

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

**For The Year Ended
June 30, 2021**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The 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, for the year ended June 30, 2021, 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, 2021, 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, 2021, 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 as described in Note 1.

Other Matters

Supplementary and Other 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 (supplementary information) 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
The Honorable Andy Beshear, Governor
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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 February 9, 2022, 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 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 Schedule of Findings and Responses included herein, which discusses the following report finding:

2021-001 The Lee County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

February 9, 2022

LEE COUNTY OFFICIALS
For The Year Ended June 30, 2021

Fiscal Court Members:

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:

Pearl Spencer	County Treasurer
Angie Williams	Chief Financial Officer

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

For The Year Ended June 30, 2021

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

For The Year Ended June 30, 2021

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,514,162	\$	\$
In Lieu Tax Payments	44,076	16,632	
Excess Fees	15,549		
Licenses and Permits	21,005		
Intergovernmental	368,460	1,634,366	77,336
Charges for Services	5,546		
Miscellaneous	119,397	336,518	
Interest	71	32	2
Total Receipts	<u>2,088,266</u>	<u>1,987,548</u>	<u>77,338</u>
DISBURSEMENTS			
General Government	855,088		
Protection to Persons and Property	320,350		240,538
General Health and Sanitation	39,453		
Social Services	53,249		
Recreation and Culture	53,016		
Roads		1,898,071	
Debt Service	55,755	356,643	
Capital Projects	81,400		
Administration	460,886	218,428	21,850
Total Disbursements	<u>1,919,197</u>	<u>2,473,142</u>	<u>262,388</u>
Excess (Deficiency) of Receipts Over Adjustments to Cash (Uses)	<u>169,069</u>	<u>(485,594)</u>	<u>(185,050)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds	300,000	292,894	
Transfers From Other Funds	50,000	50,000	173,500
Transfers To Other Funds	(125,000)	(50,000)	
Total Other Adjustments to Cash (Uses)	<u>225,000</u>	<u>292,894</u>	<u>173,500</u>
Net Change in Fund Balance	394,069	(192,700)	(11,550)
Fund Balance - Beginning (Restated)	<u>509,198</u>	<u>335,331</u>	<u>16,814</u>
Fund Balance - Ending	<u>\$ 903,267</u>	<u>\$ 142,631</u>	<u>\$ 5,264</u>
Composition of Fund Balance			
Bank Balance	\$ 859,326	\$ 611,220	\$ 5,264
Plus: Deposits In Transit	50,000		
Less: Outstanding Checks	(6,059)	(468,589)	
Fund Balance - Ending	<u>\$ 903,267</u>	<u>\$ 142,631</u>	<u>\$ 5,264</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, 2021
(Continued)

Budgeted Funds					
Local Government Economic Assistance Fund	Federal Grant Fund	Ambulance Fund	Solid Waste Fund	Alcohol Beverage Center Fund	Total Funds
\$	\$	\$	\$	\$	\$ 1,514,162
					60,708
					15,549
				3,900	24,905
99,244	337,414	60,000	45,828		2,622,648
		706,923	523,600		1,236,069
		76,190	16,227	2,302	550,634
1		10	11		127
<u>99,245</u>	<u>337,414</u>	<u>843,123</u>	<u>585,666</u>	<u>6,202</u>	<u>6,024,802</u>
					855,088
		705,196			1,266,084
			555,069		594,522
					53,249
					53,016
					1,898,071
		3,279			415,677
					81,400
		291,294	91,138		1,083,596
		<u>999,769</u>	<u>646,207</u>		<u>6,300,703</u>
<u>99,245</u>	<u>337,414</u>	<u>(156,646)</u>	<u>(60,541)</u>	<u>6,202</u>	<u>(275,901)</u>
					592,894
		337,414			610,914
<u>(98,500)</u>	<u>(337,414)</u>				<u>(610,914)</u>
<u>(98,500)</u>	<u>(337,414)</u>	<u>337,414</u>			<u>592,894</u>
745		180,768	(60,541)	6,202	316,993
275		46,472	200,481		1,108,571
<u>\$ 1,020</u>	<u>\$ 0</u>	<u>\$ 227,240</u>	<u>\$ 139,940</u>	<u>\$ 6,202</u>	<u>\$ 1,425,564</u>
\$ 1,020	\$	\$ 318,692	\$ 139,940	\$ 6,202	\$ 1,941,664
					50,000
		(91,452)			(566,099)
<u>\$ 1,020</u>	<u>\$ 0</u>	<u>\$ 227,240</u>	<u>\$ 139,940</u>	<u>\$ 6,202</u>	<u>\$ 1,425,564</u>

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

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TO THE FINANCIAL STATEMENT**

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**LEE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2021

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(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 governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

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.

Federal Grant Fund - The primary purpose of this fund is to account for monies received through grants. The primary source of receipts for this fund are received from the federal government.

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 collection expenses of the county. The primary source of receipts for this fund is from monthly billing of solid waste collections to users.

Alcohol Beverage Control Fund - The primary purpose of this fund is to account for revenues and expenditures related to the control of alcohol sales. The primary source of receipts for this fund is from the distribution of alcohol licenses.

D. Budgetary Information

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

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

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Lee County Elected Officials

Kentucky law provides for election of the officials listed 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 the Lee County Fiscal Court.

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

F. Deposits and Investments

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

KRS 66.480 authorizes the county to invest in 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 a joint venture of Lee County Fiscal Court: Three Forks Regional Jail and Multi-County Recreational Board, Inc.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Ventures (Continued)

Three Forks Regional Jail

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

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

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 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 2,023 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 years with 100% of the rental payments applied to the purchase price.

The costs associated with the implementation of the program 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 prorated 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 12 member board of directors. Each of the participating counties appoints three members to the board.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 2. Deposits

The fiscal court maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

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 the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2021.

	General Fund	Road Fund	Local Government Economic Assistance Fund	Federal Grant Fund	Total Transfers In
General Fund	\$	\$ 50,000	\$	\$	\$ 50,000
Road Fund	50,000				50,000
Jail Fund	75,000		98,500		173,500
Ambulance Fund				337,414	337,414
Total Transfers Out	<u>\$ 125,000</u>	<u>\$ 50,000</u>	<u>\$ 98,500</u>	<u>\$ 337,414</u>	<u>\$ 610,914</u>

Reason for transfers:

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

Note 4. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Ambulance

In August 2015, the 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 ambulances purchased. The terms of the agreement stipulate a 60 month repayment schedule with an interest rate of 2.95 percent fixed rate and variable monthly payments to end on August 21, 2020. As of June 30, 2021, the principal was paid in full.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 4. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

2. Courthouse Repairs

In October 2016, the Lee County Fiscal Court entered into a lease agreement for \$80,000 with the Kentucky Association of Counties Leasing Trust Program for courthouse repairs. The lease is secured by the project. The terms of the courthouse repairs agreement stipulate a 60 month repayment schedule of yearly principal and interest payments with variable interest rates to end in October 2021.

Upon the occurrence of an event of default, and as long as the event of default is continuing, the 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 the lessee, enter and take immediate possession of the project; (c) recover from the lessee: (i) the lease payments which would otherwise have been payable 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 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 the lessor by applicable law.

The 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 the 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, 2021, was \$5,851. Future lease principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 5,851	\$ 86
Totals	\$ 5,851	\$ 86

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 4. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

3. 2021 Trucks

In April 2020, the Lee County Fiscal Court entered into a financing obligation agreement for \$294,894 with the Republic Bank to purchase trucks. The county purchased heavy trucks to use for 18 months, then the trucks are to be sold at auction. The terms of the agreement stipulate an 18 month repayment schedule, with principal and interest due in October 2021, at an interest rate of 3.56 percent. As of June 30, 2021, the principal was paid in full.

4. 2022 Trucks

In April 2020, the Lee County Fiscal Court entered into a financing obligation agreement for \$294,894 with the Republic Bank to purchase trucks. The county purchased heavy trucks to use for 18 months, then the trucks are to be sold at auction. The terms of the agreement stipulate an 18 month repayment schedule, with principal and interest due in October 2021, at an interest rate of 3.56 percent.

Upon the occurrence of an event of default, and as long as the event of default is continuing, the lessor may, at its option, exercise any one or more of the following remedies as to the agreement, 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 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 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. The 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 the 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, 2021, was \$292,894. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 292,894	\$ 13,494
Totals	\$ 292,894	\$ 13,494

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 4. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

5. Flood Relief

In April 2021, the Lee County Fiscal Court entered into a financing obligation agreement for \$300,000 with the Kentucky Association of Counties for flood relief. The terms of the agreement stipulate a 75 month repayment schedule, with principal and interest due in June 2027, at an interest rate of 3.74 percent.

The lessor may terminate this agreement immediately upon the occurrence of any of the following events: (a) the lessee fails to pay when due any of the payments, or to perform, or rectify breach of, any obligation assumed by the lessee in this agreement; (b) the lessee makes an assignment for the benefit of creditors, or is subject to any receivership, insolvency or bankruptcy proceedings; or (c) any other event which causes the lessor, in good faith, to deem itself insecure. Whenever any event of default has occurred and is continuing, the lessor may, without any further demand or notice, take one of any combination of the following remedial steps: terminate the lease term and give notice to the lessee to vacate or surrender the project assets within seven days from the date of such notice; exercise all the rights and remedies of a secured party under the Kentucky Uniform Commercial Code, with respect to the project assets, and may otherwise repossess and liquidate or realize foreclosure upon the project assets in lawful manner; sell or re-lease the project or any portion thereof; recover from the lessee lease payments which would otherwise have been payable during any period in which the lessee continues to use, occupy or retain possession of the project assets. Failure of the lessor to exercise any right or remedy, including, but not limited to, the acceptance of partial or delinquent payments, shall not be a waiver of any obligation lessee, or right of lessor, or constitute a waiver of any other similar default subsequently occurring. The outstanding principal as of June 30, 2021, was \$300,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$	\$
2023	55,605	10,273
2024	57,720	8,158
2025	59,916	5,961
2026	62,196	3,682
2027	<u>64,563</u>	<u>1,315</u>
Totals	<u>\$ 300,000</u>	<u>\$ 29,389</u>

B. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2021, was as follows:

	Beginning Balance (*Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations*	\$ 321,091	\$ 592,894	\$ 315,240	\$ 598,745	\$ 298,745
Total Long-term Debt	<u>\$ 321,091</u>	<u>\$ 592,894</u>	<u>\$ 315,240</u>	<u>\$ 598,745</u>	<u>\$ 298,745</u>

* Prior year beginning balance restated by (\$266), due to error in prior years.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 4. Long-term Debt (Continued)

C. Aggregate Debt Schedule

The aggregate debt schedule is as follows:

Fiscal Year Ended June 30	Direct Borrowings and Direct Placements	
	Principal	Interest
2022	\$ 298,745	\$ 13,580
2023	55,605	10,273
2024	57,720	8,158
2025	59,916	5,961
2026	62,196	3,682
2027	64,563	1,315
Totals	<u>\$ 598,745</u>	<u>\$ 42,969</u>

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, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Effective April 1, 2021, the Kentucky Retirement Systems as an agency of the Commonwealth is now known as the Kentucky Public Pensions Authority (KPPA). The governance of CERS has been transferred to a separate 9-member board of trustees that is responsible for the governance of the CERS pension and insurance plans.

The county's contribution for FY 2019 was \$234,769; FY 2020 was \$314,815; and FY 2021 was \$425,730.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 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 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 5. Employee Retirement System (Continued)

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 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.

B. Health Insurance Coverage - Tier 2 and Tier 3

Once members reach a minimum vesting period of 15 years, they 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 by 1.5 percent. 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 percent 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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 5. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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 percent. 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, KPPA will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this 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 Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KPPA also issues proportionate share audit reports for both 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 Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 6. Insurance

For the fiscal year ended June 30, 2021, the Lee County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2021
(Continued)

Note 7. Leases

A. Loader Backhoe

In September 2019, the fiscal court entered into a lease agreement for a 2019 loader backhoe valued at \$83,250. The length of the lease is 36 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. Grader

In July 2019, the fiscal court entered into a lease agreement for a 2019 grader valued at \$244,787. The fiscal court received a \$45,977 trade-in for a grader. The length of the lease is 36 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.

C. Trackhoe

In September 2020, the fiscal court entered into a lease agreement for a trackhoe valued at \$90,860. The length of the lease is 60 months with monthly payments of \$1,514 beginning in September 2020. The agreement provided no purchase option at the end of the lease. Payments made on the lease are reflected in the road fund debt service.

Note 8. Medicare Settlement

In March 2019, the Lee County Fiscal Court entered into a financing obligation agreement for \$236,695 with the U.S. Department of Justice for Medicare. The terms of the agreement stipulate a seven year repayment schedule, with principal and interest due in March 2025, at an interest rate of 2.25 percent.

The outstanding principal as of June 30, 2021 was \$135,254. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 33,814	\$ 3,804
2023	33,814	3,804
2024	33,814	3,804
2025	33,814	3,804
Totals	<u>\$ 135,254</u>	<u>\$ 15,216</u>

Note 9. Prior Period Adjustments

The beginning balance of the general fund was increased \$289 to account for a prior year voided check. The beginning balance of the road fund was decreased \$1 due to rounding.

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

For The Year Ended June 30, 2021

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LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2021

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,384,086	\$ 1,384,086	\$ 1,514,162	\$ 130,076
In Lieu Tax Payments	32,800	32,800	44,076	11,276
Excess Fees	16,000	16,000	15,549	(451)
Licenses and Permits	20,000	20,000	21,005	1,005
Intergovernmental	327,680	345,067	368,460	23,393
Charges for Services	4,000	4,000	5,546	1,546
Miscellaneous	79,188	79,188	119,397	40,209
Interest	30	30	71	41
Total Receipts	<u>1,863,784</u>	<u>1,881,171</u>	<u>2,088,266</u>	<u>207,095</u>
DISBURSEMENTS				
General Government	888,339	962,585	855,088	107,497
Protection to Persons and Property	287,117	333,565	320,350	13,215
General Health and Sanitation	32,350	40,850	39,453	1,397
Social Services	51,750	71,517	53,249	18,268
Recreation and Culture	70,938	64,902	53,016	11,886
Debt Service	55,757	55,758	55,755	3
Capital Projects		312,057	81,400	230,657
Administration	456,477	472,639	460,886	11,753
Total Disbursements	<u>1,842,728</u>	<u>2,313,873</u>	<u>1,919,197</u>	<u>394,676</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>21,056</u>	<u>(432,702)</u>	<u>169,069</u>	<u>601,771</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		300,000	300,000	
Transfers From Other Funds	232,432	48,776	50,000	1,224
Transfers To Other Funds	(577,408)	(239,994)	(125,000)	114,994
Total Other Adjustments to Cash (Uses)	<u>(344,976)</u>	<u>108,782</u>	<u>225,000</u>	<u>116,218</u>
Net Change in Fund Balance	(323,920)	(323,920)	394,069	717,989
Fund Balance - Beginning (Restated)	<u>323,920</u>	<u>323,920</u>	<u>509,198</u>	<u>185,278</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 903,267</u>	<u>\$ 903,267</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(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	\$ 16,632	\$ 6,632
Intergovernmental	1,135,447	1,652,491	1,634,366	(18,125)
Miscellaneous	269,300	269,300	336,518	67,218
Interest	30	30	32	2
Total Receipts	<u>1,414,777</u>	<u>1,931,821</u>	<u>1,987,548</u>	<u>55,727</u>
DISBURSEMENTS				
Roads	929,691	1,932,162	1,898,071	34,091
Debt Service	333,364	357,514	356,643	871
Administration	179,865	220,838	218,428	2,410
Total Disbursements	<u>1,442,920</u>	<u>2,510,514</u>	<u>2,473,142</u>	<u>37,372</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(28,143)</u>	<u>(578,693)</u>	<u>(485,594)</u>	<u>93,099</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		292,894	292,894	
Transfers From Other Funds			50,000	50,000
Transfers To Other Funds	<u>(178,432)</u>	<u>(48,776)</u>	<u>(50,000)</u>	<u>(1,224)</u>
Total Other Adjustments to Cash (Uses)	<u>(178,432)</u>	<u>244,118</u>	<u>292,894</u>	<u>48,776</u>
Net Change in Fund Balance	(206,575)	(334,575)	(192,700)	141,875
Fund Balance - Beginning (Restated)	<u>206,575</u>	<u>334,575</u>	<u>335,331</u>	<u>756</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 142,631</u>	<u>\$ 142,631</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 71,861	\$ 71,861	\$ 77,336	\$ 5,475
Interest	10	10	2	(8)
Total Receipts	<u>71,871</u>	<u>71,871</u>	<u>77,338</u>	<u>5,467</u>
DISBURSEMENTS				
Protection to Persons and Property	366,022	365,667	240,538	125,129
Administration	<u>23,785</u>	<u>24,140</u>	<u>21,850</u>	<u>2,290</u>
Total Disbursements	<u>389,807</u>	<u>389,807</u>	<u>262,388</u>	<u>127,419</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(317,936)</u>	<u>(317,936)</u>	<u>(185,050)</u>	<u>132,886</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	312,936	312,936	173,500	(139,436)
Total Other Adjustments to Cash (Uses)	<u>312,936</u>	<u>312,936</u>	<u>173,500</u>	<u>(139,436)</u>
Net Change in Fund Balance	(5,000)	(5,000)	(11,550)	(6,550)
Fund Balance - Beginning	<u>5,000</u>	<u>5,000</u>	<u>16,814</u>	<u>11,814</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,264</u>	<u>\$ 5,264</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 207,403	\$ 207,403	\$ 99,244	\$ (108,159)
Interest	10	10	1	(9)
Total Receipts	<u>207,413</u>	<u>207,413</u>	<u>99,245</u>	<u>(108,168)</u>
DISBURSEMENTS				
General Government	1,000	1,000		1,000
Total Disbursements	<u>1,000</u>	<u>1,000</u>		<u>1,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>206,413</u>	<u>206,413</u>	<u>99,245</u>	<u>(107,168)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(206,513)</u>	<u>(206,513)</u>	<u>(98,500)</u>	<u>108,013</u>
Total Other Adjustments to Cash (Uses)	<u>(206,513)</u>	<u>(206,513)</u>	<u>(98,500)</u>	<u>108,013</u>
Net Change in Fund Balance	(100)	(100)	745	845
Fund Balance - Beginning	<u>100</u>	<u>100</u>	<u>275</u>	<u>175</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,020</u>	<u>\$ 1,020</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$	\$ 792,414	\$ 337,414	\$ (455,000)
Total Receipts		792,414	337,414	(455,000)
DISBURSEMENTS				
General Government		455,000		455,000
Total Disbursements		455,000		455,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		337,414	337,414	
Other Adjustments to Cash (Uses)				
Transfers To Other Funds		(337,414)	(337,414)	
Total Other Adjustments to Cash (Uses)		(337,414)	(337,414)	
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$	0
		\$	0	\$
		0	0	0
		0	0	0

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

	AMBULANCE FUND			
	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 10,000	\$ 60,000	\$ 60,000	\$
Charges for Services	436,000	436,000	706,923	270,923
Miscellaneous	25,000	25,000	76,190	51,190
Interest	10	10	10	
Total Receipts	<u>471,010</u>	<u>521,010</u>	<u>843,123</u>	<u>322,113</u>
DISBURSEMENTS				
Protection to Persons and Property	615,544	725,132	705,196	19,936
Debt Service	5,830	3,287	3,279	8
Administration	362,770	305,725	291,294	14,431
Total Disbursements	<u>984,144</u>	<u>1,034,144</u>	<u>999,769</u>	<u>34,375</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(513,134)</u>	<u>(513,134)</u>	<u>(156,646)</u>	<u>356,488</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>470,985</u>	<u>470,985</u>	<u>337,414</u>	<u>(133,571)</u>
Total Other Adjustments to Cash (Uses)	<u>470,985</u>	<u>470,985</u>	<u>337,414</u>	<u>(133,571)</u>
Net Change in Fund Balance	(42,149)	(42,149)	180,768	222,917
Fund Balance - Beginning	42,149	42,149	46,472	4,323
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 227,240</u>	<u>\$ 227,240</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

	SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)	
	Original	Final			
RECEIPTS					
Intergovernmental	\$		\$ 41,829	\$ 45,828	\$ 3,999
Charges for Services		519,600	519,600	523,600	4,000
Miscellaneous		200	200	16,227	16,027
Interest		20	20	11	(9)
Total Receipts		<u>519,820</u>	<u>561,649</u>	<u>585,666</u>	<u>24,017</u>
DISBURSEMENTS					
General Health and Sanitation		430,722	640,550	555,069	85,481
Administration		127,098	108,099	91,138	16,961
Total Disbursements		<u>557,820</u>	<u>1,203,649</u>	<u>646,207</u>	<u>557,442</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(38,000)</u>	<u>(642,000)</u>	<u>(60,541)</u>	<u>581,459</u>
Other Adjustments to Cash (Uses)					
Transfers To Other Funds		<u>(54,000)</u>			
Total Other Adjustments to Cash (Uses)		<u>(54,000)</u>			
Net Change in Fund Balance		(92,000)	(642,000)	(60,541)	581,459
Fund Balance - Beginning		<u>92,000</u>	<u>187,000</u>	<u>200,481</u>	<u>13,481</u>
Fund Balance - Ending	\$	<u>0</u>	\$ <u>0</u>	\$ <u>139,940</u>	\$ <u>594,940</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2021
(Continued)

ALCOHOL BEVERAGE CONTROL FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$	\$	\$ 3,900	\$ 3,900
Miscellaneous			2,302	2,302
Total Receipts			6,202	6,202
Net Change in Fund Balance			6,202	6,202
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 6,202	\$ 6,202

LEE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2021

Note 1. Budgetary Information

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

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

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

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

For The Year Ended June 30, 2021

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LEE COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2021

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 278,211	\$	\$	\$ 278,211
Land Improvements	362,083			362,083
Buildings	3,192,699			3,192,699
Construction in Progress	34,446			34,446
Vehicles and Equipment	3,368,742	708,648	397,680	3,679,710
Infrastructure	9,105,272	675,139		9,780,411
 Total Capital Assets	 <u>\$ 16,341,453</u>	 <u>\$ 1,383,787</u>	 <u>\$ 397,680</u>	 <u>\$ 17,327,560</u>

LEELEE COUNTY
NOTES TO OTHER INFORMATION - REGULATORY BASIS
SCHEDULE OF CAPITAL ASSETS

June 30, 2021

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.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land	\$ 0	
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Caudill, Jr., Lee County Judge/Executive
Members of the Lee County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Lee County Fiscal Court for the fiscal year ended June 30, 2021, 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 February 9, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lee County Fiscal Court's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain a deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency as item 2021-001.



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*.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

February 9, 2022

**LEE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2021

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**LEE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2021

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2020-001 The Lee County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2020-001. We noted the following during disbursement testing:

- Three invoices did not have a purchase order issued.
- One invoice was not paid within 30 days of the receipt.
- One disbursement was charged tax instead of being tax exempt.
- The claims list was not made an official part of the fiscal court minutes.

This was due to a lack of internal controls over the purchase order system which allowed invoices to be paid that had not went through the purchase order system. Weak internal controls over disbursements increase the risk of misstatements of financial activity. Payments could be paid to vendors that may not be a true liability to the fiscal court. Funds could be misused or invoices could go unaccounted for, resulting in late fees being incurred.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available, are presented to the fiscal court, include proper supporting documentation, and are paid within 30 days. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government (DLG), "Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head. 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."

KRS 68.300 states, in part, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." KRS 68.275 requires claims within budget line items and authorized by the fiscal court be paid by the county judge/executive and co-signed by the county treasurer. In an addition, KRS 65.140 requires invoices to be paid within 30 days of being received.

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: There has been a dramatic improvement in PO assignment between 2020 and 2021 audit. Will continue training of personnel to ensure PO are assigned correctly.

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

LEE COUNTY FISCAL COURT

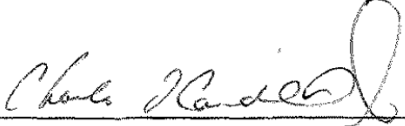
For The Year Ended June 30, 2021

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
COUNTY FISCAL COURT

For The Year Ended June 30, 2021

The 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.



County Judge/Executive



County Treasurer