

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

**For The Fiscal Year Ended  
June 30, 2012**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LEE COUNTY FISCAL COURT**

**June 30, 2012**

The Auditor of Public Accounts has completed the audit of the Lee County Fiscal Court for fiscal year ended June 30, 2012. We have issued unqualified opinions based on our audit on the governmental activities and each major fund of Lee County, Kentucky.

#### **Financial Condition:**

The fiscal court had total net assets of \$7,798,595 as of June 30, 2012. The fiscal court had unrestricted net assets of \$643,641 in its governmental activities as of June 30, 2012, with total net assets of \$7,798,595. The fiscal court had total debt principal as of June 30, 2012 of \$500,679 with \$289,350 due within the next year.

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank bond.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Steve Mays, Lee County Judge/Executive  
Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Lee County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lee County Fiscal Court. Our responsibility is to express opinions on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lee County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lee County, Kentucky, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee County, Kentucky's basic financial statements as a whole. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Steve Mays, Lee County Judge/Executive  
Members of the Lee County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated February 1, 2013 on our consideration of Lee County, Kentucky'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 and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", with a long horizontal flourish extending to the right.

Adam H. Edelen  
Auditor of Public Accounts

February 1, 2013



LEE COUNTY OFFICIALS

For The Year Ended June 30, 2012

**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
Kim Noe	County Clerk
Emma Adams	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

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**LEE COUNTY  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2012**



**LEE COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2012**

	<u>Primary Government Governmental Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,048,921
Capital Asset Held for Resale	<u>238,530</u>
Total Current Assets	<u>1,287,451</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Construction In Progress	34,446
Land and Land Improvements	559,106
Buildings	2,362,033
Other Equipment	147,534
Vehicles and Equipment	918,684
Infrastructure	<u>2,990,020</u>
Total Noncurrent Assets	<u>7,011,823</u>
Total Assets	<u>8,299,274</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations Payable	<u>289,350</u>
Total Current Liabilities	<u>289,350</u>
Noncurrent Liabilities:	
Financing Obligations Payable	<u>211,329</u>
Total Noncurrent Liabilities	<u>211,329</u>
Total Liabilities	<u>500,679</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	6,749,674
Restricted For:	
Protection to Persons and Property	40,142
General Health and Sanitation	107,040
Recreation and Culture	2,075
Roads	256,023
Unrestricted	<u>643,641</u>
Total Net Assets	<u>\$ 7,798,595</u>

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

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**LEE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2012**

**LEE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

<b>Functions/Programs Reporting Entity</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 1,520,198	\$ 85,090	\$ 798,845	\$
Protection to Persons and Property	1,397,892	642,096	40,699	
General Health and Sanitation	1,050,986	347,384	260,697	
Social Services	51,140			
Recreation and Culture	133,409			
Transportation Facilities and Services	83,760			
Roads	1,483,800		1,477,249	323,125
Interest on Long-term and Short-term Debt	22,477			
Capital Projects	11,776			3,326
<b>Total Governmental Activities</b>	<b>\$ 5,755,438</b>	<b>\$ 1,074,570</b>	<b>\$ 2,577,490</b>	<b>\$ 326,451</b>

**General Revenues:**

Taxes:
Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes
Excess Fees
Unrestricted Investment Earnings
Miscellaneous Revenues
 Total General Revenues
Change in Net Assets
Net Assets - Beginning (Restated)
 Net Assets - Ending

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



**LEE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2012**  
**(Continued)**

**Revenues and**  
**Changes in Net Assets**

**Governmental**  
**Activities**

\$	(636,263)
	(715,097)
	(442,905)
	(51,140)
	(133,409)
	(83,760)
	316,574
	(22,477)
	(8,450)
	<u>(1,776,927)</u>

	964,370
	224,343
	73,029
	333,084
	30,575
	1,522
	<u>127,441</u>
	<u>1,754,364</u>
	(22,563)
	<u>7,821,158</u>
\$	<u><u>7,798,595</u></u>

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

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**LEE COUNTY  
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2012**



**LEE COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2012**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Solid Waste Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 659,547	\$ 256,023	\$ 133,351	\$ 1,048,921
Total Assets	<u>659,547</u>	<u>256,023</u>	<u>133,351</u>	<u>1,048,921</u>
<b>FUND BALANCES</b>				
<b>Restricted For:</b>				
Protection to Persons and Property	40,142			40,142
General Health and Sanitation			107,040	107,040
Recreation and Culture	2,075			2,075
Roads		256,023		256,023
<b>Assigned To:</b>				
General Health and Sanitation				
Debt Service	238,530		26,311	264,841
<b>Unassigned</b>	<u>378,800</u>			<u>378,800</u>
Total Fund Balances	<u>\$ 659,547</u>	<u>\$ 256,023</u>	<u>\$ 133,351</u>	<u>\$ 1,048,921</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 1,048,921
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	10,786,001
Accumulated Depreciation	(3,774,178)
Asset Held for Resale	238,530
Long-term and Short-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(500,679)</u>
Net Assets Of Governmental Activities	<u>\$ 7,798,595</u>

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

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**LEE COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**





**LEE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Solid Waste Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 1,620,798	\$	\$	\$ 1,620,798
In Lieu Tax Payments	8,142	23,725		31,867
Excess Fees	30,575			30,575
Licenses and Permits	20,477			20,477
Intergovernmental	951,807	1,680,351	260,697	2,892,855
Charges for Services	629,459		347,384	976,843
Miscellaneous	125,791	20,155	11,992	157,938
Interest	742	555	225	1,522
Total Revenues	<u>3,387,791</u>	<u>1,724,786</u>	<u>620,298</u>	<u>5,732,875</u>
<b>EXPENDITURES</b>				
General Government	879,126			879,126
Protection to Persons and Property	1,364,111			1,364,111
General Health and Sanitation	125,866		765,050	890,916
Social Services	48,068			48,068
Recreation and Culture	130,762			130,762
Transportation Facilities and Services	83,760			83,760
Roads	323,315	1,355,277		1,678,592
Debt Service	241,909	80,728	16,578	339,215
Capital Projects	11,776			11,776
Administration	603,248	174,885	108,732	886,865
Total Expenditures	<u>3,811,941</u>	<u>1,610,890</u>	<u>890,360</u>	<u>6,313,191</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(424,150)</u>	<u>113,896</u>	<u>(270,062)</u>	<u>(580,316)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds From The Sale Of Asset Held For Resale	216,507			216,507
Financing Obligation Proceeds	238,530			238,530
Transfers From Other Funds	50,000	50,000	100,000	200,000
Transfers To Other Funds	(150,000)	(50,000)		(200,000)
Total Other Financing Sources (Uses)	<u>355,037</u>	<u></u>	<u>100,000</u>	<u>455,037</u>
Net Change in Fund Balances	(69,113)	113,896	(170,062)	(125,279)
Fund Balances - Beginning (Restated)	728,660	142,127	303,413	1,174,200
Fund Balances - Ending	<u>\$ 659,547</u>	<u>\$ 256,023</u>	<u>\$ 133,351</u>	<u>\$ 1,048,921</u>

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

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**LEE COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**



**LEE COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

Net Change in Fund Balances - Total Governmental Funds \$ (125,279)

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	689,442
Depreciation Expense	(597,831)
Assets disposed of, net book value	(2,633)
Construction In Process Completed	(69,800)
Asset Held for Resale- Purchase	238,530
Assets Held For Resale- Disposal	(233,200)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds	(238,530)
Financing Obligations Principal Payments	<u>316,738</u>

Change in Net Assets of Governmental Activities \$ (22,563)

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Lee County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Lee County has no discretely presented component units.

**Blended Component Unit**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Public Service Corporation**

The Public Service Corporation is a legally separate entity established to provide debt service for the purchase of real estate property from the Kentucky Mountains Farm Cooperative. The Public Service Corporation's governing body consists entirely of Fiscal Court members. Therefore, management should include the Public Service Corporation as a component unit, and its financial activity should be blended with that of the fiscal court. However, the Public Service Corporation had no financial activity during the year to blend with the fiscal court.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. 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 statements of Lee County, Kentucky.

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

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

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.



**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

**Governmental Funds**

The primary government reports the following major governmental 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 revenue for this fund is 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 expenditures separately from the General Fund.

Solid Waste Fund - This fund accounts for all revenues from users of the Solid Waste Services.

**Special Revenue Funds:**

The Road Fund and Solid Waste Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

**E. Deposits and Investments**

The government's cash and cash equivalents are 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.

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).

**F. 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 in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

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

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize 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 expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity (Continued)**

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Judge/Executive to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting 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 expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

**J. 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 the Lee County Fiscal Court: Three Forks Regional Jail.

**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.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Joint Venture (Continued)**

Three Forks Regional Jail (Continued)

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.

A copy of the Three Forks Regional Jail audit report may be obtained by writing the management at 2475 Center Street, Beattyville, KY 41311.

**Note 2. Deposits**

The primary government 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, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2012.

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 50,000	\$ 50,000
Road Fund	50,000		50,000
Solid Waste Fund	100,000		100,000
Total Transfers Out	<u>\$ 150,000</u>	<u>\$ 50,000</u>	<u>\$ 200,000</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. Capital Assets**

Capital asset activity for the year ended June 30, 2012 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance (Restated)	Increases	Decreases	
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 319,083	\$	\$	\$ 319,083
Construction In Progress	80,946	23,300	(69,800)	34,446
Total Capital Assets Not Being Depreciated	<u>400,029</u>	<u>23,300</u>	<u>(69,800)</u>	<u>353,529</u>
Capital Assets, Being Depreciated:				
Land Improvements	196,068	89,076		285,144
Buildings	3,099,390	83,760		3,183,150
Other Equipment	517,761	25,781		543,542
Vehicles and Equipment	2,067,952	52,000	(11,500)	2,108,452
Infrastructure	3,896,659	415,525		4,312,184
Total Capital Assets Being Depreciated	9,777,830	666,142	(11,500)	10,432,472
Less Accumulated Depreciation For:				
Land Improvements	(32,699)	(12,422)		(45,121)
Buildings	(751,945)	(69,172)		(821,117)
Other Equipment	(344,408)	(51,600)		(396,008)
Vehicles and Equipment	(1,019,510)	(179,125)	8,867	(1,189,768)
Infrastructure	(1,036,652)	(285,512)		(1,322,164)
Total Accumulated Depreciation	<u>(3,185,214)</u>	<u>(597,831)</u>	<u>8,867</u>	<u>(3,774,178)</u>
Total Capital Assets, Being Depreciated, Net	<u>6,592,616</u>	<u>68,311</u>	<u>(2,633)</u>	<u>6,658,294</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,992,645</u>	<u>\$ 91,611</u>	<u>\$ (72,433)</u>	<u>\$ 7,011,823</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 4. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 40,654
Protection to Persons and Property	85,881
General Health and Sanitation	51,338
Social Services	3,072
Recreation and Culture	63,574
Roads, Including Depreciation of General Infrastructure Assets	<u>353,312</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 597,831</u>

**Note 5. Short-term Debt and Assets Held for Resale**

**Mack Trucks**

- A. In March 2011, the Lee County Fiscal Court entered into a financing obligation agreement for \$233,200 with People's Exchange Bank to purchase 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 18, 2012 with an interest rate of 4.0 percent. The debt was paid in full as of June 30, 2012.
- B. In March 2012, the Lee County Fiscal Court entered into a financing obligation agreement for \$238,530 with People's Exchange Bank to purchase 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 13, 2013 with an interest rate of 4.0 percent. The outstanding principal as of June 30, 2012 was \$238,530.

**Changes In Short-term Liabilities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Financing Obligations	<u>\$ 233,200</u>	<u>\$ 238,530</u>	<u>\$ 233,200</u>	<u>\$ 238,530</u>	<u>\$ 238,530</u>
Governmental Activities Short-term Liabilities	<u>\$ 233,200</u>	<u>\$ 238,530</u>	<u>\$ 233,200</u>	<u>\$ 238,530</u>	<u>\$ 238,530</u>

**Note 6. Long-term Debt**

**A. Road Paving**

In May 2002, the Lee County Fiscal Court entered into a financing obligation agreement for \$300,000 with the Kentucky Association of Counties Leasing Trust Program for road paving. The terms of the agreement stipulate a ten-year repayment schedule, with variable monthly payments and annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2012. This lease was paid in full as of June 30, 2012.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**B. Rear Loader**

In February 2008, the 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 outstanding principal as of June 30, 2012 was \$57,629. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 14,457	\$ 2,388
2014	15,370	1,761
2015	16,340	1,094
2016	11,462	339
Totals	<u>\$ 57,629</u>	<u>\$ 5,582</u>

**C. Blacktop Project**

In August 2009, the 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, 2012 was \$204,520. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 36,363	\$ 8,281
2014	37,844	6,709
2015	39,386	5,071
2016	40,990	3,372
2017	42,660	1,600
2018	7,277	89
Totals	<u>\$ 204,520</u>	<u>\$ 25,122</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**D. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 345,687	\$	\$ 83,538	\$ 262,149	\$ 50,820
Governmental Activities					
Long-term Liabilities	<u>\$ 345,687</u>	<u>\$ 0</u>	<u>\$ 83,538</u>	<u>\$ 262,149</u>	<u>\$ 50,820</u>

**Note 7. Employee Retirement System**

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 full-time employees and provides for retirement, disability and death benefits to plan members. 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 18.96 percent.

The county's contribution for FY 2010 was \$253,088, FY 2011 was \$253,512, and FY 2012 was \$385,251.

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:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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 STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 7. Employee Retirement System (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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

**Note 8. Insurance**

For the fiscal year ended June 30, 2012, 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.

**Note 9. Prior Period Adjustments**

Net assets of the governmental activities as previously reported have been restated and increased due to voided checks by \$3,854 in the General Fund, \$923 in the Road Fund and \$600 in the Solid Waste Fund. The beginning balance for accumulated depreciation for infrastructure capital assets of the governmental activities was increased by \$2,618 due to an error in the prior year. These adjustments to the net assets of the governmental activities restate the beginning balance from \$7,813,163 to \$7,821,158.

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**LEE COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**

**For The Year Ended June 30, 2012**



**LEE COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**

**For The Year Ended June 30, 2012**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,520,818	\$ 1,520,818	\$ 1,620,798	\$ 99,980
In Lieu Tax Payments	2,800	2,800	8,142	5,342
Excess Fees	33,240	33,240	30,575	(2,665)
Licenses and Permits	18,000	18,000	20,477	2,477
Intergovernmental Revenue	256,375	256,375	346,980	90,605
Charges for Services	8,000	8,000	4,980	(3,020)
Miscellaneous	280,531	280,531	339,019	58,488
Interest	1,500	1,500	538	(962)
Total Revenues	<u>2,121,264</u>	<u>2,121,264</u>	<u>2,371,509</u>	<u>250,245</u>
<b>EXPENDITURES</b>				
General Government	899,102	989,950	879,126	110,824
Protection to Persons and Property	240,674	304,460	267,504	36,956
General Health and Sanitation		86,343	85,005	1,338
Social Services	45,150	52,150	48,068	4,082
Recreation and Culture	47,980	135,649	124,408	11,241
Transportation Facilities and Services		83,760	83,760	
Roads	51,000	8,683	8,653	30
Debt Service	240,200	242,822	241,909	913
Capital Projects	400,000	17,180	11,776	5,404
Administration	342,341	345,450	325,083	20,367
Total Expenditures	<u>2,266,447</u>	<u>2,266,447</u>	<u>2,075,292</u>	<u>191,155</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(145,183)</u>	<u>(145,183)</u>	<u>296,217</u>	<u>441,400</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			50,000	50,000
Transfers To Other Funds	<u>(284,817)</u>	<u>(284,817)</u>	<u>(454,817)</u>	<u>(170,000)</u>
Total Other Financing Sources (Uses)	<u>(284,817)</u>	<u>(284,817)</u>	<u>(404,817)</u>	<u>(120,000)</u>
Net Changes in Fund Balance	(430,000)	(430,000)	(108,600)	321,400
Fund Balance - Beginning (Restated)	<u>430,000</u>	<u>430,000</u>	<u>617,142</u>	<u>187,142</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 508,542</u>	<u>\$ 508,542</u>

**LEE COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**  
**For The Year Ended June 30, 2012**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 24,500	\$ 24,500	\$ 23,725	\$ (775)
Intergovernmental Revenue	805,600	1,442,369	1,680,351	237,982
Miscellaneous	600	600	20,155	19,555
Interest	700	700	555	(145)
Total Revenues	<u>831,400</u>	<u>1,468,169</u>	<u>1,724,786</u>	<u>256,617</u>
<b>EXPENDITURES</b>				
Roads	708,145	1,367,817	1,355,277	12,540
Debt Service	82,500	82,500	80,728	1,772
Administration	206,755	183,852	174,885	8,967
Total Expenditures	<u>997,400</u>	<u>1,634,169</u>	<u>1,610,890</u>	<u>23,279</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(166,000)</u>	<u>(166,000)</u>	<u>113,896</u>	<u>279,896</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			50,000	50,000
Transfers To Other Funds			(50,000)	(50,000)
Total Other Financing Sources (Uses)				
Net Changes in Fund Balance	(166,000)	(166,000)	113,896	279,896
Fund Balance - Beginning (Restated)	<u>166,000</u>	<u>166,000</u>	<u>142,127</u>	<u>(23,873)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 256,023</u>	<u>\$ 256,023</u>

**LEE COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**  
**For The Year Ended June 30, 2012**  
**(Continued)**

	<b>SOLID WASTE FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>	
	<b>Original</b>	<b>Final</b>			
<b>REVENUES</b>					
Intergovernmental Revenue	\$		\$ 251,424	\$ 260,697	\$ 9,273
Charges for Services		401,000	401,000	347,384	(53,616)
Miscellaneous		6,460	6,460	11,992	5,532
Interest		500	500	225	(275)
Total Revenues		<u>407,960</u>	<u>659,384</u>	<u>620,298</u>	<u>(39,086)</u>
<b>EXPENDITURES</b>					
General Health and Sanitation		541,033	832,038	765,050	66,988
Debt Service		17,000	17,006	16,578	428
Administration		103,054	113,467	108,732	4,735
Total Expenditures		<u>661,087</u>	<u>962,511</u>	<u>890,360</u>	<u>72,151</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		<u>(253,127)</u>	<u>(303,127)</u>	<u>(270,062)</u>	<u>33,065</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers From Other Funds			50,000	100,000	50,000
Total Other Financing Sources (Uses)			<u>50,000</u>	<u>100,000</u>	<u>50,000</u>
Net Changes in Fund Balance		(253,127)	(253,127)	(170,062)	83,065
Fund Balance - Beginning (Restated)		<u>253,127</u>	<u>253,127</u>	<u>303,413</u>	<u>50,286</u>
Fund Balance - Ending	\$	<u>0</u>	\$ <u>0</u>	\$ <u>133,351</u>	\$ <u>133,351</u>

**LEE COUNTY**  
**NOTES TO OTHER INFORMATION**

**June 30, 2012**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting 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 expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation To Statement of Revenues, Expenditures and Changes In Fund Balances - General Fund**

Total Revenues	\$ 2,371,509
Add: Jail Fund Revenues	44,965
Add: LGEA Fund Revenues	551,578
Add: Ambulance Fund Revenues	636,246
Less: Proceeds From Sale Of Asset Held For Resale	<u>(216,507)</u>
Total Revenues	<u>3,387,791</u>
Total Expenditures	2,075,292
Add: Jail Fund Expenditures	399,188
Add: LGEA Fund Expenditures	136,795
Add: Ambulance Fund Expenditures	962,136
Add: Expenditure for Purchase of Asset Held For Resale	<u>238,530</u>
Total Expenditures	<u>3,811,941</u>
Other Financing Sources (Uses)	(404,817)
Add: Proceeds From Sale Of Asset Held For Resale	216,507
Add: Financing Obligation Proceeds	238,530
Add: Transfers From General Fund To Ambulance Fund	354,817
Less: Transfers From LGEA Fund To Solid Waste Fund	<u>(50,000)</u>
Total Other Financing Sources (Uses)	<u>\$ 355,037</u>



**LEE COUNTY**  
**NOTES TO OTHER INFORMATION**  
**June 30, 2012**  
**(Continued)**

**Note 2. Reconciliation To Statement of Revenues, Expenditures and Changes In Fund Balances - General Fund (Continued)**

Beginning Balance	\$ 617,142
Add: Jail Fund Balance	37,483
Add: LGEA Fund Balance	36,207
Add: Ambulance Fund Balance	<u>37,828</u>
 Total Beginning Balance	 <u><u>728,660</u></u>
 Ending Balance	 508,542
Add: Jail Fund Balance	29,973
Add: LGEA Fund Balance	54,277
Add: Ambulance Fund Balance	<u>66,755</u>
 Total Ending Balance	 <u><u>\$ 659,547</u></u>

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





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

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

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

We have audited the financial statements of the governmental activities and each major fund of Lee County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 1, 2013. Lee County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit 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.

**Internal Control Over Financial Reporting**

Management of the Lee County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lee County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lee County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



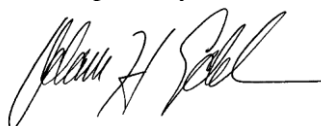
Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lee County's financial statements as of and for the year ended June 30, 2012, are 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, others within the entity and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

February 1, 2013

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

**LEE COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2012**






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

For The Fiscal Year Ended June 30, 2012

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

  
\_\_\_\_\_  
Steve Mays  
County Judge/Executive

  
\_\_\_\_\_  
Jodi Coldiron  
County Treasurer

