

May 15, 2017

Lexington-Fayette Urban County Government  
200 East Main Street  
Lexington, KY 40507

Attention: Mr. James Bush, Program Manager, Environmental Services

This letter is to explain our understanding of the arrangements for, and the nature and limitations of, the services we are to perform for Lexington-Fayette County Urban County Government (LFUCG) with respect to certain records and transactions of Kentucky Utilities Company, Inc., Bluegrass Energy Cooperative Corporation and Columbia Natural Gas of Kentucky, Inc. (collectively, the Utility Companies) for the purpose of assisting you in determining whether the amount of franchise fees for utility revenues generated in Fayette County, paid by the Utility Companies to LFUCG during the period from January 1, 2014 to December 31, 2016, were paid in accordance with the relevant agreements and Ordinances. The basis of the engagement is contained in RFP#5-2017 Audit of Franchise Fees and our response to the request for proposals dated March 29, 2017. The specific procedures to be performed are included as an attachment to this letter.

### **Engagement Services**

Our engagement will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Because the procedures included in the attachment to this letter do not constitute an audit made in accordance with generally accepted auditing standards, we will not express an opinion on any of the specific elements, accounts or items referred to in our report or on the financial statements of the Utility Companies taken as a whole.

At the conclusion of our engagement, we will submit a report in letter form outlining the procedures performed and our findings resulting from the procedures performed.

Our report will contain a statement that it is intended solely for the use of LFUCG and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Should you desire that others be added to our report as specified parties, please contact us as it will be necessary to obtain their agreement with respect to the sufficiency of the procedures for their purpose.

The procedures that we will perform are not designed and cannot be relied upon to disclose errors, fraud or illegal acts, should any exist. However, we will inform the appropriate level of management of any material errors that come to our attention and any fraud or illegal acts that come to our attention, unless they are clearly inconsequential.

Furthermore, the procedures were not designed to provide assurance on internal control or identify significant deficiencies or material weaknesses. However, we will communicate to management of LFUCG any significant deficiencies or material weaknesses that become known to us during the course of the engagement.

### **LFUCG's Responsibilities**

The sufficiency of the procedures included in the attachment is solely the responsibility of LFUCG. We make no representation regarding the sufficiency of the procedures described above, either for the purpose for which these services have been requested or for any other purpose. The Utilities Companies' management is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of franchise fee information and returns that are free from material misstatement, whether due to fraud or error.

In addition, LFUCG's and the Utilities Companies' management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting those entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. LFUCG's and the Utilities Companies' management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entities received in communications from employees, former employees, analysts, regulators, short sellers or others.

Because Dean Dorton Allen Ford, PLLC (Dean Dorton) will rely on LFUCG and the Utilities Companies and its management and those charged with governance to discharge the foregoing responsibilities, LFUCG holds harmless and indemnifies Dean Dorton and its owners and employees from all claims, liabilities, losses and costs arising in circumstances where there has been a knowing misrepresentation by a member of management that has caused, in any respect, Dean Dorton's breach of contract or negligence. This provision will survive termination of this letter.

### **Records and Assistance**

If circumstances arise relating to the condition of the LFUCG's and/or the Utilities Companies' records, the availability of appropriate evidence or indications of a significant risk of material misstatement of franchise fee information because of error, fraudulent financial reporting or misappropriation of assets that, in our professional judgment, prevent us from completing the engagement or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the LFUCG's and/or the Utilities Companies' books and records. LFUCG and/or the Utilities Companies will determine that all such data, if necessary, will be so reflected. Accordingly, LFUCG and/or the Utilities Companies will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by LFUCG's and/or the Utilities Companies' personnel, including the preparation of schedules and analyses of accounts, will be discussed with LFUCG and the appropriate personnel within the Utility Companies. The timely and accurate completion of this work is an essential condition to our completion of our services and issuance of our report.

### **Fees, Costs, and Access to Documentation**

Our fees for the services described above will not exceed \$45,000. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission.

### **Release and Indemnification**

During the course of our engagement, we will request information and explanations from management regarding LFUCG's and the Utilities Companies' operations, internal controls, future plans, specific transactions, and accounting systems and procedures. At the conclusion of our engagement, we will require that management provide certain representations in a written representation letter. The procedures we will perform in our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the written and oral representations that we receive from management. In view of the foregoing, LFUCG agrees to release Dean Dorton and its personnel from any liability and costs relating to our services under this letter resulting from false and misleading representations made to us by any member of management.

In the unlikely event that differences concerning our services or fees should arise that are not resolved by mutual agreement, to facilitate resolution of the differences and to save both parties time and expense, LFUCG and Dean Dorton agree to try in good faith to settle their differences by mediation administered by the American Arbitration Association under the *Dispute Resolution Rules for Professional Accounting and Related Services Disputes* before resorting to litigation. In the event litigation cannot be avoided, the LFUCG and Dean Dorton agree not to demand a trial by jury.

If any term or provision of this agreement is determined to be invalid or unenforceable, such term or provision will be deemed stricken and all other terms and provisions will remain in full force and effect.

This letter constitutes the complete and exclusive statement of agreement between Dean Dorton and LFUCG, superseding all proposals, oral or written, and all other communications with respect to the terms of the engagement between the parties.

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If this letter defines the arrangements as LFUCG understands them, please sign and date a copy and return it to us.  
We appreciate your business.

DEAN DORTON ALLEN FORD, PLLC

By:   
James Tericza, CPA, CIA, CGMA  
Director of Assurance Services

Confirmed on behalf of Lexington-Fayette Urban County Government:

\_\_\_\_\_  
Signed

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name and Title

### **Agreed Upon Procedures**

#### **Analysis of customers and billings:**

1. For a sample of 40 addresses within Fayette County ensure that the customer is properly included or excluded from the Utilities Company's data base and the associated franchise fee calculation.
2. For a sample of two monthly franchise fee calculations prepared by the Utility Company for each calendar year select a sample of 7 customer billings and payments included within the Utility Company's franchise fee calculation (total sample of 42 customers for the six franchise fee calculations tested that are representative of the various rate classifications within the franchise fee calculation) and perform the following:
  - a. Ensure that the customer billing/ payment appears to have flowed through completely and accurately to the Utility Company's underlying books and records.
  - b. Ensure that the customer billing/ payment is properly included in the Utility Company's franchise fee calculation.

#### **Testing of the franchise fee payments:**

3. For each calendar year in total, ensure that the franchise fee calculations prepared by the Utility Company agree to books and records of the Utility Company and the total payments received by LFUCG.
4. For a sample of two monthly franchise fee calculations prepared by the Utility Company for each calendar year:
  - a. Ensure that the calculation is mathematically correct.
  - b. Ensure that the elements of gross receipts required by the franchise fee agreement and associated Ordinances are properly included in the calculation.
  - c. Ensure amounts in the Utility Company's underlying books and records agree to the amounts used in the franchise fee calculation.
  - d. Gain an understanding of the adjustments, if any, to the franchise fee calculation, and for a representative sample of 10% of the dollar value (not to exceed 40 transactions), vouch to supporting documentation to ensure that they are valid and in accordance with the franchise fee agreement and associated Ordinances.
  - e. Ensure that payments to LFUCG were made timely.