment | 3,850,011 | 214,943 | 696,212 | 3,368,742 |
| Infrastructure | 7,800,465 | 1,304,807 | | 9,105,272 |
| | <u>7,800,465</u> | <u>1,304,807</u> | <u></u> | <u>9,105,272</u> |
| Total Capital Assets | <u>\$ 15,517,915</u> | <u>\$ 1,519,750</u> | <u>\$ 696,212</u> | <u>\$ 16,341,453</u> |

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

June 30, 2020

Note 1. Capital Assets

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

| | 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 fiscal year ended June 30, 2020, 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 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lee County Fiscal Court's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements 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 was for the limited purpose described in the first 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying comment and recommendation as items 2020-001 that we consider to be a significant deficiency.

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 financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lee County Judge/Executive's Response to the Finding

The Lee County Judge/Executive's response to the finding identified in our audit is described in the accompanying Comment and Recommendation. The Lee County Judge/Executive's response was 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 31, 2021

**LEE COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2020

**LEE COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2020

SIGNIFICANT DEFICIENCY

2020-001 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2019-003.

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

- Eight (8) instances in which a purchase order was not attached to the invoice; two (2) of those instances were standing orders. A purchase order ledger is maintained with consecutively numbered purchase orders and purchase orders did appear to be signed for approval with account codes indicated.
- Two (2) instances in which a transaction was miscoded.
- One (1) instance in which no approval for an invoice was noted.

We also noted the two (2) instances of miscoding noted above 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, three (3) 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.

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: A 338 account was established for maintenance and supplies to clean up 578 acct. Established that all accounts will have a PO.

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

LEE COUNTY FISCAL COURT

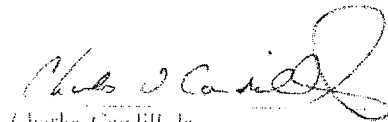
**For The Fiscal Year Ended
June 30, 2020**

Appendix A

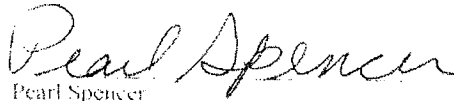
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LEE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2020

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