

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

**For The Fiscal Year Ended  
June 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

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

**June 30, 2009**

The Auditor of Public Accounts has completed the audit of the Lee County Fiscal Court for fiscal year ended June 30, 2009. We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information of Lee County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$6,495,537 as of June 30, 2009. The fiscal court had unrestricted net assets of \$1,365,714 in its governmental activities as of June 30, 2009, with total net assets of \$6,495,537. The fiscal court had total debt principal as of June 30, 2009 of \$441,821 with \$72,967 due within the next year.

#### **Report Comments:**

- 2009-01 The County Should Improve Controls Over Collections For Solid Waste And Handicap Van Fees
- 2009-02 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**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, each major fund, and the aggregate remaining fund information of Lee County, Kentucky, as of and for the year ended June 30, 2009, 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, each major fund, and the aggregate remaining fund information of Lee County, Kentucky, as of June 30, 2009, 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.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2011, 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.

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

- 2009-01 The County Should Improve Controls Over Collections For Solid Waste And Handicap Van Fees
- 2009-02 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

March 29, 2011



LEE COUNTY OFFICIALS

For The Year Ended June 30, 2009

**Fiscal Court Members:**

Steve Mays	County Judge/Executive
Ronnie Paul Begley	Magistrate
Lenard Carl Ross	Magistrate
Bennie Todd	Magistrate
Billy Joe Coomer	Magistrate

**Other Elected Officials:**

Thomas Hollon	County Attorney
Corbett Dunaway	Jailer
Russell Stamper	County Clerk
Emma Adams	Circuit Court Clerk
Donnie Hogan	Sheriff
Elizabeth Roach	Property Valuation Administrator
Ray Shuler	Coroner

**Appointed Personnel:**

Pearl Spencer	County Treasurer
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**LEE COUNTY  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**



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

**June 30, 2009**

	<b>Primary Government</b>
	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,365,714
Capital Assets Held For Resale	205,987
Total Current Assets	1,571,701
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	319,083
Land Improvements	179,718
Construction In Progress	298,318
Buildings	1,656,359
Other Equipment	211,837
Vehicles and Equipment	1,047,817
Infrastructure	1,652,525
Total Noncurrent Assets	5,365,657
Total Assets	6,937,358
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations Payable	72,967
Noncurrent Liabilities:	
Financing Obligations Payable	368,854
Total Liabilities	441,821
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	5,129,823
Unrestricted	1,365,714
Total Net Assets	\$ 6,495,537

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, 2009**





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

**For The Year Ended June 30, 2009**

Functions/Programs Reporting Entity	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Primary Government:</b>					
Governmental Activities:					
General Government	\$ 1,945,712	\$ 80,718	\$ 90,040	\$	\$ (1,774,954)
Protection to Persons and Property	1,049,404	9,745	213,104		(826,555)
General Health and Sanitation	631,451	1,114,406	148,608		631,563
Social Services	54,369				(54,369)
Recreation and Culture	39,757				(39,757)
Roads	753,961		736,633	714,487	697,159
Interest on Long-term Debt	20,469				(20,469)
Capital Projects	266,375				(266,375)
Total Governmental Activities	<u>4,761,498</u>	<u>1,204,869</u>	<u>1,188,385</u>	<u>714,487</u>	<u>(1,653,757)</u>
Total Primary Government	<u>\$ 4,761,498</u>	<u>\$ 1,204,869</u>	<u>\$ 1,188,385</u>	<u>\$ 714,487</u>	<u>(1,653,757)</u>
<b>General Revenues:</b>					
Taxes:					
					896,722
					271,027
					69,278
					26,281
					763,469
					17,393
					41,259
					64,581
					243,182
					6,823
					<u>2,400,015</u>
					746,258
					<u>5,749,279</u>
					<u>\$ 6,495,537</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, 2009**



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

**June 30, 2009**

	<u>General Fund</u>	<u>Road Fund</u>	<u>LGEA Fund</u>	<u>Ambulance Fund</u>	<u>Solid Waste Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 775,020	\$ 135,212	\$ 190,955	\$ 33,580	\$ 168,693	\$ 62,254	\$ 1,365,714
Total Assets	<u>\$ 775,020</u>	<u>\$ 135,212</u>	<u>\$ 190,955</u>	<u>\$ 33,580</u>	<u>\$ 168,693</u>	<u>\$ 62,254</u>	<u>\$ 1,365,714</u>
<b>FUND BALANCES</b>							
Reserved for:							
Encumbrances	182,643	23,331	6,928	5,935	4,481	28,056	251,374
Unreserved:							
General Fund	592,377						592,377
Special Revenue Funds		111,881	184,027	27,645	164,212	34,198	521,963
Total Fund Balances	<u>\$ 775,020</u>	<u>\$ 135,212</u>	<u>\$ 190,955</u>	<u>\$ 33,580</u>	<u>\$ 168,693</u>	<u>\$ 62,254</u>	<u>\$ 1,365,714</u>

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

Total Fund Balances	1,365,714
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.	7,581,296
Accumulated Depreciation	(2,215,639)
Capital Assets Held For Resale	205,987
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(441,821)</u>
Net Assets Of Governmental Activities	<u>\$ 6,495,537</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, 2009**





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

**For The Year Ended June 30, 2009**

	<u>General Fund</u>	<u>Road Fund</u>	<u>LGEA Fund</u>	<u>Ambulance Fund</u>	<u>Solid Waste Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>							
Taxes	\$ 1,781,304	\$ 288,516	\$	\$	\$	\$	\$ 2,069,820
In Lieu Tax Payments	17,393	36,722					54,115
Excess Fees	41,259						41,259
Licenses and Permits	20,742						20,742
Intergovernmental	294,355	880,281	570,839	10,169	138,439	47,315	1,941,398
Charges for Services	10,544			708,809	397,481	6,168	1,123,002
Miscellaneous	114,689	40,164	204	21,170	72,984	1,386	250,597
Interest	3,840	1,096	558	139	907	283	6,823
Total Revenues	<u>2,284,126</u>	<u>1,246,779</u>	<u>571,601</u>	<u>740,287</u>	<u>609,811</u>	<u>55,152</u>	<u>5,507,756</u>
<b>EXPENDITURES</b>							
Current:							
General Government	761,674					234,264	995,938
Protection to Persons and Property	228,051	592	30,547	804,576		25,001	1,088,767
General Health and Sanitation	153,855		33,822		547,467		735,144
Social Services	40,824						40,824
Recreation and Culture	82,867		10,300				93,167
Roads		736,634	77,642				814,276
Debt Service		250,075			42,524		292,599
Capital Projects	190,944	346,113					537,057
Administration	253,746	139,734	8,683	274,181	59,472	9,844	745,660
Total Expenditures	<u>1,711,961</u>	<u>1,473,148</u>	<u>160,994</u>	<u>1,078,757</u>	<u>649,463</u>	<u>269,109</u>	<u>5,343,432</u>
Excess (Deficiency) of Revenues Over							
Expenditures Before Other							
Financing Sources (Uses)							
	<u>572,165</u>	<u>(226,369)</u>	<u>410,607</u>	<u>(338,470)</u>	<u>(39,652)</u>	<u>(213,957)</u>	<u>164,324</u>
<b>Other Financing Sources (Uses)</b>							
Financing Obligation Proceeds		205,987					205,987
Transfers From Other Funds	150,000	231,529		308,395		234,000	923,924
Transfers To Other Funds	(396,787)	(150,000)	(309,000)		(68,137)		(923,924)
Total Other Financing Sources (Uses)	<u>(246,787)</u>	<u>287,516</u>	<u>(309,000)</u>	<u>308,395</u>	<u>(68,137)</u>	<u>234,000</u>	<u>205,987</u>
Net Change in Fund Balances	325,378	61,147	101,607	(30,075)	(107,789)	20,043	370,311
Fund Balances - Beginning (Restated)	449,642	74,065	89,348	63,655	276,482	42,211	995,403
Fund Balances - Ending	<u>\$ 775,020</u>	<u>\$ 135,212</u>	<u>\$ 190,955</u>	<u>\$ 33,580</u>	<u>\$ 168,693</u>	<u>\$ 62,254</u>	<u>\$ 1,365,714</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, 2009**



**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, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$	370,311
<p>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.</p>		
Capital Outlay		743,078
Depreciation Expense		(433,274)
<p>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.</p>		
Financing Obligation Proceed		(205,987)
Financing Obligations Principal Payments		272,130
		272,130
Change in Net Assets of Governmental Activities	\$	746,258

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

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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

**June 30, 2009**

**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.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

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. The County has no discretely presented component units.

**Blended Component Units**

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

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

**B. Reporting Entity (Continued)**

Blended Component Units (Continued)

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.

**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.



**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

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

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

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.

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. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**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 licenses 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.

**Local Government Economic Assistance Fund** - These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Ambulance Fund** - This fund accounts for all revenues from users of the Ambulance Service along with some state contributions.

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

The primary government also has the following non-major funds: Jail Fund and the Handicap Van Fund.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

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

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

**Special Revenue Funds**

The Road Fund, Ambulance Fund, Jail Fund, Local Government Economic Assistance Fund, Grant Fund, Solid Waste Fund, and the Handicap Van Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted 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.

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

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

**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 reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" 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. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**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.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

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

**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 Wolfe County Fiscal Court:

Three Forks Regional Jail

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

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

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

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

A copy of the Three Forks Regional Jail Audit Report may be obtained by writing the management at 2475 Center Street, Beattyville, KY 41311 or on the web at [www.auditor.ky.gov](http://www.auditor.ky.gov).

**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.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 2. Deposits (Continued)**

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, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 319,083	\$	\$	\$ 319,083
Construction In Progress	27,636	270,682		298,318
Total Capital Assets Not Being Depreciated	346,719	270,682		617,401
Capital Assets, Being Depreciated:				
Land Improvements	196,068			196,068
Buildings	2,249,120	42,091		2,291,211
Other Equipment	381,364	67,295		448,659
Vehicles and Equipment	1,462,613	363,010		1,825,623
Infrastructure	2,202,334			2,202,334
Total Capital Assets Being Depreciated	6,491,499	472,396		6,963,895
Less Accumulated Depreciation For:				
Land Improvements	(8,175)	(8,175)		(16,350)
Buildings	(595,921)	(38,931)		(634,852)
Other Equipment	(182,636)	(54,186)		(236,822)
Vehicles and Equipment	(612,824)	(164,982)		(777,806)
Infrastructure	(382,809)	(167,000)		(549,809)
Total Accumulated Depreciation	(1,782,365)	(433,274)		(2,215,639)
Total Capital Assets, Being Depreciated, Net	4,709,134	39,122		4,748,256
Governmental Activities Capital Assets, Net	<u>\$ 5,055,853</u>	<u>\$ 309,804</u>	<u>\$ 0</u>	<u>\$ 5,365,657</u>

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

<u>Governmental Activities:</u>	
General Government	\$ 204,114
Protection to Persons and Property	87,253
Social Services	13,545
Recreation and Culture	24,213
General Health and Sanitation	57,891
Roads, Including Depreciation of General Infrastructure Assets	46,258
Total Depreciation Expense - Governmental Activities	<u>\$ 433,274</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Short-term Debt**

Mack Trucks

In March 2008, Lee County Fiscal Court entered into a financing obligation agreement for \$205,300 with the Kentucky Association of Counties Leasing Trust Program, to purchase Mack trucks. The county purchased heavy trucks to use for one year; then the trucks were to be sold at auction. The terms of the agreement stipulate a one-year repayment schedule, with variable monthly payments and fixed yearly principal payment with an interest rate of 3.958 percent. On March 3, 2009, the county refinanced these Mack trucks to sell at a later auction. The outstanding principal as of June 30, 2009 was \$0.

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>
<u>Governmental Activities</u>					
Financing Obligations	\$ 205,300	\$	\$ 205,300	\$	\$
Governmental Activities Short-term Liabilities	<u>\$ 205,300</u>	<u>\$ 0</u>	<u>\$ 205,300</u>	<u>\$ 0</u>	<u>\$ 0</u>

**Note 5. Long-term Debt**

A. Road Paving

In May 2002, 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 variable annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2012 with an interest rate of 2.75 percent. The outstanding principal as of June 30, 2009 was \$105,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	<u>Principal</u>	<u>Interest</u>
2010	\$ 35,000	\$ 4,405
2011	35,000	2,700
2012	<u>35,000</u>	<u>995</u>
Totals	<u>\$ 105,000</u>	<u>\$ 8,100</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**B. Solid Waste Equipment**

In July 2003, Lee County Fiscal Court entered into a financing obligation agreement for \$325,000 with the Kentucky Association of Counties Leasing Trust Program, for a multipurpose agreement for the purpose of solid waste equipment. However, the county only used \$250,241 of the proceeds to purchase equipment. During December 2003, the county judge/executive requested the balance of the agreement be applied towards the principal thereby reducing monthly payments. The terms of the agreement stipulate a ten-year repayment schedule, with variable monthly payments and variable monthly principal payments to end on October 20, 2010 an interest rate of 2.175 percent. The outstanding principal as of June 30, 2009 was \$34,702. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2010	\$ 25,856	\$ 980
2011	8,846	107
Totals	<u>\$ 34,702</u>	<u>\$ 1,087</u>

**C. Rear Loader**

In February 2008, Lee County Fiscal Court entered into a financing obligation agreement for \$111,800 with the Kentucky Association of Counties Leasing Trust Program, to purchase a rear loader. The terms of the agreement stipulate an eight-year repayment schedule, with variable monthly payments and variable monthly principal payments to end on March 20, 2016 an interest rate of 5.227 percent. The outstanding principal as of June 30, 2009 was \$96,132. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2010	\$ 12,111	\$ 3,630
2011	12,792	3,412
2012	13,599	2,880
2013	14,457	2,310
2014	15,370	1,706
2015-2016	<u>27,802</u>	<u>1,395</u>
Totals	<u>\$ 96,131</u>	<u>\$ 15,333</u>



**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

D. Mack Trucks

In March 2009, Lee County Fiscal Court entered into a financing obligation agreement for \$205,987 with the Kentucky Association of Counties Leasing Trust Program, to refinance the Mack truck purchase. The terms of the agreement stipulate a four-year repayment schedule, with variable monthly payments and variable yearly principal payments starting January 20, 2011. This term is to end on January 20, 2013 an interest rate of 4.240 percent. The outstanding principal as of June 30, 2009 was \$205,987. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2010	\$	\$ 8,494
2011	65,000	9,597
2012	70,000	4,855
2013	70,987	1,864
Totals	<u>\$ 205,987</u>	<u>\$ 24,810</u>

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 302,664	\$ 205,987	\$ 66,830	\$ 441,821	\$ 72,967
Governmental Activities					
Long-term Liabilities	<u>\$ 302,664</u>	<u>\$ 205,987</u>	<u>\$ 66,830</u>	<u>\$ 441,821</u>	<u>\$ 72,967</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 6. 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 13.5 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.5 percent.

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.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

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 7. Insurance**

For the fiscal year ended June 30, 2009, 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 8. Prior Period Adjustments**

The ending net asset balance for June 30, 2008 was restated by \$6,526 for the governmental activities of the Lee County Fiscal Court to \$5,749,279 due to the corrections of errors on capital assets and prior year voided checks. Capital assets – net of accumulated depreciation were increased by \$5,293 due to errors in depreciation calculations and reclassifications. Cash balances were increased \$546 due to write off of prior year voided checks and asset held for resale was increased by \$687.

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**



**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2009**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,532,086	\$ 1,532,086	\$ 1,781,304	\$ 249,218
In Lieu Tax Payments	9,700	9,700	17,393	7,693
Excess Fees	34,154	34,154	41,259	7,105
Licenses and Permits	18,000	18,000	20,742	2,742
Intergovernmental Revenue	218,450	253,071	294,355	41,284
Charges for Services	8,000	8,000	10,544	2,544
Miscellaneous	72,100	72,100	114,689	42,589
Interest	4,800	4,800	3,840	(960)
Total Revenues	<u>1,897,290</u>	<u>1,931,911</u>	<u>2,284,126</u>	<u>352,215</u>
<b>EXPENDITURES</b>				
General Government	740,411	822,082	761,674	60,408
Protection to Persons and Property	148,127	246,234	228,051	18,183
General Health and Sanitation		153,855	153,855	
Social Services	34,300	61,303	40,824	20,479
Recreation and Culture	26,319	105,768	82,867	22,901
Capital Projects	608,000	230,343	190,944	39,399
Administration	306,738	278,931	253,746	25,185
Total Expenditures	<u>1,863,895</u>	<u>1,898,516</u>	<u>1,711,961</u>	<u>186,555</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>33,395</u>	<u>33,395</u>	<u>572,165</u>	<u>538,770</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			150,000	150,000
Transfers To Other Funds	<u>(233,395)</u>	<u>(233,395)</u>	<u>(396,787)</u>	<u>(163,392)</u>
Total Other Financing Sources (Uses)	<u>(233,395)</u>	<u>(233,395)</u>	<u>(246,787)</u>	<u>(13,392)</u>
Net Changes in Fund Balance	(200,000)	(200,000)	325,378	525,378
Fund Balance - Beginning (Restated)	<u>200,000</u>	<u>200,000</u>	<u>449,642</u>	<u>249,642</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 775,020</u>	<u>\$ 775,020</u>

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(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>				
Taxes	\$ 250,000	\$ 331,000	\$ 288,516	\$ (42,484)
In Lieu Tax Payments	16,480	16,480	36,722	20,242
Intergovernmental Revenue	751,817	751,817	880,281	128,464
Miscellaneous	173,600	173,600	40,164	(133,436)
Interest	2,500	2,500	1,096	(1,404)
Total Revenues	<u>1,194,397</u>	<u>1,275,397</u>	<u>1,246,779</u>	<u>(28,618)</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property		1,000	592	408
Roads	626,099	785,093	736,634	48,459
Debt	247,986	49,813	44,088	5,725
Capital Projects	250,000	352,000	346,113	5,887
Administration	139,312	156,491	139,734	16,757
Total Expenditures	<u>1,263,397</u>	<u>1,344,397</u>	<u>1,267,161</u>	<u>77,236</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(69,000)</u>	<u>(69,000)</u>	<u>(20,382)</u>	<u>48,618</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			231,529	231,529
Transfers To Other Funds			(150,000)	(150,000)
Total Other Financing Sources (Uses)			<u>81,529</u>	<u>81,529</u>
Net Changes in Fund Balance	(69,000)	(69,000)	61,147	130,147
Fund Balance - Beginning	<u>69,000</u>	<u>69,000</u>	<u>74,065</u>	<u>5,065</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 135,212</u>	<u>\$ 135,212</u>

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE 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	\$ 364,291	\$ 439,291	\$ 570,839	\$ 131,548
Miscellaneous			204	204
Interest	50	50	558	508
Total Revenues	<u>364,341</u>	<u>439,341</u>	<u>571,601</u>	<u>132,260</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property		31,750	30,547	(1,203)
General Health and Sanitation	32,364	34,929	33,822	(1,107)
Recreation and Culture	13,000	13,000	10,300	(2,700)
Roads	67,000	79,054	77,642	(1,412)
Administration	8,908	37,539	8,683	28,856
Total Expenditures	<u>121,272</u>	<u>196,272</u>	<u>160,994</u>	<u>22,434</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>243,069</u>	<u>243,069</u>	<u>410,607</u>	<u>154,694</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	<u>(309,069)</u>	<u>(309,069)</u>	<u>(309,000)</u>	<u>69</u>
Total Other Financing Sources (Uses)	<u>(309,069)</u>	<u>(309,069)</u>	<u>(309,000)</u>	<u>69</u>
Net Changes in Fund Balances	(66,000)	(66,000)	101,607	167,607
Fund Balances - Beginning	<u>66,000</u>	<u>66,000</u>	<u>89,348</u>	<u>23,348</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 190,955</u>	<u>\$ 190,955</u>

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>AMBULANCE 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	\$ 11,000	\$ 11,000	\$ 10,169	\$ (831)
Charges For Services	785,000	785,000	708,809	(76,191)
Miscellaneous Revenue	4,000	4,000	21,170	17,170
Interest	100	100	139	39
<b>Total Revenues</b>	<b>800,100</b>	<b>800,100</b>	<b>740,287</b>	<b>(59,813)</b>
<b>EXPENDITURES</b>				
Protection to Persons and Property	781,081	806,081	804,576	1,505
Administration	292,414	292,414	274,181	18,233
<b>Total Expenditures</b>	<b>1,073,495</b>	<b>1,098,495</b>	<b>1,078,757</b>	<b>19,738</b>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(273,395)	(298,395)	(338,470)	(40,075)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	233,395	258,395	308,395	50,000
<b>Total Other Financing Sources (Uses)</b>	<b>233,395</b>	<b>258,395</b>	<b>308,395</b>	<b>50,000</b>
Net Changes in Fund Balances	(40,000)	(40,000)	(30,075)	9,925
Fund Balances - Beginning	40,000	40,000	63,655	23,655
Fund Balances - Ending	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 33,580</b>	<b>\$ 33,580</b>



**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(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	\$		\$ 110,247	\$ 138,439	\$ 28,192
Charges For Services		403,000	403,000	397,481	(5,519)
Miscellaneous			55,917	72,984	17,067
Interest		500	500	907	407
Total Revenues		<u>403,500</u>	<u>569,664</u>	<u>609,811</u>	<u>40,147</u>
<b>EXPENDITURES</b>					
General Health And Sanitation		482,391	723,225	547,467	175,758
Debt Service		46,030	46,030	42,524	3,506
Administration		72,094	72,094	59,472	12,622
Total Expenditures		<u>600,515</u>	<u>841,349</u>	<u>649,463</u>	<u>191,886</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		<u>(197,015)</u>	<u>(271,685)</u>	<u>(39,652)</u>	<u>232,033</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers From Other Funds		49,015	49,015		(49,015)
Transfers To Other Funds			(25,000)	(68,137)	43,137
Total Other Financing Sources (Uses)		<u>49,015</u>	<u>24,015</u>	<u>(68,137)</u>	<u>(5,878)</u>
Net Changes in Fund Balances		(148,000)	(247,670)	(107,789)	139,881
Fund Balances - Beginning		<u>148,000</u>	<u>247,670</u>	<u>276,482</u>	<u>28,812</u>
Fund Balances - Ending	\$	<u>0</u>	\$ <u>0</u>	\$ <u>168,693</u>	\$ <u>168,693</u>

**LEE COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**

**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.

**2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances**

	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
<b>Road Fund</b>		
Budgetary Comparison Schedule	\$ 1,267,161	\$
Record Pay Off Short Term Obligation Mack Trucks	205,987	
Record Lease Proceeds		205,987
	<hr/>	<hr/>
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 1,473,148</u>	<u>\$ 205,987</u>

**LEE COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2009**



**LEE COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2009**

	<u><b>Jail Fund</b></u>	<u><b>Handicap Van Fund</b></u>	<u><b>Total Non-Major Governmental Funds</b></u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 43,203	\$ 19,051	\$ 62,254
Total Assets	<u>43,203</u>	<u>19,051</u>	<u>62,254</u>
<b>FUND BALANCES</b>			
Reserved:			
Encumbrances	27,338	718	28,056
Unreserved:			
Special Revenue Funds	<u>15,865</u>	<u>18,333</u>	<u>34,198</u>
Total Fund Balances	<u>\$ 43,203</u>	<u>\$ 19,051</u>	<u>\$ 62,254</u>

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

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**LEE COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2009**





**LEE COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2009**

	<b>Jail Fund</b>	<b>Handicap Van Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Intergovernmental	\$ 47,315	\$	\$ 47,315
Charges For Services		6,168	6,168
Miscellaneous	1,386		1,386
Interest	184	99	283
Total Revenues	<u>48,885</u>	<u>6,267</u>	<u>55,152</u>
<b>EXPENDITURES</b>			
General Government	234,264		234,264
Protection to Persons and Property		25,001	25,001
Administration	7,263	2,581	9,844
Total Expenditures	<u>241,527</u>	<u>27,582</u>	<u>269,109</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(192,642)</u>	<u>(21,315)</u>	<u>(213,957)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers From Other Funds	234,000		234,000
Total Other Financing Sources (Uses)	<u>234,000</u>		<u>234,000</u>
Net Change in Fund Balances	41,358	(21,315)	20,043
Fund Balances - Beginning	1,845	40,366	42,211
Fund Balances - Ending	<u>\$ 43,203</u>	<u>\$ 19,051</u>	<u>\$ 62,254</u>

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

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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**





**CRIT LUALLEN**  
**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, each major fund, and the aggregate remaining fund information of Lee County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 29, 2011. 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

In planning and performing our audit, we considered Lee County'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 Lee County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lee County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations as item 2009-01 to be a significant deficiency in internal control over financial reporting.



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)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency listed above to be a material weakness.

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, 2009, 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 one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as item 2009-02.

The Lee County Judge/Executive's responses to the findings identified in our audit are included in the comments and recommendations. We did not audit the Judge/Executive's and responses and, accordingly, we express no opinion on them.

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,



Crit Luallen  
Auditor of Public Accounts

March 29, 2011

**LEE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2009**





**LEE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2009**

INTERNAL CONTROL - MATERIAL WEAKNESS

2009-01 The County Should Improve Controls Over Collections For Solid Waste And Handicap Van Fees

The county should implement review procedures for individuals collecting cash for solid waste pickups and handicap van fees. The solid waste clerk posts all receipts to computer system, prepares the deposit and daily checkouts, and deposits collections in the bank with no regular review procedures. The handicap van driver also prepares all receipts for handicap van runs, maintains all documentation for the runs, and deposits all collections in the bank also with no review procedures. The county should have someone other than the solid waste clerk and handicap van driver review all daily work of each office. Funds should be added and agreed to the daily checkouts and deposited by someone other than the individual collecting the money and preparing the daily checkout. The individual should initial the deposit slip and daily checkout to assure they agree. The county should improve controls over collections for solid waste and handicap van collections.

*County Judge Executive's Response: Immediately upon recommendation from auditors, we started a second person reviewing all daily deposits and sign off on it.*

STATE LAWS AND REGULATIONS

2009-02 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

KRS 68.005 states that the Fiscal Court should review the Administrative Code annually before the end of the fiscal year. We recommend that the Fiscal Court review the Administrative Code, Ethics Code, and Personnel Policy and then make necessary changes and modifications as appropriate. The review of the Administrative Code should be reflected in the minutes of the Fiscal Court.

*County Judge Executive's Response: We will correct and review annually.*

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

**LEE COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



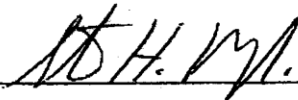
**CERTIFICATION OF COMPLIANCE**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

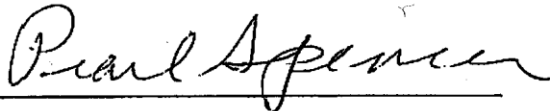
**LEE COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2009**

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

  
\_\_\_\_\_

**County Judge/Executive**

  
\_\_\_\_\_

**County Treasurer**

