

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

**For The Fiscal Year Ended
June 30, 2016**

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

Independent Auditors' Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis of Lee County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise Lee County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. 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.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statement is prepared by Lee County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Lee County Fiscal Court as of June 30, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Lee County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Lee County Fiscal Court. The budgetary comparison schedules and schedule of capital assets are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017 on our consideration of Lee County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lee County Fiscal Court's internal control over financial reporting and compliance.

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

- 2016-001 The Fiscal Court Lacks Adequate Internal Controls Over Payroll
- 2016-002 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements

Morgan - Franklin, LLC

Morgan-Franklin, LLC
West Liberty, Kentucky

January 25, 2017

LEE COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

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

Other Elected Officials:

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

Appointed Personnel:

Jodi Coldiron	County Treasurer
Pearl Spencer	Finance Officer

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

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,206,320	\$	\$
In Lieu Tax Payments	13,122	21,066	
Excess Fees	16,156		
Licenses and Permits	20,207		
Intergovernmental	344,224	1,683,670	80,483
Charges for Services	6,694		
Miscellaneous	139,224	308,812	11,886
Interest	44	31	5
Total Receipts	1,745,991	2,013,579	92,374
DISBURSEMENTS			
Current:			
General Government	953,484		
Protection to Persons and Property	185,961		397,862
General Health and Sanitation	64,397		
Social Services	62,945		
Recreation and Culture	45,852		
Roads		1,934,080	
Debt Service	100,622	329,832	
Administration	362,585	126,718	17,862
Total Disbursements	1,775,846	2,390,630	415,724
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(29,855)	(377,051)	(323,350)
Other Adjustments to Cash (Uses)			
Loan Proceeds			
Leasing Receipts		843,354	
Transfers From Other Funds	112,000	112,000	310,000
Transfers To Other Funds	(413,337)	(112,000)	
Total Other Adjustments to Cash (Uses)	(301,337)	843,354	310,000
Net Change in Fund Balance	(331,192)	466,303	(13,350)
Fund Balance - Beginning (Restated)	607,660	82,792	14,506
Fund Balance - Ending	\$ 276,468	\$ 549,095	\$ 1,156
Composition of Fund Balance			
Bank Balance	\$ 295,420	\$ 722,583	\$ 27,364
Less: Outstanding Checks	18,952	173,488	26,208
Fund Balance - Ending	\$ 276,468	\$ 549,095	\$ 1,156

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, 2016
(Continued)

	Budgeted Funds			
	Local Government Economic Assistance Fund	Ambulance Fund	Solid Waste Fund	Total Funds
RECEIPTS				
Taxes	\$ 71,885	\$	\$	\$ 1,278,205
In Lieu Tax Payments				34,188
Excess Fees				16,156
Licenses and Permits				20,207
Intergovernmental	198,323	10,000	197,335	2,514,035
Charges for Services		802,993	456,799	1,266,486
Miscellaneous		6,765	9,351	476,038
Interest	5	6	11	102
Total Receipts	<u>270,213</u>	<u>819,764</u>	<u>663,496</u>	<u>5,605,417</u>
DISBURSEMENTS				
Current:				
General Government				953,484
Protection to Persons and Property		958,747		1,542,570
General Health and Sanitation			588,014	652,411
Social Services				62,945
Recreation and Culture				45,852
Roads				1,934,080
Debt Service		35,155	50,769	516,378
Administration		297,439	69,627	874,231
Total Disbursements		<u>1,291,341</u>	<u>708,410</u>	<u>6,581,951</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	270,213	(471,577)	(44,914)	(976,534)
Other Adjustments to Cash (Uses)				
Loan Proceeds		162,212		162,212
Leasing Receipts			145,301	988,655
Transfers From Other Funds		281,337	20,000	835,337
Transfers To Other Funds	(310,000)			(835,337)
Total Other Adjustments to Cash (Uses)	<u>(310,000)</u>	<u>443,549</u>	<u>165,301</u>	<u>1,150,867</u>
Net Change in Fund Balance	(39,787)	(28,028)	120,387	174,333
Fund Balance - Beginning (Restated)	40,521	33,973	79,977	859,429
Fund Balance - Ending	<u>\$ 734</u>	<u>\$ 5,945</u>	<u>\$ 200,364</u>	<u>\$ 1,033,762</u>
Composition of Fund Balance				
Bank Balance	\$ 734	\$ 13,595	\$ 204,885	\$ 1,264,581
Less: Outstanding Checks		7,650	4,521	230,819
Fund Balance - Ending	<u>\$ 734</u>	<u>\$ 5,945</u>	<u>\$ 200,364</u>	<u>\$ 1,033,762</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, 2016

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, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

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

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

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board* and according to the laws of Kentucky as required by the State Local Finance Officer.

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Lee County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Lee County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Lee County Fiscal Court.

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

F. Deposits and Investments

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

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

H. Joint Venture

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Venture (Continued)

Three Forks Regional Jail

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

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

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

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

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government’s deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 3. Short-term Debt

A. Health Department Building

In March 2014, Lee County Fiscal Court entered into a financing obligation agreement for \$199,140 with People’s Exchange Bank to purchase the Health Department Building. The terms of the agreement stipulate a one-year repayment schedule, with principal and interest due on March 28, 2015 with an interest rate of 2.5 percent. The outstanding principal as of June 30, 2016 was \$0. The Fiscal Court paid \$100,000 in principal on this financing obligation and refinanced the remaining principal in the amount of \$99,140.

In March 2015, Lee County Fiscal Court entered into a financing obligation agreement for \$99,140 with People’s Exchange Bank to refinance a previous financing obligation. The terms of the agreement stipulate a one-year repayment schedule, with principal and interest due on March 23, 2016 with an interest rate of 2.0 percent. The outstanding principal as of June 30, 2016 was \$0.

B. Mack Trucks

In March 2015, Lee County Fiscal Court entered into a financing obligation agreement for \$271,854 with People’s Exchange Bank to purchase two (2) Mack trucks. The county purchased heavy trucks to use for one year; then the trucks are to be sold at auction. The terms of the agreement stipulate a one-year repayment schedule, with principal and interest due on March 23, 2016 with an interest rate of 2.0 percent. The outstanding principal as of June 30, 2016 was \$0.

C. Changes in Short-term Debt

Short-term debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 370,994	\$	\$ 370,994	\$	\$
Total Short-term Debt	<u>\$ 370,994</u>	<u>\$ 0</u>	<u>\$ 370,994</u>	<u>\$ 0</u>	<u>\$ 0</u>

Note 4. Long-term Debt

A. Rear Loader – Financing Obligation

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-term Debt (Continued)

B. Blacktop Project – Financing Obligation

In August 2009, Lee County Fiscal Court entered into a financing obligation agreement for \$300,000 with the Kentucky Association of Counties Leasing Trust Program to pave county roads. The terms of the agreement stipulate an eight-year repayment schedule with variable monthly payments and variable monthly principal payments to end on August 20, 2017. The outstanding principal as of June 30, 2016 was \$49,937. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2017	\$ 42,660	\$ 1,600
2018	<u>7,277</u>	<u>89</u>
Totals	<u>\$ 49,937</u>	<u>\$ 1,689</u>

C. Heart Start Monitor – Financing Obligation

In April 2013, Lee County Fiscal Court entered into a financing obligation agreement for \$21,808 with Phillips Medical Capital to purchase a heart monitor. The terms of the agreement stipulate a forty-eight month repayment schedule with variable monthly payments and variable monthly principal payments to end on April 15, 2017. The outstanding principal as of June 30, 2016 was \$4,903. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2017	\$ 4,903	\$ 109
Totals	<u>\$ 4,903</u>	<u>\$ 109</u>

D. Dodge Garbage Trucks – Financing Obligation

In January 2014, Lee County Fiscal Court entered into a financing obligation agreement for \$171,847 with Branch Banking and Trust Company – Governmental Finance (BB&T) to purchase two new Dodge garbage trucks. The terms of the agreement stipulate a sixty month repayment schedule with an interest rate of 2.11 percent and variable monthly principal payments to end on January 10, 2019. The outstanding principal as of June 30, 2016 was \$91,107. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2017	\$ 34,657	\$ 1,587
2018	35,396	849
2019	<u>21,054</u>	<u>148</u>
Totals	<u>\$ 91,107</u>	<u>\$ 2,584</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-term Debt (Continued)

E. Case Tractor Loader Backhoe – Financing Obligation

On February 10, 2014, Lee County Fiscal Court entered into a lease agreement for \$92,861 with CNH Capital to lease a Case tractor loader backhoe. The terms of the agreement stipulate a fifty-eight month repayment schedule with an interest rate of 6.77 percent fixed rate and variable monthly payments to end on December 10, 2019. During the June 30, 2016 fiscal year, the County returned the loader. No payments were made during the June 30, 2016 fiscal year. The outstanding principal as of June 30, 2016 was \$0.

F. Mack Trucks – Financing Obligation

In April 2016, Lee County Fiscal Court entered into a financing obligation agreement for \$274,854 with the Kentucky Association of Counties to purchase Mack trucks. The county purchased heavy trucks to use for eighteen months; then the trucks are to be sold at auction. The terms of the agreement stipulate an eighteen month repayment schedule, with monthly interest payments and interest and principal due on October 20, 2017 with an interest rate of 4.55 percent. The outstanding principal as of June 30, 2016 was \$274,854.

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$	\$ 12,487
2018	<u>274,854</u>	<u>4,162</u>
Totals	<u>\$ 274,854</u>	<u>\$ 16,649</u>

G. Rear Loader with Attachments and Accessories – Financing Obligation

In June 2016, Lee County Fiscal Court entered into a financing obligation agreement for \$145,301 with TCF Equipment Finance to purchase of a rear loader with attachments and accessories. The terms of the agreement stipulate a forty-eight month repayment schedule with an interest rate of 2.94 percent fixed rate and variable monthly payments to end on May 4, 2020. The outstanding principal as of June 30, 2016 was \$142,444. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 34,828	\$ 3,715
2018	35,865	2,679
2019	36,932	1,612
2020	<u>34,819</u>	<u>513</u>
Totals	<u>\$ 142,444</u>	<u>\$ 8,519</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-term Debt (Continued)

H. Bridge Repair – Financing Obligation

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

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 240,634	\$ 23,598
2018	<u>249,366</u>	<u>11,356</u>
Totals	<u>\$ 490,000</u>	<u>\$ 34,954</u>

I. Ambulance – Financing Obligation

In August 2015, Lee County Fiscal Court entered into a financing obligation agreement for \$162,212 with People’s Exchange Bank to purchase an ambulance. The terms of the agreement stipulate a sixty-month repayment schedule with an interest rate of 2.95 percent fixed rate and variable monthly payments to end on August 21, 2020. The outstanding principal as of June 30, 2016 was \$136,839. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 31,305	\$ 3,667
2018	32,255	2,718
2019	33,233	1,739
2020	34,239	733
2021	<u>5,807</u>	<u>22</u>
Totals	<u>\$ 136,839</u>	<u>\$ 8,879</u>

J. Dodge Trucks with Salt Spreading Attachments – Financing Obligation

In January, 2016, Lee County Fiscal Court entered into a financing obligation agreement for \$78,500 with People’s Exchange Bank to purchase Dodge trucks. The terms of the agreement stipulate a thirty-six month repayment schedule of monthly principal and interest to end on January 28, 2019 with an interest rate of 3.25 percent. The outstanding principal as of June 30, 2016 was \$68,054. Future principal and interest requirements are:

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-term Debt (Continued)

J. Dodge Trucks with Salt Spreading Attachments – Financing Obligation (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 25,660	\$ 1,858
2018	26,518	1,000
2019	15,876	176
Totals	<u>\$ 68,054</u>	<u>\$ 3,034</u>

K. Long-term Debt Maturity in the Aggregate

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 414,647	\$ 48,621
2018	661,531	22,853
2019	107,095	3,675
2020	69,058	1,246
2021	5,807	22
Totals	<u>\$ 1,258,138</u>	<u>\$ 76,417</u>

L. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	<u>\$ 305,075</u>	<u>\$ 1,150,867</u>	<u>\$ 197,804</u>	<u>\$ 1,258,138</u>	<u>\$ 414,647</u>
Total Long-term Debt	<u>\$ 305,075</u>	<u>\$ 1,150,867</u>	<u>\$ 197,804</u>	<u>\$ 1,258,138</u>	<u>\$ 414,647</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Employee Retirement System

Plan Description

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

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$307,256, FY 2015 was \$ 286,135, and FY 2016 was \$284,633.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

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

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Employee Retirement System (Continued)

Plan Description (Continued)

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

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/employers/DASB/Pages/GASB-Library.aspx>. 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. Subsequent Events

As of July 1, 2016, Lee County Fiscal Court will no longer be operating an ambulance service. They have entered an agreement for ambulance services within the county with a private company.

Subsequent events have been evaluated through January 25, 2017, which is the date the financial statements were available to be issued.

Note 7. Insurance

For the fiscal year ended June 30, 2016, Lee County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses. There have been no settlements that have exceeded insurance coverage for each of the past three fiscal years.

Note 8. Related Party Transactions

The county paid \$1,820 to Marshall's Catering to cater the county employees' Christmas dinner. Marshall's Catering is owned by Everett Marshall, a magistrate.

The county paid Christopher Noe \$100 to provide the sound system for county functions. Christopher is the son of Dean Noe, a magistrate.

The county paid Rodney Ross \$13,924 for repairs on county vehicles. Rodney is the son of Leonard Carl Ross, a magistrate.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 9. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 112,000	\$	\$ 112,000
Road Fund	112,000			112,000
Jail Fund	20,000		290,000	310,000
Ambulance Fund	281,337			281,337
Solid Waste Fund			20,000	20,000
Total Transfers Out	<u>\$ 413,337</u>	<u>\$ 112,000</u>	<u>\$ 310,000</u>	<u>\$ 835,337</u>

Reason for transfers:

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

Note 10. Prior Period Adjustment

General Fund Balance – Beginning as previously reported has been restated and increased by \$64 for a prior year voided check.

Solid Waste Fund Balance – Beginning as previously reported has been restated and increased by \$33 for a prior year voided check.

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

For The Year Ended June 30, 2016

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,395,800	\$ 1,395,800	\$ 1,206,320	\$ (189,480)
In Lieu Tax Payments	4,800	4,800	13,122	8,322
Excess Fees	23,775	23,775	16,156	(7,619)
Licenses and Permits	18,000	18,000	20,207	2,207
Intergovernmental	298,446	321,151	344,224	23,073
Charges for Services	8,000	8,000	6,694	(1,306)
Miscellaneous	62,531	102,809	139,224	36,415
Interest	30	30	44	14
Total Receipts	<u>1,811,382</u>	<u>1,874,365</u>	<u>1,745,991</u>	<u>(128,374)</u>
DISBURSEMENTS				
General Government	998,395	1,031,017	953,484	77,533
Protection to Persons and Property	191,598	198,618	185,961	12,657
General Health and Sanitation	38,300	75,368	64,397	10,971
Social Services	65,120	65,246	62,945	2,301
Recreation and Culture	52,133	49,193	45,852	3,341
Debt Service	101,156	101,156	100,622	534
Capital Projects	18,500	8,500		8,500
Administration	388,198	388,569	362,585	25,984
Total Disbursements	<u>1,853,400</u>	<u>1,917,667</u>	<u>1,775,846</u>	<u>141,821</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(42,018)	(43,302)	(29,855)	13,447
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			112,000	112,000
Transfers To Other Funds	(314,228)	(350,228)	(413,337)	(63,109)
Total Other Adjustments to Cash (Uses)	<u>(314,228)</u>	<u>(350,228)</u>	<u>(301,337)</u>	<u>48,891</u>
Net Change in Fund Balance	(356,246)	(393,530)	(331,192)	62,338
Fund Balance - Beginning (Restated)	<u>356,246</u>	<u>392,246</u>	<u>607,660</u>	<u>215,414</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (1,284)</u>	<u>\$ 276,468</u>	<u>\$ 277,752</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 2,000	\$ 21,066	\$ 21,066	\$ 0
Intergovernmental	1,061,842	1,184,890	1,683,670	498,780
Miscellaneous	253,500	297,713	308,812	11,099
Interest	10	10	31	21
Total Receipts	<u>1,317,352</u>	<u>1,503,679</u>	<u>2,013,579</u>	<u>509,900</u>
DISBURSEMENTS				
Roads	850,886	1,943,479	1,934,080	9,399
Debt Service	320,366	330,047	329,832	215
Administration	146,100	155,557	126,718	28,839
Total Disbursements	<u>1,317,352</u>	<u>2,429,083</u>	<u>2,390,630</u>	<u>38,453</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(925,404)	(377,051)	548,353
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			112,000	112,000
Transfers To Other Funds			(112,000)	(112,000)
Leasing Receipts		843,404	843,354	(50)
Total Other Adjustments to Cash (Uses)		<u>843,404</u>	<u>843,354</u>	<u>(50)</u>
Net Change in Fund Balance		(82,000)	466,303	548,303
Fund Balance - Beginning		<u>82,000</u>	<u>82,792</u>	<u>792</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 549,095</u>	<u>\$ 549,095</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 65,800	\$ 65,800	\$ 80,483	\$ 14,683
Miscellaneous	100	100	11,886	11,786
Interest	10	10	5	(5)
Total Receipts	<u>65,910</u>	<u>65,910</u>	<u>92,374</u>	<u>26,464</u>
DISBURSEMENTS				
Protection to Persons and Property	370,800	403,666	397,862	5,804
Administration	19,459	20,809	17,862	2,947
Total Disbursements	<u>390,259</u>	<u>424,475</u>	<u>415,724</u>	<u>8,751</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(324,349)	(358,565)	(323,350)	35,215
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>315,286</u>	<u>351,286</u>	<u>310,000</u>	<u>(41,286)</u>
Total Other Adjustments to Cash (Uses)	<u>315,286</u>	<u>351,286</u>	<u>310,000</u>	<u>(41,286)</u>
Net Change in Fund Balance	(9,063)	(7,279)	(13,350)	(6,071)
Fund Balance - Beginning	<u>9,063</u>	<u>9,063</u>	<u>14,506</u>	<u>5,443</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 1,784</u>	<u>\$ 1,156</u>	<u>\$ (628)</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$	\$	\$ 71,885	71,885
Intergovernmental	213,276	213,276	198,323	(14,953)
Interest	10	10	5	(5)
Total Receipts	213,286	213,286	270,213	56,927
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(315,286)	(315,286)	(310,000)	5,286
Total Other Adjustments to Cash (Uses)	(315,286)	(315,286)	(310,000)	5,286
Net Change in Fund Balance	(102,000)	(102,000)	(39,787)	62,213
Fund Balance - Beginning	102,000	102,000	40,521	(61,479)
Fund Balance - Ending	\$ 0	\$ 0	\$ 734	\$ 734

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 10,000	\$ 10,000	\$ 10,000	\$ 0
Charges For Services	852,000	852,000	802,993	(49,007)
Miscellaneous	2,000	2,000	6,765	4,765
Interest	10	10	6	(4)
Total Receipts	<u>864,010</u>	<u>864,010</u>	<u>819,764</u>	<u>(44,246)</u>
DISBURSEMENTS				
Protection to Persons and Property	862,187	986,726	958,747	27,979
Debt Service	6,013	35,159	35,155	4
Administration	305,803	314,830	297,439	17,391
Total Disbursements	<u>1,174,003</u>	<u>1,336,715</u>	<u>1,291,341</u>	<u>45,374</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(309,993)	(472,705)	(471,577)	1,128
Other Adjustments to Cash (Uses)				
Loan Proceeds		162,212	162,212	0
Transfers From Other Funds	281,337	281,337	281,337	0
Total Other Adjustments to Cash (Uses)	<u>281,337</u>	<u>443,549</u>	<u>443,549</u>	<u>0</u>
Net Change in Fund Balance	(28,656)	(29,156)	(28,028)	1,128
Fund Balance - Beginning	<u>28,656</u>	<u>28,656</u>	<u>33,973</u>	<u>5,317</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (500)</u>	<u>\$ 5,945</u>	<u>\$ 6,445</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$		\$ 193,335	\$ 4,000
Charges for Services		430,000	456,799	26,799
Miscellaneous		3,100	9,351	6,251
Interest		10	11	1
Total Receipts		<u>433,110</u>	<u>663,496</u>	<u>37,051</u>
DISBURSEMENTS				
General Health and Sanitation		369,799	588,014	140,167
Debt Service		47,933	50,769	1
Administration		95,320	69,627	3,110
Total Disbursements		<u>513,052</u>	<u>708,410</u>	<u>143,278</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(79,942)	(44,914)	180,329
Other Adjustments to Cash (Uses)				
Solid Waste Truck Lease			145,301	0
Transfers From Other Funds		32,891	20,000	(12,891)
Total Other Adjustments to Cash (Uses)		<u>32,891</u>	<u>165,301</u>	<u>(12,891)</u>
Net Change in Fund Balance		(47,051)	120,387	167,438
Fund Balance - Beginning (Restated)		<u>47,051</u>	<u>79,977</u>	<u>32,926</u>
Fund Balance - Ending	\$	<u>0</u>	\$ 200,364	\$ 200,364

LEE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION – BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board* and according to the laws of Kentucky as required by the State Local Finance Officer.

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**LEE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2016**

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

For The Year Ended June 30, 2016

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 337,211	\$	\$	\$ 337,211
Construction In Progress	34,446			34,446
Land Improvements	362,083			362,083
Buildings and Building Improvements	3,220,040	41,278		3,261,318
Vehicles and Equipment (Restated)	3,334,144	432,153	260,360	3,505,937
Infrastructure	5,549,979	857,810		6,407,789
 Total Capital Assets	 <u>\$ 12,837,903</u>	 <u>\$ 1,331,241</u>	 <u>\$ 260,360</u>	 <u>\$ 13,908,784</u>

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

June 30, 2016

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

Morgan-Franklin, LLC

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Lee County Fiscal Court for the year ended June 30, 2016, and the related notes to the financial statement, which collectively comprise Lee County Fiscal Court's financial statement and have issued our report thereon dated January 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Lee County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Lee County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of Lee County Fiscal Court's internal control.

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

Our consideration of internal control 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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying comments and recommendations as items 2016-001 and 2016-002 that we consider to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lee County Fiscal Court's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as item 2016-001 and 2016-002.

Lee County Judge/Executive's Responses to Findings

Lee County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. Lee County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Morgan - Franklin, LLC

Morgan-Franklin, LLC
West Liberty, Kentucky

January 25, 2017

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2016

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES/NONCOMPLIANCES

2016-001 The Fiscal Court Lacks Adequate Internal Controls Over Payroll

Condition: During our testing of payroll, we tested nineteen (19) employees and we noted the following:

- Health insurance withholding amounts, although consistent for all individuals tested, did not appear to be approved by the fiscal court.
- Pay stub sick and vacation leave balances do not agree to employee leave benefit history detail reports.
- One employee is receiving retirement benefits, but does not appear to be working the required 100 hours on average per month.
- One employee indicated zero hours on their timesheet, but received a salary of \$200.
- One employee's time sheet was not signed by a supervisor.
- One employee did not have a time sheet and is participating in county retirement and receiving health insurance benefits.
- One employee received a salary of \$592 for working 10.5 hours. This equates to an hourly wage of \$56.38 for the two week period tested. This employee also participated in county retirement and health insurance benefits.
- Two employees appear to be working more than 100 hours per month on average, but are not participating in county retirement.
- Four (4) employees have accrued vacation hours in excess of their allowable maximum, per the County's administrative code.

Criteria:

- The fiscal court should approve and document in the minutes any change in the amount to withhold from an employee's paycheck as contribution toward an employee's health insurance.
- The employee's pay stub leave balance and the employee leave benefit history detail reports should match on any given date. These forms should be compared occasionally throughout the year.
- Employees working on average greater than 100 hours per month should participate in county retirement; conversely, employees not working on average greater than 100 hours per month should not participate in county retirement. An employee will work more than 100 hours on average when they consistently work 23.07 hours per week (1200 hours/52 weeks) or 46.15 bi-weekly (1200 hours/26 weeks).
- There should be a minimum number of hours a person is required to work to receive a salary. This amount should be greater than zero.
- A supervisor should sign all employee timesheets. Paychecks should not be generated without a supervisor's signature.
- Pursuant to KRS 337.320 (1), Every employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES/NONCOMPLIANCES (Continued)

2016-001 The Fiscal Court Lacks Adequate Internal Controls Over Payroll (Continued)

Criteria (Continued)

- Per Section 370.1, 370.2, 370.4 and 380.0 of the County’s Employee Handbook, A full-time employee is one who works a minimum forty hours per week on a regularly scheduled basis. A part-time employee is one who works less than forty hours per week on a regularly scheduled basis for six months or longer. Full-time employees shall be entitled to all benefits as provided in this article. The work week for all regular full-time employees for the purposes of work, pay, sick leave, vacation, and other benefits is forty hours.
- Per the County’s current administrative code, “Vacation time shall not be accumulated in excess of two (2) regular full-time workweeks based on a forty (40) hour workweek beginning the second calendar year of full-time employment. After ten (10) years of continuous employment an employee shall accumulate three (3) regular full-time workweeks based on a forty (40) hour workweek...”

Effect:

- The fiscal court may not be aware of the amount withheld from County employees’ paychecks.
- Employees may believe they have more or less accrued leave than they actual have.
- Employees’ are receiving benefits when they are not eligible or are not receiving benefits when they are eligible.
- Paychecks are being paid without proper authorization.
- Employees are being paid for working 40 hours per week when they have not actually worked 40 hours per week.
- Employees are being paid without presenting a time sheet as required by Kentucky Revised Statutes.

Cause: Lack of internal controls over payroll processing.

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

Lee County’s Response: as discussed, we will work on issues

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES/NONCOMPLIANCES (Continued)

2016-002 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements

Condition: During our disbursement testing, we noted the following:

- One instance in which there was an invoice missing for part of a payment.
- Thirteen instances in which a purchase order was not attached to the invoice.
- Two instances in which the purchase orders did not agree to the invoice.
- One instance in which the supporting documentation provided was a statement rather than the original invoice.
- The Judge's Secretary is signing the Judge's name on checks.
- The claims list was not made an official part of the fiscal court minutes and filed in the same manner as the official minutes.
- The county did not advertise for bids for cold mix; however cold mix expenditures exceeded \$20,000.
- The fiscal court made a state contract price purchase; however, we were not provided with evidence that the item purchased met the specification in the state price contract.

Criteria:

- All disbursements should be supported by adequate original documentation.
- 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.
- Pursuant to KRS 68.275 (1), Claims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the county judge/executive by a warrant drawn on the county and co-signed by the county treasurer. The judge/executive may designate an individual to sign checks. The individual should be approved by the fiscal court as a check signer and should be added to the bank's authorized check signers. The designee should then sign checks using his/her own name.
- Pursuant to KRS 67.100 (2), "Every official action of the fiscal court shall be made a part of the permanent records of the county. (5) "A copy of all records required by this section shall be kept in the office of the county clerk.
- Pursuant to KRS 424.260 (1), Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement of r bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.
- Documentation should be maintained that proves the item purchased was the item included in the state price contract.

**LEE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES/NONCOMPLIANCES (Continued)

2016-002 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements (Continued)

Effect:

- Claims lists are not being maintained in the same manner as minutes of the fiscal court.
- Purchases are being made without proper authorization.
- The Judge/Executive's signature is being signed by someone other than the Judge/Executive.
- Claims are being paid without adequate supporting documentation.
- Purchases exceeding \$20,000 from one supplier were made without first making a newspaper advertisement for bids.
- Purchases made by state price contract may not be for the items included in the state price contract requiring compliance with KRS 424.260.

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 findings listed under the condition section above. The Fiscal Court may determine the controls listed above under the criteria section are adequate or may decide to implement other controls to eliminate such internal control weaknesses in the future.

Lee County's Response: we will try to correct & eliminate in the coming year

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

LEE COUNTY FISCAL COURT

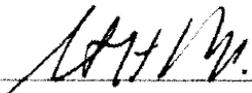
**For The Fiscal Year Ended
June 30, 2016**

Appendix A

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

For The Fiscal Year Ended June 30, 2016

Lee County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Steven Mays
County Judge/Executive



Joann Coldiron
County Treasurer