

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Jim W. Adams, Lincoln County Judge/Executive
Members of the Lincoln 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 Lincoln County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Lincoln 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.



To the People of Kentucky
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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 Lincoln 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 Lincoln County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Lincoln County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Lincoln County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule 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 Capital Asset Schedule 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 Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
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Members of the Lincoln County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2019, on our consideration of the Lincoln County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lincoln 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 findings:

- 2018-001 The Lincoln County Fiscal Court Did Not Follow Proper Bidding Procedures
- 2018-002 The Lincoln County Fiscal Court Did Not Maintain Proper Records For The Public Properties Corporation Fund

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 16, 2019

LINCOLN COUNTY OFFICIALS**For The Year Ended June 30, 2018****Fiscal Court Members:**

Jim W. Adams	County Judge/Executive
David Faulkner	Magistrate
Johnnie Padgett	Magistrate
Joseph Stanley	Magistrate
Lonnie Pruitt	Magistrate

Other Elected Officials:

Daryl Day	County Attorney
Rob Wilson	Jailer
George O. Spoonamore, IV	County Clerk
Teresa Reed	Circuit Court Clerk
Curt Folger	Sheriff
David Gambrel	Property Valuation Administrator
Farris Marcum	Coroner

Appointed Personnel:

Lee Ann Smith	County Treasurer
Rhonda McBee	Occupational Tax Administrator
Darlene Lanham	Finance Officer

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 2,833,678	\$	\$
Excess Fees	30,451		
Licenses and Permits	46,062		
Intergovernmental	251,414	2,074,015	1,368,767
Charges for Services	141,476		68,563
Miscellaneous	133,060	24,689	124,418
Interest	496	52	17
Total Receipts	<u>3,436,637</u>	<u>2,098,756</u>	<u>1,561,765</u>
DISBURSEMENTS			
General Government	1,089,572		
Protection to Persons and Property	196,711		1,299,648
General Health and Sanitation	242,151	56,187	
Social Services	98,894		
Recreation and Culture	53,406	2,870	
Roads		1,236,259	
Debt Service	171,421	17,916	
Capital Projects		542,538	
Administration	648,463	399,790	389,152
Total Disbursements	<u>2,500,618</u>	<u>2,255,560</u>	<u>1,688,800</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>936,019</u>	<u>(156,804)</u>	<u>(127,035)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	4,501	200,000	200,000
Transfers To Other Funds	(794,500)		
Total Other Adjustments to Cash (Uses)	<u>(789,999)</u>	<u>200,000</u>	<u>200,000</u>
Net Change in Fund Balance	146,020	43,196	72,965
Fund Balance - Beginning (Restated)	2,008,759	129,274	153,348
Fund Balance - Ending	<u>\$ 2,154,779</u>	<u>\$ 172,470</u>	<u>\$ 226,313</u>
Composition of Fund Balance			
Bank Balance	\$ 1,915,466	\$ 234,832	\$ 290,663
Less: Outstanding Checks	(61,027)	(62,362)	(64,350)
Certificates of Deposit	300,340		
Fund Balance - Ending	<u>\$ 2,154,779</u>	<u>\$ 172,470</u>	<u>\$ 226,313</u>

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

LINCOLN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Budgeted Funds			
Local Government Economic Assistance Fund	Federal Grant Fund	Parks and Recreation Fund	Insurance Fund
\$	\$	\$	\$
511	18,475	45,866	
		29,241	
		35	94
<u>511</u>	<u>18,475</u>	<u>75,142</u>	<u>94</u>
		211,339	
16,605		174,212	
	23,775		
		58,345	
<u>16,605</u>	<u>23,775</u>	<u>443,896</u>	
<u>(16,094)</u>	<u>(5,300)</u>	<u>(368,754)</u>	<u>94</u>
	25,000	365,000	
	(1)		
	<u>24,999</u>	<u>365,000</u>	
(16,094)	19,699	(3,754)	94
16,946	1	33,562	188,984
<u>\$ 852</u>	<u>\$ 19,700</u>	<u>\$ 29,808</u>	<u>\$ 189,078</u>
\$ 852	\$ 21,600	\$ 45,277	\$ 189,078
	(1,900)	(15,469)	
<u>\$ 852</u>	<u>\$ 19,700</u>	<u>\$ 29,808</u>	<u>\$ 189,078</u>

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

LINCOLN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

	<u>Unbudgeted Funds</u>		
	<u>Public Properties Corporation Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 2,833,678
Excess Fees			30,451
Licenses and Permits			46,062
Intergovernmental	123,988		3,837,170
Charges for Services			255,905
Miscellaneous		172,460	483,868
Interest	28		722
Total Receipts	<u>124,016</u>	<u>172,460</u>	<u>7,487,856</u>
DISBURSEMENTS			
General Government			1,089,572
Protection to Persons and Property			1,496,359
General Health and Sanitation			298,338
Social Services			98,894
Recreation and Culture		127,807	395,422
Roads			1,252,864
Debt Service	123,988		487,537
Capital Projects			566,313
Administration			1,495,750
Total Disbursements	<u>123,988</u>	<u>127,807</u>	<u>7,181,049</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>28</u>	<u>44,653</u>	<u>306,807</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			794,501
Transfers To Other Funds			(794,501)
Total Other Adjustments to Cash (Uses)			
Net Change in Fund Balance	28	44,653	306,807
Fund Balance - Beginning (Restated)	3,280	10,336	2,544,490
Fund Balance - Ending	<u>\$ 3,308</u>	<u>\$ 54,989</u>	<u>\$ 2,851,297</u>
Composition of Fund Balance			
Bank Balance	\$ 3,308	\$ 55,420	\$ 2,756,496
Less: Outstanding Checks		(431)	(205,539)
Certificates of Deposit			300,340
Fund Balance - Ending	<u>\$ 3,308</u>	<u>\$ 54,989</u>	<u>\$ 2,851,297</u>

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

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TO THE FINANCIAL STATEMENT**

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**LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Lincoln County includes all budgeted and unbudgeted funds under the control of the Lincoln 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.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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 grant activity of the county. The primary source of receipts for this fund is federal and state grants.

Parks & Recreation Fund – The primary purpose of this fund is to account for the parks activity and recreation programs of the county. The primary source of receipts for this fund is charges for services and transfers from the fiscal court.

Insurance Fund – The primary purpose of this fund is to account for some insurance proceeds of the county. The primary source of receipts for this fund is insurance proceeds.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

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.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The state local finance officer does not require the public properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Lincoln County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Lincoln 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 Lincoln 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.

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

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, 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 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 KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, 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 2018.

	General Fund	Federal Grant Fund	Total Transfers In
General Fund	\$ 4,500	\$ 1	\$ 4,501
Road Fund	200,000		200,000
Jail Fund	200,000		200,000
Federal Grant Fund	25,000		25,000
Parks & Recreation Fund	365,000		365,000
Total Transfers Out	<u>\$ 794,500</u>	<u>\$ 1</u>	<u>\$ 794,501</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. Agency Trust Funds

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2018, was \$44,713.

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

Note 5. Long-term Debt

A. General Obligation Improvement Bonds, Series 2012

On March 14, 2012, the Lincoln County Fiscal Court issued General Obligation Improvement Bonds, Series 2012, in the principal amount of \$1,460,000 for the purpose of refunding the General Obligation Improvement Bonds, Series 2004. Principal payments are due annually by August 1 and interest payments are due bi-annually on February 1 and August 1.

The outstanding principal balance as of June 30, 2018 is \$935,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 125,000	\$ 18,669
2020	130,000	16,437
2021	130,000	13,838
2022	135,000	10,856
2023	125,000	7,819
2024-2025	290,000	6,412
Totals	<u>\$ 935,000</u>	<u>\$ 74,031</u>

B. First Mortgage Refunding Revenue Bonds, Series 2012

On August 7, 2012, the Public Properties Corporation issued \$1,340,000 in First Mortgage Revenue Refunding Bonds, Series 2012, with interest rates ranging between 2.00% and 2.75%. The corporation issued the bonds to advance refund \$1,300,000 of the outstanding First Mortgage Revenue Bonds, Series 2004, which had interest rates ranging between 2.00% and 4.60%. The corporation used the net proceeds to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2004 series bonds. As a result, that portion of the 2004 series bonds is considered defeased, and the corporation has removed the liability from its accounts.

As of June 30, 2018, the outstanding principal balance is \$875,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2019	\$ 100,000	\$ 21,988
2020	100,000	19,738
2021	105,000	17,488
2022	110,000	15,125
2023	100,000	12,375
2024-2026	360,000	19,386
Totals	<u>\$ 875,000</u>	<u>\$ 106,100</u>

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

Note 5. Long-term Debt (Continued)

C. Emergency Communications Building Renovation (Financing Obligation and Note Receivable)

On February 14, 2005, the Lincoln County Fiscal Court entered into a 20-year agreement with KACO Leasing Trust for renovations to the Emergency Communications Building in the amount of \$130,295. Principal payments are due annually by July 20 and interest payments are due monthly. The county subsequently entered into a verbal agreement with the Emergency Communication Commission, which reimburses the county for the payments.

The outstanding principal balance as of June 30, 2018 is \$65,295. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 5,000	\$ 3,811
2020	15,000	2,929
2021	10,000	2,273
2022	10,000	1,650
2023	10,000	1,025
2024-2025	<u>15,295</u>	<u>430</u>
Totals	<u>\$ 65,295</u>	<u>\$ 12,118</u>

D. City of Stanford – (Financing Obligation and Note Receivable)

On April 6, 1996, the Lincoln County Fiscal Court entered into a 23-year agreement with KACO Leasing Trust for the City of Stanford's Pine Hall Water Project in the amount of \$525,000. Principal payments are due annually on January 20 and interest payments are due monthly. On that same date, Lincoln County Fiscal Court and the City of Stanford entered into an agreement which stated the City of Stanford will reimburse the County all payments as set out in the County's KACO Leasing Trust agreement.

The outstanding principal balance as of June 30, 2018 is \$36,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	<u>\$ 36,000</u>	<u>\$ 1,978</u>
Totals	<u>\$ 36,000</u>	<u>\$ 1,978</u>

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

Note 5. Long-term Debt (Continued)

E. Fire Station

On August 31, 2004, the Lincoln County Fiscal Court entered into a 20-year agreement with KACO Leasing Trust for the acquisition of land for a county fire station in the amount of \$190,000. Principal and interest payments are due monthly. The county subsequently entered into a verbal agreement with the fire district, which reimburses the county for the payments.

The outstanding principal balance as of June 30, 2018 is \$74,905. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 10,746	\$ 3,881
2020	11,191	3,283
2021	11,654	2,651
2022	12,137	1,996
2023	12,640	1,314
2024-2025	<u>16,537</u>	<u>642</u>
Totals	<u>\$ 74,905</u>	<u>\$ 13,767</u>

F. Senior Citizens Center

On May 16, 2001, the Lincoln County Fiscal Court entered into a 20-year agreement with KACO Leasing Trust for the construction of a senior citizens center in the amount of \$640,000. Principal payments are due annually by January 20 and interest payments are due monthly.

The outstanding principal balance as of June 30, 2018 is \$140,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 45,000	\$ 6,889
2020	45,000	4,332
2021	<u>50,000</u>	<u>1,657</u>
Totals	<u>\$ 140,000</u>	<u>\$ 12,878</u>

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

Note 5. Long-term Debt (Continued)

G. Courthouse Annex

On June 24, 1999, the Lincoln County Fiscal Court entered into a 20-year agreement with KADD Financing Trust for the construction costs to complete the second floor of the courthouse annex, financed through Fifth Third Bank. In accordance with an agreement between the Administrative Office of the Courts (AOC) and the Lincoln County Fiscal Court dated April 15, 1998, AOC agreed to participate in providing part of the costs of completing the second floor of the courthouse annex through use allowance payments. As of October 1, 2004, AOC agreed to provide all of the costs associated with the KADD Revenue Bonds directly to the bond trustee.

On December 1, 2009, the Lincoln County Fiscal Court refinanced this lease with KADD Financing Trust through The Bank of New York Mellon Trust Company, due to Fifth Third Bank no longer participating with this program. The beginning balance of the new lease was \$230,000. Principal payments are due annually on May 20, and interest payments are due bi-annually on May 20 and November 20.

The outstanding principal balance as of June 30, 2018 is \$50,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 25,000	\$ 2,750
2020	25,000	1,625
Totals	<u>\$ 50,000</u>	<u>\$ 4,375</u>

H. Park Lighting

On October 6, 2008, the Lincoln County Fiscal Court entered into a 27-year agreement with KACO Leasing Trust for lighting in the county park in the amount of \$425,000. Principal payments are due annually by January 20 and interest payments are due annually.

The outstanding principal balance as of June 30, 2018 is \$325,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 10,000	\$ 20,411
2020	15,000	19,682
2021	15,000	18,701
2022	15,000	17,774
2023	15,000	16,834
2024-2028	75,000	70,090
2029-2033	95,000	44,153
2034-2037	85,000	12,653
Totals	<u>\$ 325,000</u>	<u>\$ 220,298</u>

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

Note 5. Long-term Debt (Continued)

I. County Clerk Hardware Upgrade (Financing Obligation and Note Receivable)

On October 13, 2009, the Lincoln County Fiscal Court entered into a 10-year agreement with KACO Leasing Trust to finance the upgrade of computer equipment for the county clerk's office in the amount of \$25,000. Principal and interest payments are due monthly. The county subsequently entered into a sublease agreement with the county clerk in which the county clerk reimburses the county for the payments.

The outstanding principal balance as of June 30, 2018 is \$3,979. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 2,964	\$ 368
2020	<u>1,015</u>	<u>81</u>
Totals	<u>\$ 3,979</u>	<u>\$ 449</u>

J. Police Cruisers

On April 11, 2017, the Lincoln County Fiscal Court entered into a 5 year agreement with First Southern National Bank for four police cruisers in the amount of \$131,682 with an interest rate of 2.75%. Principal and interest payments are due monthly.

The outstanding principal balance as of June 30, 2018 is \$102,584. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 25,730	\$ 2,499
2020	26,442	1,787
2021	27,183	1,046
2022	<u>23,229</u>	<u>295</u>
Totals	<u>\$ 102,584</u>	<u>\$ 5,627</u>

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

Note 5. Long-term Debt (Continued)

K. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 1,060,000	\$	\$ 125,000	\$ 935,000	\$ 125,000
Revenue Bonds	975,000		100,000	875,000	100,000
Financing Obligations	950,961		153,198	797,763	160,440
Total Long-term Debt	<u>\$ 2,985,961</u>	<u>\$</u>	<u>\$ 378,198</u>	<u>\$ 2,607,763</u>	<u>\$ 385,440</u>

Note 6. Changes in Notes Receivable

Notes receivable activity for the year ended June 30, 2018 was as follows:

	Beginning Balance (*Restated)	Additions	Reductions	Ending Balance
Emergency Communication Commission	\$ 70,295	\$	\$ 5,000	\$ 65,295
City of Stanford*	71,000		35,000	36,000
Fire Districts*	85,224		10,319	74,905
County Clerk*	6,826		2,846	3,980
	<u>\$ 233,345</u>	<u>\$</u>	<u>\$ 53,165</u>	<u>\$ 180,180</u>

*Beginning balances were restated due to prior year errors.

Note 7. 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.

The county's contribution for FY 2016 was \$328,268, FY 2017 was \$359,771, and FY 2018 was \$380,885.

Nonhazardous

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.

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

Note 7. Employee Retirement System (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own 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.

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

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

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage – Tier 1

CERS 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.

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

Note 7. Employee Retirement System (Continued)

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

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

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

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

C. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for 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 Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS 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.

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

Note 8. Deferred Compensation

The Lincoln County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Health Reimbursement Account

The Lincoln County Fiscal Court established a health reimbursement account to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing an amount based on health insurance selected by the employee, each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 10. Insurance

For the fiscal year ended June 30, 2018, the Lincoln 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.

Note 11. Lease Agreement

On April 26, 2017, the Lincoln County Fiscal Court entered into a lease agreement with Enterprise FM Trust to lease a vehicle for use by the Lincoln County Fiscal Court. Enterprise FM Trust will, on or about the date of delivery of each vehicle, include a description of the vehicle, the lease term, monthly rental and other payments due with respect to the vehicle. The agreement is a lease only and the county will not have right, title, or interest in or to the vehicles except for the use of the vehicles as described in the agreement. The lease term commences on the delivery date of the vehicle and ends either 60 months after the first full month rental payment date with an option to continue month-to-month for an unlimited period of time. During fiscal year 2018, lease payments totaled \$14,323, which included additional fees. The agreement requires a monthly lease payment of \$1,233 through July 2022.

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

Note 12. Prior Period Adjustments

The beginning balance for the general fund was restated by (\$259) and the road fund beginning balance was restated by \$180 due to errors and omissions in prior years.

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LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 2,435,000	\$ 2,435,000	\$ 2,833,678	\$ 398,678
Excess Fees	90,604	90,604	30,451	(60,153)
Licenses and Permits	33,655	33,655	46,062	12,407
Intergovernmental	159,266	186,329	251,414	65,085
Charges for Services	121,050	121,050	141,476	20,426
Miscellaneous	119,338	119,338	133,060	13,722
Interest	400	400	496	96
Total Receipts	<u>2,959,313</u>	<u>2,986,376</u>	<u>3,436,637</u>	<u>450,261</u>
DISBURSEMENTS				
General Government	1,108,214	1,239,470	1,089,572	149,898
Protection to Persons and Property	195,560	227,135	196,711	30,424
General Health and Sanitation	255,100	265,400	242,151	23,249
Social Services	97,000	98,900	98,894	6
Recreation and Culture	23,200	74,763	53,406	21,357
Debt Service	142,848	142,879	171,421	(28,542)
Administration	1,804,509	1,604,947	648,463	956,484
Total Disbursements	<u>3,626,431</u>	<u>3,653,494</u>	<u>2,500,618</u>	<u>1,152,876</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(667,118)</u>	<u>(667,118)</u>	<u>936,019</u>	<u>1,603,137</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			4,501	4,501
Transfers To Other Funds	(1,326,882)	(1,326,882)	(794,500)	532,382
Total Other Adjustments to Cash (Uses)	<u>(1,326,882)</u>	<u>(1,326,882)</u>	<u>(789,999)</u>	<u>536,883</u>
Net Change in Fund Balance	(1,994,000)	(1,994,000)	146,020	2,140,020
Fund Balance - Beginning (Restated)	<u>1,994,000</u>	<u>1,994,000</u>	<u>2,008,759</u>	<u>14,759</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,154,779</u>	<u>\$ 2,154,779</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,691,032	\$ 1,866,032	\$ 2,074,015	\$ 207,983
Miscellaneous	20,550	20,550	24,689	4,139
Interest	50	50	52	2
Total Receipts	<u>1,711,632</u>	<u>1,886,632</u>	<u>2,098,756</u>	<u>212,124</u>
DISBURSEMENTS				
General Health and Sanitation	48,000	56,500	56,187	313
Recreation and Culture	6,270	6,270	2,870	3,400
Roads	1,336,494	1,302,294	1,236,259	66,035
Debt Service	35,000	35,000	17,916	17,084
Capital Projects	319,659	543,159	542,538	621
Administration	451,500	428,700	399,790	28,910
Total Disbursements	<u>2,196,923</u>	<u>2,371,923</u>	<u>2,255,560</u>	<u>116,363</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(485,291)</u>	<u>(485,291)</u>	<u>(156,804)</u>	<u>328,487</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>355,291</u>	<u>355,291</u>	<u>200,000</u>	<u>(155,291)</u>
Total Other Adjustments to Cash (Uses)	<u>355,291</u>	<u>355,291</u>	<u>200,000</u>	<u>(155,291)</u>
Net Change in Fund Balance	(130,000)	(130,000)	43,196	173,196
Fund Balance - Beginning (Restated)	<u>130,000</u>	<u>130,000</u>	<u>129,274</u>	<u>(726)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 172,470</u>	<u>\$ 172,470</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,032,058	\$ 1,032,058	\$ 1,368,767	\$ 336,709
Charges for Services	70,000	70,000	68,563	(1,437)
Miscellaneous	134,150	134,150	124,418	(9,732)
Interest	10	10	17	7
Total Receipts	<u>1,236,218</u>	<u>1,236,218</u>	<u>1,561,765</u>	<u>325,547</u>
DISBURSEMENTS				
Protection to Persons and Property	1,497,350	1,509,625	1,299,648	209,977
Administration	446,350	434,075	389,152	44,923
Total Disbursements	<u>1,943,700</u>	<u>1,943,700</u>	<u>1,688,800</u>	<u>254,900</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(707,482)</u>	<u>(707,482)</u>	<u>(127,035)</u>	<u>580,447</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>557,482</u>	<u>557,482</u>	<u>200,000</u>	<u>(357,482)</u>
Total Other Adjustments to Cash (Uses)	<u>557,482</u>	<u>557,482</u>	<u>200,000</u>	<u>(357,482)</u>
Net Change in Fund Balance	(150,000)	(150,000)	72,965	222,965
Fund Balance - Beginning	<u>150,000</u>	<u>150,000</u>	<u>153,348</u>	<u>3,348</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 226,313</u>	<u>\$ 226,313</u>

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(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	\$ 500	\$ 500	\$ 511	\$ 11
Interest	3	3		(3)
Total Receipts	<u>503</u>	<u>503</u>	<u>511</u>	<u>8</u>
DISBURSEMENTS				
Roads	<u>17,448</u>	<u>17,448</u>	<u>16,605</u>	<u>843</u>
Total Disbursements	<u>17,448</u>	<u>17,448</u>	<u>16,605</u>	<u>843</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(16,945)</u>	<u>(16,945)</u>	<u>(16,094)</u>	<u>851</u>
Net Change in Fund Balance	(16,945)	(16,945)	(16,094)	851
Fund Balance - Beginning	<u>16,945</u>	<u>16,945</u>	<u>16,946</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 852</u>	<u>\$ 852</u>

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

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 739,299	\$ 739,299	\$ 18,475	\$ (720,824)
Total Receipts	<u>739,299</u>	<u>739,299</u>	<u>18,475</u>	<u>(720,824)</u>
DISBURSEMENTS				
Capital Projects	739,299	739,299	23,775	715,524
Total Disbursements	<u>739,299</u>	<u>739,299</u>	<u>23,775</u>	<u>715,524</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(5,300)</u>	<u>(5,300)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			25,000	25,000
Transfers To Other Funds			<u>(1)</u>	<u>(1)</u>
Total Other Adjustments to Cash (Uses)			<u>24,999</u>	<u>24,999</u>
Net Change in Fund Balance			19,699	19,699
Fund Balance - Beginning			<u>1</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,700</u>	<u>\$ 19,700</u>

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

	PARKS AND RECREATION FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 46,200	\$ 46,200	\$ 45,866	\$ (334)
Miscellaneous	22,850	22,850	29,241	6,391
Interest	5	5	35	30
Total Receipts	<u>69,055</u>	<u>69,055</u>	<u>75,142</u>	<u>6,087</u>
DISBURSEMENTS				
Recreation and Culture	254,799	261,019	211,339	49,680
Debt Service	174,215	174,215	174,212	3
Administration	84,150	77,930	58,345	19,585
Total Disbursements	<u>513,164</u>	<u>513,164</u>	<u>443,896</u>	<u>69,268</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(444,109)</u>	<u>(444,109)</u>	<u>(368,754)</u>	<u>75,355</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>414,109</u>	<u>414,109</u>	<u>365,000</u>	<u>(49,109)</u>
Total Other Adjustments to Cash (Uses)	<u>414,109</u>	<u>414,109</u>	<u>365,000</u>	<u>(49,109)</u>
Net Change in Fund Balance	(30,000)	(30,000)	(3,754)	26,246
Fund Balance - Beginning	<u>30,000</u>	<u>30,000</u>	<u>33,562</u>	<u>3,562</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,808</u>	<u>\$ 29,808</u>

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

	INSURANCE FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 70	\$ 70	\$ 94	\$ 24
Total Receipts	<u>70</u>	<u>70</u>	<u>94</u>	<u>24</u>
DISBURSEMENTS				
Administration	189,040	189,040		189,040
Total Disbursements	<u>189,040</u>	<u>189,040</u>		<u>189,040</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(188,970)</u>	<u>(188,970)</u>	<u>94</u>	<u>189,064</u>
Net Change in Fund Balance	(188,970)	(188,970)	94	189,064
Fund Balance - Beginning	<u>188,970</u>	<u>188,970</u>	<u>188,984</u>	<u>14</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 189,078</u>	<u>\$ 189,078</u>

LINCOLN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

Note 1. Budgetary Information

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

Note 2. Excess of Disbursements Over Appropriations

General fund debt service disbursements exceeded budgeted appropriations by \$28,542.

LINCOLN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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LINCOLN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
Land	\$ 2,915,459	\$	\$	\$ 2,915,459
Construction in Progress		23,775		23,775
Land Improvements	493,421	21,400		514,821
Buildings and Improvements	6,424,817	119,442		6,544,259
Vehicles*	882,471	55,699		938,170
Equipment*	2,051,497	17,915		2,069,412
Infrastructure	12,855,378	883,420		13,738,798
 Total Capital Assets	 \$ 25,623,043	 \$ 1,121,651	 \$	 \$ 26,744,694

LINCOLN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2018

Note 1. Capital Assets

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

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10-60
Buildings and Improvements	\$ 25,000	10-75
Vehicles	\$ 5,000	3-25
Equipment	\$ 5,000	3-25
Infrastructure	\$ 10,500	10-50

Note 2. Restatement

Vehicles beginning balance was increased by \$48,049 and the equipment beginning balance was decreased by \$48,049 due to a vehicle being classified as equipment.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim W. Adams, Lincoln County Judge/Executive
Members of the Lincoln 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 Lincoln County Fiscal Court for the fiscal year ended June 30, 2018 and the related notes to the financial statement which collectively comprise the Lincoln County Fiscal Court's financial statement and have issued our report thereon dated April 16, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Lincoln County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lincoln County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lincoln 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 deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies as items 2018-001 and 2018-002.



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 Lincoln County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-001.

Views of Responsible Official and Planned Corrective Action

Lincoln 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 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.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 16, 2019

**LINCOLN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**LINCOLN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Lincoln County Fiscal Court Did Not Follow Proper Bidding Procedures

The Lincoln County Fiscal Court obtained vendor bids for asphalt materials which exceeded the \$20,000 bid threshold. However, they accepted all bids instead of awarding a bid to the lowest or best bidder. Further, the fiscal court did not bid the detention center's food service provider. During the fiscal year ending June 30, 2018, the fiscal court expended \$197,334 for the detention center's food service.

The fiscal court has the practice of accepting all bids in order to select a vendor based on their proximity to the work site. Controls were not in place to ensure all expenditures over \$20,000 were bid. Competitive bidding ensures the fiscal court procures materials and services at the best price available. The fiscal court may have overpaid for services, either because a lower rate could have been obtained or amounts billed may have been overstated.

KRS 178.140 states, "(1) All bids for the construction or maintenance of county roads and bridges shall be received at the time and place specified in the advertisement, and shall be opened publicly at the time of awarding, and the amount of items comprising each bid shall be publicly announced. (2) The contract shall be awarded to the lowest and best bidder...."

We recommend the fiscal court bid all expenditures above \$20,000 and award the bid to the lowest or best bidder when required.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Lincoln County Fiscal Court will amend bidding procedures as recommended.

2018-002 The Lincoln County Fiscal Court Did Not Maintain Proper Records For The Public Properties Corporation Fund

The fiscal court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for fiscal year ended June 30, 2018 for the public properties corporation fund. The bank statements were maintained on file; however, payments were not traced to debt schedules. Due to the county not preparing a financial statement, adjustments of \$123,988 to intergovernmental receipts, \$28 to interest, and \$123,988 to debt service expenditures were required.

Policies and procedures were not in place to ensure accurate reporting of the county's public properties corporation fund. Failure to track debt payments and provide adequate oversight of these accounts held in the county's name could lead to undetected errors. The county has no way to ensure debt payments were made per schedules or that all transactions within the bank statements were allowable.

Good internal controls dictate the fiscal court review and account for all receipts and disbursements related to all funds, including maintaining ledgers, reviewing bank reconciliations, and preparing related financial statements.

We recommend the fiscal court prepare and maintain ledgers for receipts and disbursements, complete bank reconciliations monthly on all public properties corporation bank accounts, and compile a year-end financial statement for the fund.

LINCOLN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Lincoln County Fiscal Court Did Not Maintain Proper Records For The Public Properties Corporation Fund (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Lincoln County Fiscal Court has maintained records for the Public Properties Corporation Fund in the exact same way since the late 90's when the PPC was established. There have been over 20 audits performed since that time, and this is the first mention of any changes that need to be made. Fiscal Court will make these changes immediately.

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

LINCOLN COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
LINCOLN COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Lincoln 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