

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

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEE COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Lee County Fiscal Court for fiscal year ended June 30, 2010. We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information of Lee County, Kentucky. Additionally, we have issued an unqualified opinion on the fiscal court's compliance with OMB Circular A-133 compliance supplement as it relates to its major programs.

Financial Condition:

The fiscal court had net assets of \$7,740,916 as of June 30, 2010. The fiscal court had unrestricted net assets of \$1,888,188 in its governmental activities as of June 30, 2010, with total net assets of \$7,740,916. The fiscal court had total debt principal as of June 30, 2010 of \$435,897 with \$90,210 due within the next year.

Report Comments:

- 2010-01 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2010-02 The County Should Improve Controls Over Collections For Solid Waste And Handicap Van Fees

Deposits:

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

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
LEE COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS.....	11
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES	39
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	44
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	47
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	51
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	55
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	56
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	59
REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 ..	63
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	67
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



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, 2010, 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, 2010, 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
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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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards 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 schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2010-01 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2010-02 The County Should Improve Controls Over Collections For Solid Waste And Handicap Van Fees

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 29, 2011

LEE COUNTY OFFICIALS

For The Year Ended June 30, 2010

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, 2010

LEE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government
	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,888,188
Total Current Assets	1,888,188
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	319,083
Land Improvements	171,543
Construction In Progress	305,001
Buildings	2,023,671
Other Equipment	181,250
Vehicles and Equipment	998,896
Infrastructure	2,289,181
Total Noncurrent Assets	6,288,625
Total Assets	8,176,813
LIABILITIES	
Current Liabilities:	
Financing Obligations Payable	90,210
Noncurrent Liabilities:	
Financing Obligations Payable	345,687
Total Liabilities	435,897
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,852,728
Unrestricted	1,888,188
Total Net Assets	\$ 7,740,916

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, 2010

LEE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

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
Primary Government:					
Governmental Activities:					
General Government	\$ 2,088,346	\$ 67,178	\$ 324,833	\$	\$ (1,696,335)
Protection to Persons and Property	1,031,424	763,431	93,832		(174,161)
General Health and Sanitation	496,646	380,596	486,493		370,443
Social Services	58,854	14,819	13,071		(30,964)
Recreation and Culture	70,966			384,764	313,798
Roads	1,489,190		846,026	1,859,636	1,216,472
Interest on Long-term Debt	55,624				(55,624)
Capital Projects	184,571				(184,571)
Total Governmental Activities	<u>5,475,621</u>	<u>1,226,024</u>	<u>1,764,255</u>	<u>2,244,400</u>	<u>(240,942)</u>
Total Primary Government	<u>\$ 5,475,621</u>	<u>\$ 1,226,024</u>	<u>\$ 1,764,255</u>	<u>\$ 2,244,400</u>	<u>(240,942)</u>

General Revenues:

Taxes:

Real Property Taxes	1,021,357
Personal Property Taxes	224,915
Motor Vehicle Taxes	75,325
Other Taxes	41,230
In Lieu Payments	35,324
Excess Fees	26,845
Miscellaneous Revenues	56,563
Accrued Interest Received	4,762
Total General Revenues and Transfers	<u>1,486,321</u>
Change in Net Assets	1,245,379
Net Assets - Beginning	<u>6,495,537</u>
Net Assets - Ending	<u>\$ 7,740,916</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, 2010

LEE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	<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>
ASSETS							
Cash and Cash Equivalents	\$ 902,246	\$ 384,060	\$ 84,863	\$ 49,138	\$ 427,765	\$ 40,116	\$ 1,888,188
Total Assets	<u>\$ 902,246</u>	<u>\$ 384,060</u>	<u>\$ 84,863</u>	<u>\$ 49,138</u>	<u>\$ 427,765</u>	<u>\$ 40,116</u>	<u>\$ 1,888,188</u>
FUND BALANCES							
Reserved for:							
Encumbrances	41,722	368,151	8,315	6,133	7,004	1,042	432,367
Unreserved:							
General Fund	860,524						860,524
Special Revenue Funds		15,909	76,548	43,005	420,761	39,074	595,297
Total Fund Balances	<u>\$ 902,246</u>	<u>\$ 384,060</u>	<u>\$ 84,863</u>	<u>\$ 49,138</u>	<u>\$ 427,765</u>	<u>\$ 40,116</u>	<u>\$ 1,888,188</u>

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

Total Fund Balances	\$ 1,888,188
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.	8,999,563
Accumulated Depreciation	(2,710,938)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(435,897)</u>
Net Assets Of Governmental Activities	<u>\$ 7,740,916</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, 2010

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

For The Year Ended June 30, 2010

	<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>
REVENUES							
Taxes	\$ 1,747,558	\$	\$	\$	\$	\$	\$ 1,747,558
In Lieu Tax Payments	2,832	32,492					35,324
Excess Fees	26,845						26,845
Licenses and Permits	20,747						20,747
Intergovernmental	304,066	2,095,458	402,893	10,084	434,210	45,629	3,292,340
Charges for Services	11,115			749,092	380,596	3,224	1,144,027
Miscellaneous	122,332	314,257		5,393	7,421		449,403
Interest	2,084	1,348	314	166	718	126	4,756
Total Revenues	<u>2,237,579</u>	<u>2,443,555</u>	<u>403,207</u>	<u>764,735</u>	<u>822,945</u>	<u>48,979</u>	<u>6,721,000</u>
EXPENDITURES							
General Government	790,034					280,325	1,070,359
Protection to Persons and Property	260,116		6,758	713,668		11,463	992,005
General Health and Sanitation	5,940		34,695		455,583		496,218
Social Services	58,854						58,854
Recreation and Culture	322,058		17,790				339,848
Roads	147,405	1,867,294	213,493				2,228,192
Debt Service	28,988	289,984			42,576		361,548
Capital Projects		184,571					184,571
Administration	273,101	152,858	5,509	259,366	65,714	10,383	766,931
Total Expenditures	<u>1,886,496</u>	<u>2,494,707</u>	<u>278,245</u>	<u>973,034</u>	<u>563,873</u>	<u>302,171</u>	<u>6,498,526</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>351,083</u>	<u>(51,152)</u>	<u>124,962</u>	<u>(208,299)</u>	<u>259,072</u>	<u>(253,192)</u>	<u>222,474</u>
Other Financing Sources (Uses)							
Financing Obligation Proceeds		300,000					300,000
Transfers From Other Funds				223,857		231,054	454,911
Transfers To Other Funds	(223,857)		(231,054)				(454,911)
Total Other Financing Sources (Uses)	<u>(223,857)</u>	<u>300,000</u>	<u>(231,054)</u>	<u>223,857</u>		<u>231,054</u>	<u>300,000</u>
Net Change in Fund Balances	127,226	248,848	(106,092)	15,558	259,072	(22,138)	522,474
Fund Balances - Beginning	775,020	135,212	190,955	33,580	168,693	62,254	1,365,714
Fund Balances - Ending	<u>\$ 902,246</u>	<u>\$ 384,060</u>	<u>\$ 84,863</u>	<u>\$ 49,138</u>	<u>\$ 427,765</u>	<u>\$ 40,116</u>	<u>\$ 1,888,188</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, 2010

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, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 522,474
<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	1,644,084
Deletions in Capital Assets	(225,817)
Depreciation Expense	(495,299)
Disposal on Sale of Asset Held For Resale	(205,987)
<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 Proceeds	(300,000)
Financing Obligations Principal Payments	305,924
	305,924
Change in Net Assets of Governmental Activities	\$ 1,245,379

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	25
NOTE 2.	DEPOSITS AND INVESTMENTS	30
NOTE 3.	CAPITAL ASSETS	32
NOTE 4.	SHORT-TERM DEBT	33
NOTE 5.	LONG-TERM DEBT.....	33
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	36
NOTE 7.	INSURANCE	36

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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, 2010
(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, 2010
(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, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Special Revenue Funds

The Road Fund, Local Government Economic Assistance Fund, Ambulance Fund, Solid Waste Fund, Jail 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, 2010
(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, 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, 2010
(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.

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, 2010
(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, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 319,083	\$	\$	\$ 319,083
Construction In Progress	298,318	232,500	(225,817)	305,001
Total Capital Assets Not Being Depreciated	617,401	232,500	(225,817)	624,084
Capital Assets, Being Depreciated:				
Land Improvements	196,068			196,068
Buildings	2,291,211	420,033		2,711,244
Other Equipment	448,659	19,527		468,186
Vehicles and Equipment	1,825,623	115,384		1,941,007
Infrastructure	2,202,334	856,640		3,058,974
Total Capital Assets Being Depreciated	6,963,895	1,411,584		8,375,479
Less Accumulated Depreciation For:				
Land Improvements	(16,350)	(8,175)		(24,525)
Buildings	(634,852)	(52,721)		(687,573)
Other Equipment	(236,822)	(50,114)		(286,936)
Vehicles and Equipment	(777,806)	(164,305)		(942,111)
Infrastructure	(549,809)	(219,984)		(769,793)
Total Accumulated Depreciation	(2,215,639)	(495,299)		(2,710,938)
Total Capital Assets, Being Depreciated, Net	4,748,256	916,285		5,664,541
Governmental Activities Capital Assets, Net	<u>\$ 5,365,657</u>	<u>\$ 1,148,785</u>	<u>\$ (225,817)</u>	<u>\$ 6,288,625</u>

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

<u>Governmental Activities:</u>	
General Government	\$ 251,056
Protection to Persons and Property	80,945
Recreation and Culture	30,127
General Health and Sanitation	75,687
Roads, Including Depreciation of General Infrastructure Assets	57,484
Total Depreciation Expense - Governmental Activities	<u>\$ 495,299</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(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, 2010 was \$0.

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, 2010 was \$70,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 35,000	\$ 2,700
2012	35,000	995
Totals	<u>\$ 70,000</u>	<u>\$ 3,695</u>

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, 2010 was \$8,846. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 8,846	\$ 107
Totals	<u>\$ 8,846</u>	<u>\$ 107</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long Term Debt (Continued)

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, 2010 was \$84,020. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 12,792	\$ 3,412
2012	13,599	2,880
2013	14,457	2,310
2014	15,370	1,706
2015	16,340	1,063
2016	11,462	332
Totals	<u>\$ 84,020</u>	<u>\$ 11,703</u>

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, 2010 was \$0.

E. Blacktop Project

In August 3, 2009, Lee County Fiscal Court entered into a financing obligation agreement for \$300,000 with the Kentucky Association of Counties Leasing Trust Program, to pave county roads. The terms of the agreement stipulate an eight-year repayment schedule, with variable monthly payments and variable monthly principal payments to end on August 20, 2017 an interest rate of 4.217 percent. The outstanding principal as of June 30, 2010 was \$273,030. Future lease principal and interest requirements are:

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long Term Debt (Continued)

E. Blacktop Project (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 33,571	\$ 10,804
2012	34,939	9,413
2013	36,362	7,965
2014	37,844	6,455
2015	39,386	4,882
2016-2018	90,928	4,883
Totals	<u>\$ 273,030</u>	<u>\$ 44,402</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 441,821</u>	<u>\$ 300,000</u>	<u>\$ 305,924</u>	<u>\$ 435,897</u>	<u>\$ 90,210</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 441,821</u>	<u>\$ 300,000</u>	<u>\$ 305,924</u>	<u>\$ 435,897</u>	<u>\$ 90,210</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(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 16.16 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, 2010, 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.

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

For The Year Ended June 30, 2010

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

For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,392,460	\$ 1,392,460	\$ 1,747,558	\$ 355,098
In Lieu Tax Payments	5,400	5,400	2,832	(2,568)
Excess Fees	33,816	33,816	26,845	(6,971)
Licenses and Permits	18,000	18,000	20,747	2,747
Intergovernmental Revenue	261,575	274,528	304,066	29,538
Charges for Services	8,000	8,000	11,115	3,115
Miscellaneous	79,500	79,500	122,332	42,832
Interest	3,000	3,000	2,084	(916)
Total Revenues	<u>1,801,751</u>	<u>1,814,704</u>	<u>2,237,579</u>	<u>422,875</u>
EXPENDITURES				
General Government	823,099	823,099	790,034	33,065
Protection to Persons and Property	222,303	235,256	260,116	(24,860)
General Health and Sanitation			5,940	(5,940)
Social Services	40,150	40,150	58,854	(18,704)
Recreation and Culture	36,569	36,569	322,058	(285,489)
Roads	200,000	200,000	147,405	52,595
Capital Projects	342,942	342,942	28,988	313,954
Administration	312,831	312,831	273,101	39,730
Total Expenditures	<u>1,977,894</u>	<u>1,990,847</u>	<u>1,886,496</u>	<u>104,351</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(176,143)</u>	<u>(176,143)</u>	<u>351,083</u>	<u>527,226</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(223,857)</u>	<u>(223,857)</u>	<u>(223,857)</u>	
Total Other Financing Sources (Uses)	<u>(223,857)</u>	<u>(223,857)</u>	<u>(223,857)</u>	
Net Changes in Fund Balance	(400,000)	(400,000)	127,226	527,226
Fund Balance - Beginning	<u>400,000</u>	<u>400,000</u>	<u>775,020</u>	<u>375,020</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 902,246</u>	<u>\$ 902,246</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 36,721	\$ 36,721	\$ 32,492	\$ (4,229)
Intergovernmental Revenue	761,766	1,805,834	2,095,458	289,624
Miscellaneous	173,600	301,248	314,257	13,009
Interest	700	700	1,348	648
Total Revenues	<u>972,787</u>	<u>2,144,503</u>	<u>2,443,555</u>	<u>299,052</u>
EXPENDITURES				
Roads	898,099	1,684,200	1,867,294	(183,094)
Debt	296,819	296,819	289,984	6,835
Capital Projects		165,615	184,571	(18,956)
Administration	160,501	400,501	152,858	247,643
Total Expenditures	<u>1,355,419</u>	<u>2,547,135</u>	<u>2,494,707</u>	<u>52,428</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(382,632)</u>	<u>(402,632)</u>	<u>(51,152)</u>	<u>351,480</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligations Proceeds	300,000	300,000	300,000	
Total Other Financing Sources (Uses)	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	
Net Changes in Fund Balance	(82,632)	(102,632)	248,848	351,480
Fund Balance - Beginning	<u>82,632</u>	<u>102,632</u>	<u>135,212</u>	<u>32,580</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 384,060</u>	<u>\$ 384,060</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 344,104	\$ 384,104	\$ 402,893	\$ 18,789
Interest	50	50	314	264
Total Revenues	<u>344,154</u>	<u>384,154</u>	<u>403,207</u>	<u>19,053</u>
EXPENDITURES				
Protection to Persons and Property			6,758	6,758
General Health and Sanitation	34,513	34,513	34,695	182
Recreation and Culture	14,000	14,000	17,790	3,790
Roads	175,104	225,104	213,493	(11,611)
Administration	10,200	10,200	5,509	(4,691)
Total Expenditures	<u>233,817</u>	<u>283,817</u>	<u>278,245</u>	<u>(5,572)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>110,337</u>	<u>100,337</u>	<u>124,962</u>	<u>13,481</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(231,054)</u>	<u>(231,054)</u>	<u>(231,054)</u>	
Total Other Financing Sources (Uses)	<u>(231,054)</u>	<u>(231,054)</u>	<u>(231,054)</u>	
Net Changes in Fund Balances	(120,717)	(130,717)	(106,092)	24,625
Fund Balances - Beginning	<u>120,717</u>	<u>130,717</u>	<u>190,955</u>	<u>60,238</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 84,863</u>	<u>\$ 84,863</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 11,000	\$ 11,000	\$ 10,084	\$ (916)
Charges For Services	780,000	780,000	749,092	(30,908)
Miscellaneous Revenue			5,393	5,393
Interest	100	100	166	66
Total Revenues	791,100	791,100	764,735	(26,365)
EXPENDITURES				
Protection to Persons and Property	743,194	743,194	713,668	29,526
Administration	301,763	301,763	259,366	42,397
Total Expenditures	1,044,957	1,044,957	973,034	71,923
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(253,857)	(253,857)	(208,299)	45,558
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	223,857	223,857	223,857	
Total Other Financing Sources (Uses)	223,857	223,857	223,857	
Net Changes in Fund Balances	(30,000)	(30,000)	15,558	45,558
Fund Balances - Beginning	30,000	30,000	33,580	3,580
Fund Balances - Ending	\$ 0	\$ 0	\$ 49,138	\$ 49,138

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
Intergovernmental	\$		\$ 407,404	\$ 434,210	\$ 26,806
Charges For Services		401,000	401,000	380,596	(20,404)
Miscellaneous		100	100	7,421	7,321
Interest		500	500	718	218
Total Revenues		401,600	809,004	822,945	13,941
EXPENDITURES					
General Health And Sanitation		391,694	799,098	455,583	343,515
Debt Service		42,972	42,972	42,576	396
Administration		83,934	83,934	65,714	18,220
Total Expenditures		518,600	926,004	563,873	362,131
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(117,000)	(117,000)	259,072	376,072
Net Changes in Fund Balances		(117,000)	(117,000)	259,072	376,072
Fund Balances - Beginning		117,000	117,000	168,693	51,693
Fund Balances - Ending	\$	<u>0</u>	\$ <u>0</u>	\$ <u>427,765</u>	\$ <u>427,765</u>

LEE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

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

June 30, 2010

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

June 30, 2010

	Jail Fund	Handicap Van Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 30,587	\$ 9,529	\$ 40,116
Total Assets	<u>30,587</u>	<u>9,529</u>	<u>40,116</u>
FUND BALANCES			
Reserved:			
Encumbrances	507	535	1,042
Unreserved:			
Special Revenue Funds	<u>30,080</u>	<u>8,994</u>	<u>39,074</u>
Total Fund Balances	<u>\$ 30,587</u>	<u>\$ 9,529</u>	<u>\$ 40,116</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, 2010

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, 2010

	Jail Fund	Handicap Van Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 45,629	\$	\$ 45,629
Charges For Services		3,224	3,224
Interest	90	36	126
Total Revenues	<u>45,719</u>	<u>3,260</u>	<u>48,979</u>
EXPENDITURES			
General Government	280,325		280,325
General Health and Sanitation		11,463	11,463
Administration	9,064	1,319	10,383
Total Expenditures	<u>289,389</u>	<u>12,782</u>	<u>302,171</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(243,670)</u>	<u>(9,522)</u>	<u>(253,192)</u>
OTHER FINANCING SOURCES (USES)			
Transfers From Other Funds	231,054		231,054
Total Other Financing Sources (Uses)	<u>231,054</u>		<u>231,054</u>
Net Change in Fund Balances	(12,616)	(9,522)	(22,138)
Fund Balances - Beginning	43,203	19,051	62,254
Fund Balances - Ending	<u>\$ 30,587</u>	<u>\$ 9,529</u>	<u>\$ 40,116</u>

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

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**LEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**LEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2010

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Natural Resources Conservation Service		
Emergency Watershed Protection Program		
June 2009 Storm Event		\$ 388,819
October 2009 Storm Event		<u>53,174</u>
(CFDA #10.923)	*** Not applicable	<u>441,993</u>
<u>U.S. Department of Homeland Security</u>		
Passed Through State Department Of Military Affairs:		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		
(CFDA # 97.036)	*** FEMA 1841 DR KY	312,265
Emergency Food and Shelter National Board Program		
(CFDA #97.024)	Not available	<u>25,398</u>
Total U.S. Department of Homeland Security		<u>337,663</u>
Total Expenditures of Federal Awards		<u>\$ 779,656</u>

*** *Tested as Major Programs*

LEE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2010

Note 1 – The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lee County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**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, 2010, 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 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 opinion on the financial statement, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2010-02 to be a material weakness.



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, 2010, 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 schedule of findings and questioned costs as item 2010-01.

The Lee County Judge/Executive's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the County Judge/Executive 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, the Department for Local Government, federal awarding agencies, and pass-through entities 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

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

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

**Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

Independent Auditor's Report

Compliance

We have audited the compliance of Lee County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. Lee County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lee County's management. Our responsibility is to express an opinion on Lee County's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lee County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lee County's compliance with those requirements.

In our opinion, Lee County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Lee County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lee County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lee County's internal control over compliance.



Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities 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
SCHEDULE OF FINDING AND QUESTIONED COSTS**

For The Year Ended June 30, 2010

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities, each major fund, and aggregate remaining information of Lee County, Kentucky.
2. One material weakness relating to the audit of the financial statements is reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Lee County were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Lee County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Lee County reported in Part C of this schedule.
7. The programs tested as major programs were: Natural Resource Conservation Service (CFDA# 10.923) and Public Assistance Grant (CFDA # 97.036).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Lee County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

2010-01 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

KRS 68.005 mentions 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.

INTERNAL CONTROL - MATERIAL WEAKNESS

2010-02 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.

LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2010
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

D. PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

None.

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

LEE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2010**

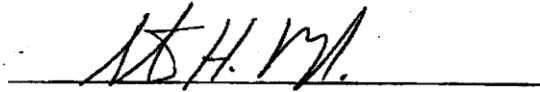
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

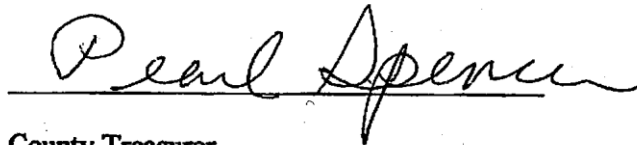
LEE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2010

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.

A handwritten signature in cursive script, appearing to read "H.H.M.", is written over a horizontal line.

County Judge/Executive

A handwritten signature in cursive script, appearing to read "Pearl Spencer", is written over a horizontal line.

County Treasurer

