

DEAN DORTON ALLEN FORD CONTRACT #139-2013

R-276-2013

April 25, 2013

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

Attention: Bill O'Mara, Acting Commissioner of Finance

The Objective and Scope of the Audit of the Financial Statements

You have requested that we audit the financial statements of Lexington-Fayette Urban County Government (the Government), which comprise governmental activities, business-type activities, aggregate discretely presented component units, each major fund and aggregate remaining fund information, and the budgetary comparison for the General Fund and Full Urban Services District Fund as of and for the year ending June 30, 2013 which collectively comprise the Government's basic financial statements. Our audit will include the General Fund and you acknowledge that we are the group auditor of the Government's basic financial statements as of and for the year ending June 30, 2013. We will not audit the financial statements of the Lexington Transit Authority, the Lexington Convention and Visitors Bureau, the Lexington Public Library, the Lexington-Fayette Urban County Airport Board, the Lexington-Fayette Urban County Department of Health, and the Lexington Center Corporation. Those financial statements will be audited by component auditors. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

We will also perform the audit of the Government as of June 30, 2013, so as to satisfy the audit requirements imposed by the Single Audit Act and the U. S. Office of Management and Budget (OMB) Circular No. A-133.

The Responsibilities of the Auditor

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); "Government Auditing Standards" issued by the Comptroller General of the United States; the provisions of the Single Audit Act, OMB Circular A-133, and OMB's Compliance Supplement. Those standards,

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Lexington, KY 40507
502.255.0321 *phone*
502.255.0123 *fax*

www.ddajcpa.com

First Trust Building
200 South Fifth Street
Suite 2015
Louisville, KY 40202
502.582.6250 *phone*
502.581.8017 *fax*

circulars, supplements, or guides require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, "Government Auditing Standards" do not expect us to provide reasonable assurance of detecting abuse.

In making our risk assessments, we consider internal control relevant to the Government's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

We will also communicate to the governing board (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

The funds that you have told us are maintained by the Government and that are to be included as part of our audit are listed as attachment A.

The component units whose financial statements you have told us are to be included as part of the Government's basic financial statements are listed as attachment B.

The federal financial assistance programs and awards that you have told us that the Government participates in and that are to be included as part of the single audit are listed as attachment C.

Our reports on internal control will include any significant deficiencies and material weaknesses in controls of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards and circulars identified above. Our reports on compliance matters will address material errors, fraud, abuse, violations of compliance obligations, and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts, and any state or federal grant, entitlement, or loan program questioned costs of which we become aware, consistent with requirements of the standards and circulars identified above.

The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Our audit will be conducted on the basis that management and when appropriate, those charged with governance, acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- c. For establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge;
- d. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others;
- e. For (a) making us aware of significant vendor relationships where the vendor is responsible for program compliance, (b) following up and taking corrective action on audit findings, including the preparation of a summary schedule of prior audit findings, and a corrective action plan, and (c) report distribution including submitting the reporting package(s); and

f. To provide us with:

- (1) Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
- (2) Additional information that we may request from management for the purpose of the audit;
- (3) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence;
- (4) When applicable, a summary schedule of prior audit findings for inclusion in the single audit reporting package; and
- (5) If applicable, responses to any findings reported on the schedule of findings and questioned costs.

As part of our audit process, we will request from management and when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit including among other items:

- a. That management has fulfilled its responsibilities as set out in the terms of this letter; and
- b. That it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for identifying and ensuring that the Government complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud or abuse, and for informing us about all known or suspected fraud or abuse affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud or abuse could have a material effect on the financial statements or compliance. Management is also responsible for informing us of its knowledge of any allegations of fraud or abuse or suspected fraud or abuse affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

Management is responsible for the preparation of the required supplementary information (RSI) and supplementary information, presented in relation to the financial statements as a whole, in accordance with accounting principles generally accepted in the United States of America. Management agrees to include the auditors' report on the RSI and supplementary information in any document that contains the RSI and supplementary information and that indicates that the auditor has reported on such RSI and supplementary information. Management also agrees to present the RSI and supplementary information with the audited financial statements or, if the RSI and supplementary information will not be presented with audited financial statements, to make the audited financial statements readily available to the intended users of the RSI and supplementary information no later than the date of issuance of the RSI and supplementary information and the auditors' report thereon.

The governing board is responsible for informing us of its views about the risks of fraud or abuse within the entity, and its knowledge of any fraud or abuse or suspected fraud or abuse affecting the Government.

The Government agrees that it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, the Government agrees to contact us before it includes our reports or otherwise makes reference to us, in any public or private securities offering.

Our association with an official statement is a matter for which separate arrangements will be necessary. The Government agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the Government seeks such consent, we will be under no obligation to grant such consent or approval.

We agree that our association with any proposed offering is not necessary, providing the Government agrees to clearly indicate that we are not associated with the contents of any such official statement or memorandum. The Government agrees that the following disclosure will be prominently displayed in any such official statement or memorandum:

Dean Dorton Allen Ford, PLLC, our independent auditor, has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Dean Dorton Allen Ford, PLLC, also has not performed any procedures relating to this official statement or memorandum.

The Government's Records and Assistance

If circumstances arise relating to the condition of the Government's records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion, issue a report, or withdraw from the engagement.

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

The assistance to be supplied by the Government personnel, including the preparation of schedules and analyses of accounts, will be discussed and coordinated with Phyllis Cooper, Director of Accounting. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

Other Relevant Information

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

In accordance with "Government Auditing Standards", a copy of our most recent peer review report is enclosed, for your information.

Fees, Costs, and Access to Workpapers

Our fees for the audit and accounting services described above are based upon the value of the services performed and the time required by the individuals assigned to the engagement, plus direct expenses. Our fee estimate of \$149,000 and completion of our work is based upon the following criteria:

- a. Anticipated cooperation from Government personnel
- b. Timely responses to our inquiries
- c. Timely completion and delivery of client assistance requests
- d. Timely communication of all significant accounting and financial reporting matters
- e. The assumption that unexpected circumstances will not be encountered during the engagement

If any of the aforementioned criteria are not met, then fees may increase. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever an owner or professional employee leaves the firm and is subsequently employed by or associated with a client in a key position. Accordingly, the Government agrees it will compensate Dean Dorton Allen Ford, PLLC for any additional costs incurred as a result of the Government's employment of an owner or professional employee of Dean Dorton Allen Ford, PLLC.

In the event we are requested or authorized by the Government or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for the Government, the Government will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The documentation for this engagement is the property of Dean Dorton Allen Ford, PLLC. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit documentation upon their request and that we shall maintain the audit documentation for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested documentation will be provided under the supervision of Dean Dorton Allen Ford, PLLC audit personnel and at a location designated by our Firm.

You have informed us that you intend to prepare a comprehensive annual financial report (CAFR) and submit it for evaluation by the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting. Our association with the CAFR is to consist principally of inquiries of management regarding the methods of measurement and presentation.

Release and Indemnification

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

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

Reporting

We will issue a written report upon completion of our audit of the Government's financial statements. Our report will be addressed to the Mayor, governing board and citizens of the Government. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

In addition to our report on the Government's financial statements, we will also issue the following types of reports:

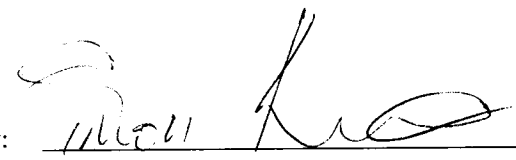
- A report on the fairness of the presentation of the Government's schedule of expenditures of federal awards for the year ending June 30, 2013.
- Reports on internal control related to the financial statements, and major programs. These reports will describe the scope of testing of internal control and the results of our tests of internal controls.

- Reports on compliance with laws, regulations, and the provisions of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements and any noncompliance which could have a material effect, as defined by OMB Circular A-133, on each major program.
- A schedule of findings and questioned costs.

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

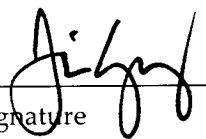
Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

DEAN DORTON ALLEN FORD, PLLC

By: 
Simon Keemer, CPA, ACA

ACKNOWLEDGEMENT:

This letter correctly sets forth the understanding of Lexington-Fayette Urban County Government:


Signature

6-8-2013
Date

Jim Gray
Printed Name

Lou/TThomas

ATTACHMENT A

Governmental Funds

- General
- Urban Services
- Federal and State Grants
- County Aid Program Fund
- Municipal Aid Program Fund
- Industrial Revenue Bond Fund
- Mineral Severance Fund
- Coal Severance Fund
- Police Confiscated Fund
- Police Confiscated State Fund
- Public Safety Fund
- Debt Service Fund
- Lexington Cultural Center
- Storm Water Bond Projects
- Public Safety Capital Projects
- Reynolds Road Project
- 2001 Bond Projects
- 2002 Bond Projects
- 2003 Bond Projects
- Golf Course Bond Projects
- Purchase of Development Rights
- Equipment Lease Notes
- Condemnation
- 2004 Bond Projects
- 2005 Bond Projects
- 2006 Bond Projects
- 2007 Bond Projects
- 2008 Bond Projects
- 2009 Bond Projects
- 2010 Bond Projects
- 2011 Bond Projects
- 2012 Bond Projects
- Public Works Bond Projects
- Public Library Corporation
- Roads, Parks, Open Space, Storm Water Extractions
- Health, Dental, and Vision Care Fund
- Insurance and Risk Management Fund

Proprietary Funds

- Sanitary Sewer System
- Public Facilities Corporation
- Public Parking Corporation
- Landfill
- Right of Way

Proprietary Funds (continued)

- Extended School Program
- Prisoners' Account System
- Enhanced 911
- LexVan Program
- Small Business Development
- Stormwater

Fiduciary Funds

- Pension Trust Funds
- Neighborhood Sewer Projects Fund
- Juvenile and Adult Probation Fund
- Domestic Relations Fund

ATTACHMENT B

Blended Component Units

- Fayette County Detention Center Corporation
- Public Library Corporation
- Policemen's and Firefighters' Retirement Fund
- City Employees' Pension Fund
- Public Facilities Corporation
- Public Parking Corporation

Discretely Presented Component Units

- Lexington Public Library
- Lexington-Fayette Urban County Department of Health
- Lexington Downtown Development Authority, Inc.
- Lexington Transit Authority
- Lexington Convention and Visitors Bureau
- Lexington Center Corporation
- Lexington-Fayette Urban County Airport Board
- Parking Authority of Lexington

Federal Grantor/Program or Cluster Title	CFDA Number
<u>U.S. Department of Agriculture:</u>	
Child and Adult Care Food Program	10.558
Farm and Ranch Lands Protection Program	10.913
<u>U.S. Department of Housing and Urban Development:</u>	
Community Development Block Grants/Entitlement Grants	14.218
Neighborhood Stabilization Program	14.264
Emergency Solutions Grant Program	14.231
Home Investment Partnerships Program	14.239
Housing Opportunities for Persons with AIDS	14.241
Community Development Block Grant (ARRA)	14.253
Homelessness Prevention and Rapid Re-Housing Program (ARRA)	14.257
<u>U.S. Department of Justice:</u>	
Police Confiscated Funds	16.000
Juvenile Accountability Block Grants	16.523
Supervised Visitation, Safe Havens for Children	16.527
Edward Byrne Memorial Formula Grant Program	16.579
Violence Against Women Formula Grants	16.588
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590
State Criminal Alien Assistance Program	16.606
Bulletproof Vest Partnership Program	16.607
Project Safe Neighborhoods	16.609
Juvenile Mentoring Program	16.726
Edward Byrne Memorial Justice Assistance Grant Program	16.738
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Govern	16.804
Recovery Act - Edward Byrne Memorial Competitive Grant Program	16.808
<u>U.S. Department of Transportation:</u>	
Highway Planning and Construction	20.205
National Motor Carrier Safety	20.218
Metropolitan Transportation Planning	20.505
State and Community Highway Safety	20.600
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601
Occupant Protection Incentive Grants	20.602
<u>U.S. Environmental Protection Agency:</u>	
State Clean Diesel Grant Program - ARRA	66.040
Nonpoint Source Implementation Grants	66.460
Environmental Justice Small Grant Program	66.604
Brownfields Assessment and Cleanup Cooperative Agreements	66.818
<u>U.S. Department of Energy:</u>	
Energy Efficiency and Conservation Block Grant Program	81.128
<u>U.S. Department of Health and Human Services:</u>	
Childcare-Resource-Referral (CCRR)	93.000
Social Programs for the Aging Title III, Part B	93.044
Temporary Assistance for Needy Families	93.558
Grants to States for Access and Visitation Programs	93.597
Basic Center Grant	93.623
<u>U.S. Department of Homeland Security Office of Domestic Preparedness:</u>	
Hazard Mitigation Grant	97.039
Chemical Stockpile Emergency Preparedness Program	97.040
Emergency Management Performance Grants	97.042
Assistance to Firefighters Grant	97.044
Homeland Security Grant Program	97.067
Metropolitan Medical Response System	97.071



HENDERSON HUTCHERSON & McCULLOUGH, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

System Review Report

To the Owners of
Dean Dorton Allen Ford, PLLC (f/k/a Dean Dorton Ford, PSC)
and the Peer Review Committee of the Kentucky Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Dean Dorton Allen Ford, PLLC (f/k/a Dean Dorton Ford, PSC) (the firm) in effect for the year ended December 31, 2010. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Dean Dorton Allen Ford, PLLC (f/k/a Dean Dorton Ford, PSC) in effect for the year ended December 31, 2010 has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency or fail*. Dean Dorton Allen Ford, PLLC (f/k/a Dean Dorton Ford, PSC) has received a peer review rating of *pass*.

Chattanooga, Tennessee
June 17, 2011

*Henderson Hutcherson
& McCullough, PLLC*

Peer Review Program

American Institute of Certified Public Accountants

Administered by the

Kentucky Society of CPAs

May 17, 2010

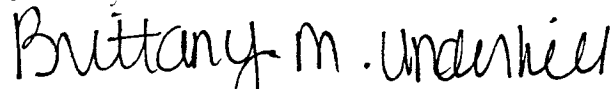
Gwen Tilton, CPA
Cotton and Allen PSC
200 S 5th St Ste 201s
Louisville, KY 40202

Dear Ms. Tilton:

It is my pleasure to notify you that on May 5, 2010 the Report Acceptance Body (C) accepted the report on the most recent system peer review of your firm. The due date for your next review is March 31, 2013. This is the date by which all review documents should be completed and submitted to the administering entity. If your due date falls between January and April, you can arrange to have your review a few months earlier to avoid having a review during tax season.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,



Brittany M Underhill

Peer Review Administrator

bunderhill@kycpa.org 502 266 5272

cc: John Guido, CPA

Firm Number: 10014292 Review Number 283785



SYSTEM REVIEW REPORT

January 13, 2010

To the Shareholders
Cotton and Allen P.S.C.
and the Peer Review Committee of the Kentucky Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Cotton and Allen, P.S.C. (the firm) in effect for the year ended September 30, 2009. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Cotton and Allen P.S.C. in effect for the year ended September 30, 2009, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Cotton and Allen P.S.C. has received a peer review rating of *pass*.

ARNETT & FOSTER, P.L.L.C.

Arnett + Foster, P. L. L. C.

Innovation With Results

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