

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

**For The Fiscal Year Ended
June 30, 2001**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2001**

The Auditor of Public Accounts has completed the Whitley County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$416,218 from the prior fiscal year, resulting in a cash balance of \$1,230,357 as of June 30, 2001. Of this cash balance, \$602,249 was received during the fiscal year and is restricted grant and bond anticipation note proceeds. After considering these restrictions of the county's cash balance, fund balances actually decreased from the prior fiscal year. In addition to the above restrictions, \$329,309 of the cash balance is held in escrow and is to be used for future bond requirements. Operating revenues increased by \$733,928 from the prior year and operating disbursements increased by \$283,406.

Debt Obligations:

Total bonded debt principal (primary government) as of June 30, 2001, was \$2,225,000. Future collections of \$2,397,552 are needed over the next 8 years to pay all bonded debt principal and interest.

Capital lease principal agreements (primary government) totaled \$888,415 as of June 30, 2001. Future principal and interest payments of \$937,814 are needed to meet the obligation.

Long-term notes payable for the Williamsburg-Whitley County Airport (Component Unit) totaled \$143,006 as of June 30, 2001. Future principal and interest payments of \$231,073 are needed to meet the obligation.

Report Comment:

- The Williamsburg-Whitley County Airport Board Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Deposits:

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

The Williamsburg-Whitley County Airport Board's deposits were uncollateralized by \$161,481 on June 30, 2001.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Michael L. Patrick, Whitley County Judge/Executive
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Whitley County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Whitley County Fiscal Court. Our responsibility is to express an opinion 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 opinion.

As described in Note 1, Whitley County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Whitley County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
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Members of the Whitley County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 29, 2002, on our consideration of Whitley County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Whitley County, Kentucky. 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The Williamsburg-Whitley County Airport Board Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 29, 2002

WHITLEY COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Michael L. Patrick	County Judge/Executive
Nolan Bird	Magistrate
Burley Foley	Magistrate
Johnny Lawson	Magistrate
Mike Howard	Magistrate

Other Elected Officials:

Emby A. McKeehan	County Attorney
Jerry Taylor	Jailer
Tom Rains	County Clerk
Gary Barton	Circuit Court Clerk
Ancil Carter	Sheriff
Ronnie Moses	Property Valuation Administrator
Jimmy Paul	Coroner

Appointed Personnel:

Iva L. Steely	County Treasurer
Judy Brimm	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

WHITLEY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 608,833	
Receivable (Note 4A)	967	
Road and Bridge Fund:		
Cash	10,233	
Jail Fund:		
Cash	30,699	
Local Government Economic Assistance Fund:		
Cash	5,082	
Forestry Fund:		
Cash	7,908	
Payroll Revolving Account - Cash	14,700	\$ 678,422

Special Revenue Fund Type

911 Fund:

Cash	\$ 38,527	
Tourism Room Tax Fund:		
Cash	6,988	
Ambulance Fund:		
Cash	70,552	116,067

Debt Service Fund Type

Public Properties Corporation Fund - 1987 Bond Issue:

Cash	\$ 3,200	
Public Properties Corporation Fund - 1995 Bond Issue:		
Cash	329,028	
Public Properties Corporation Fund - 1997 Bond Issue:		
Cash	281	332,509

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

WHITLEY COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
June 30, 2001
(Continued)

Assets and Other Resources (Continued)

Assets (Continued)

Component Unit

Williamsburg - Whitley County Airport Board Fund:

Cash	\$ 119,026	
Receivable (Note 4B)	93	\$ 119,119

Total Assets		\$ 1,246,117
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Other Resources

General Fund Type

General Fund:

Amounts to be provided in Future Years for Kentucky Area Development District Capital Lease Payments (Note 7B)		730,000
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Special Revenue Fund Type

911 Fund: (Note 7A)

Amounts to be Provided in Future Years for Capital Lease Payments		158,415
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Debt Service Fund Type

Public Properties Corporation Fund - 1995 Bond Issue (Note 5A)

Amounts to be Provided in Future Years for Bond Payments	\$ 1,510,972	
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Public Properties Corporation Fund - 1997 Bond Issue (Note 5B)

Amounts to be Provided in Future Years for Bond Payments	384,719	1,895,691
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Component Unit

Williamsburg - Whitley County Airport Board (Note 5C)

Amounts to be Provided in Future Years for Long-Term Note Payable		143,006
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Total Assets and Other Resources		\$ 4,173,229
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The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Deferred Revenue (Note 4A)	\$ 967	
Kentucky Area Development District Capital Lease Agreement (Note 7B)	<u>730,000</u>	\$ 730,967

Payroll Revolving Account		14,700
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Special Revenue Fund Type

911 Fund:

Capital Lease (Note 7A)		158,415
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Debt Service Fund Type

Public Properties Corporation Fund - 1995 Bond Issue:

Bonds Payable (Note 5A)	\$ 1,840,000	
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Public Properties Corporation Fund - 1997 Bond Issue:

Bonds Payable (Note 5B)	<u>385,000</u>	2,225,000
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Component Unit

Williamsburg - Whitley County Airport Board:

Long-term Note Payable (Note 5C)	\$ 143,006	
Deferred Revenue (Note 4B)	<u>93</u>	143,099

Fund Balances

Reserved:

General Fund Type:

General Fund (Note 8A)	\$ 530,299	
Forestry Fund	<u>7,908</u>	538,207

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

WHITLEY COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances (Continued)

Reserved (Continued)

Debt Service Fund Type

Public Properties Corporation Fund - 1987 Bond Issue:

Reserve Balance	\$	3,200
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Component Unit

Williamsburg - Whitley County Airport Board (Note 8B)		71,950
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Unreserved:

General Fund Type

General Fund (Note 8A)	\$	78,534	
Road and Bridge Fund		10,233	
Jail Fund		30,699	
Local Government Economic Assistance Fund		5,082	124,548

Special Revenue Fund Type

911 Fund	\$	38,527	
Tourism Fund		6,988	
Ambulance Fund		70,552	116,067

Component Unit

Williamsburg - Whitley County Airport Board (Note 8B)		47,076
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Total Liabilities and Fund Balances	\$	4,173,229
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

WHITLEY COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,031,745	\$ 1,277,527	\$ 256,660	\$ 286,229
Other Financing Sources:				
Transfers In	275,000	311,653	468,390	
Bond Anticipation Note	730,000			
Williamsburg - Whitley County Airport Board Receipts				
Total Cash Receipts	<u>\$ 3,036,745</u>	<u>\$ 1,589,180</u>	<u>\$ 725,050</u>	<u>\$ 286,229</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,832,594	\$ 1,108,992	\$ 698,711	\$ 35,028
Other Financing Uses:				
Transfers Out	781,922	492,268		258,302
Bonds:				
Principal Paid				
Interest Paid				
Capital Lease - 911 Equipment				
Williamsburg - Whitley County Airport Board Expenditures				
Total Cash Disbursements	<u>\$ 2,614,516</u>	<u>\$ 1,601,260</u>	<u>\$ 698,711</u>	<u>\$ 293,330</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 422,229	\$ (12,080)	\$ 26,339	\$ (7,101)
Cash Balance - July 1, 2000	<u>\$ 186,604</u>	<u>\$ 22,313</u>	<u>\$ 4,360</u>	<u>\$ 12,183</u>
Cash Balance - June 30, 2001	<u>\$ 608,833</u>	<u>\$ 10,233</u>	<u>\$ 30,699</u>	<u>\$ 5,082</u>

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

WHITLEY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2001
(Continued)

General Fund Type		Special Revenue Fund Type			
Forestry Fund	911 Fund	Tourism Room Tax Fund	Community Development Block Grant Revolving Loan Fund	Ambulance Fund	
\$ 4,059	\$ 251,082	\$ 45,924	\$ 6,548	\$ 99,708	
	54,000			238,276	
<u>\$ 4,059</u>	<u>\$ 305,082</u>	<u>\$ 45,924</u>	<u>\$ 6,548</u>	<u>\$ 337,984</u>	
\$ 3,368	\$ 241,752	\$ 500	\$	\$ 267,432	
		45,278	188,426		
	42,957				
<u>\$ 3,368</u>	<u>\$ 284,709</u>	<u>\$ 45,778</u>	<u>\$ 188,426</u>	<u>\$ 267,432</u>	
\$ 691	\$ 20,373	\$ 146	\$ (181,878)	\$ 70,552	
\$ 7,217	\$ 18,154	\$ 6,842	\$ 181,878		
<u>\$ 7,908</u>	<u>\$ 38,527</u>	<u>\$ 6,988</u>	<u>\$</u>	<u>\$ 70,552</u>	

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

WHITLEY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2001
(Continued)

	<u>Debt Service Fund Type</u>			Total - Primary Government (Memo Only)
	Public Properties Corporation Fund - 1987 Bond Issue	Public Properties Corporation Fund - 1995 Bond Issue	Public Properties Corporation Fund - 1997 Bond Issue	
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$	\$ 20,262	\$	\$ 4,279,744
Other Financing Sources:				
Transfers In		312,661	60,938	1,720,918
Bond Anticipation Note				730,000
Williamsburg - Whitley County Airport Board Receipts				
Total Cash Receipts	<u>\$</u>	<u>\$ 332,923</u>	<u>\$ 60,938</u>	<u>\$ 6,730,662</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$	\$	\$ 4,188,377
Other Financing Uses:				
Transfers Out				1,766,196
Bonds:				
Principal Paid		220,000	40,000	260,000
Interest Paid		111,360	20,938	132,298
Capital Lease - 911 Equipment				42,957
Williamsburg - Whitley County Airport Board Expenditures				
Total Cash Disbursements	<u>\$</u>	<u>\$ 331,360</u>	<u>\$ 60,938</u>	<u>\$ 6,389,828</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$	\$ 1,563	\$	\$ 340,834
Cash Balance - July 1, 2000	<u>\$ 3,200</u>	<u>\$ 327,465</u>	<u>\$ 281</u>	<u>\$ 770,497</u>
Cash Balance - June 30, 2001	<u>\$ 3,200</u>	<u>\$ 329,028</u>	<u>\$ 281</u>	<u>\$ 1,111,331</u>

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

WHITLEY COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2001
 (Continued)

Component Unit		Total Reporting Entity (Memo Only)
Williamsburg - Whitley County Airport Board Fund		
\$		\$ 4,279,744
	45,278	1,766,196 730,000
	<u>454,232</u>	<u>454,232</u>
\$	<u>499,510</u>	\$ <u>7,230,172</u>
\$		\$ 4,188,377
		1,766,196
		260,000
		132,298
		42,957
	<u>424,126</u>	<u>424,126</u>
\$	<u>424,126</u>	\$ <u>6,813,954</u>
\$	75,384	\$ 416,218
\$	<u>43,642</u>	<u>814,139</u>
\$	<u>119,026</u>	\$ <u>1,230,357</u>

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

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Whitley 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 GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, 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. Based upon the application of the criteria stated in GASB 14, management has included the Public Properties Corporation Fund - 1987, 1995, and 1997 Bond Issues, and the Williamsburg-Whitley County Airport Board as part of the reporting entity.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

The Williamsburg - Whitley County Airport Board (the Board) is a legally separate entity established to provide airport services for Whitley County, Kentucky. The fiscal court appoints half of the members of the Board, which are not members of the Fiscal Court. The City of Williamsburg appoints the other half of the Board. However, the Fiscal Court is financially accountable for the Board because the airport board is financially dependent upon the fiscal court. This financial accountability requires management to include the Board as a component unit. The Board is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board will be presented discretely.

Additional - Whitley County Constitutional Elected Officials

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

The Kentucky constitution provides for election of the above officials from the geographic area constituting Whitley 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.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Whitley County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Whitley County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), and Forestry Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Whitley County Special Revenue Fund Type includes the following county funds: 911 Fund, Tourism Room Tax Fund, Community Development Block Grant Revolving Loan Fund, and the Ambulance Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund - 1987 Bond Issue, Public Properties Corporation - 1995 Bond Issue, and the Public Properties Corporation Fund - 1997 Bond Issue. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes 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, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Whitley County budget is 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.

Formal budgets are not adopted for the Public Properties Corporation Fund - 1987 Bond Issue, Public Properties Corporation Fund - 1995 Bond Issue, and the Public Properties Corporation Fund - 1997 Bond Issue (Debt Service Funds) because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually, and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

The Whitley County Fiscal Court is not required to adopt a formal budget for the Williamsburg-Whitley County Airport Board. The airport is a discretely presented component unit of the Fiscal Court and is required to adopt a budget separate from the Fiscal Court. The budget must be presented to the Fiscal Court and made a part of the Fiscal Court Orders in order to be made a matter of public record. The fiscal court appoints half of the airport board and the entity is financially dependent upon the Whitley County Fiscal Court. The fiscal court has no other authority over the airport board. The airport board is responsible for the operations of the airport. We have included this entity as a component unit on the county's financial statements.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

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).

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Whitley County Fiscal Court: Whitley County Water District and Cumberland Falls Highway Water District.

Note 2. Employee Retirement System

The county 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 multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 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. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

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

Note 3. Deposits

A. Whitley County Fiscal Court

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and 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, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 3. Deposits and Investments (Continued)

B. Williamsburg - Whitley County Airport Board

The Williamsburg - Whitley County Airport Board (the Board) maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and 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. As of June 30, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$161,481 of public funds uninsured and unsecured. In addition, the Board did not have a written agreement with the depository institution securing the Board's interest in the collateral.

The Board's deposits are categorized below to give an indication of the level of risk assumed by the Board as of June 30, 2001.

	<u>Bank Balance</u>
Insured by FDIC	\$ 100,000
Uncollateralized and uninsured	<u>161,481</u>
Total	<u>\$ 261,481</u>

Note 4. Receivables

- A. An Agreed Order of Adequate Protection with the First National Bank and Trust Company of Corbin was signed and entered into the court records on May 23, 1996. Transcare Ambulance Service, Inc. was ordered to pay principal and interest on loans received prior to filing bankruptcy. Payments are scheduled at \$345 per month. However, Transcare Ambulance Service, Inc. is not in compliance with terms of the order. The balance was \$967 as of June 30, 2001.
- B. On May 1, 1995, the Williamsburg-Cumberland Falls Air Board (now the Williamsburg-Whitley County Airport Board) entered into a ninety-nine year lease agreement with the Williamsburg Golf and Country Club, Inc. The airport board leased the country club land for a \$5,000 payment plus a \$1 yearly ground rental fee for ninety-nine years. The lease agreement will terminate on April 30, 2094. The receivable balance is \$93 as of June 30, 2001.

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 5. Long-Term Debt

A. 1995 Bond Issue

Bonds outstanding of the Whitley County Public Properties Corporation - 1995 Bond Issue are \$1,840,000 Refunding Revenue Bonds dated September 1, 1995, issued for the purpose of courthouse renovations and certain road projects. Principal payments are due each year on May 1, in the amounts indicated below. Interest on the bonds is payable each May 1 and November 1, beginning May 1, 1996. A debt service reserve has been established with a certificate of deposit held at Farmers Deposit Bank of \$310,500. The interest rate is 6.30%, which is paid on behalf of Whitley County on the last principal date of May 1, 2007. The following schedule of debt service requirements has been adjusted to reflect the debt service activity.

Fiscal Year Ended June 30	Interest Rate	Scheduled Interest	Scheduled Principal
2002	5.10	\$ 101,223	\$ 230,000
2003	5.25	89,492	235,000
2004	5.40	77,155	245,000
2005	5.50	63,925	255,000
2006	5.60	49,900	275,000
2007	5.75	34,500	600,000
Totals		<u>\$ 416,195</u>	<u>\$ 1,840,000</u>

B. 1997 Bond Issue

Bonds outstanding of the Whitley County Public Properties Corporation - 1997 Bond Issue are \$385,000 Refunding Revenue Bonds dated August 1, 1997, issued for the purpose of road construction and repair. Principal payments are due each year on May 1, in the amounts indicated below. Interest on the bonds is payable each May 1 and November 1, beginning May 1, 1998.

Fiscal Year Ended June 30	Interest Rate	Scheduled Interest	Scheduled Principal
2002	5.00	\$ 18,938	\$ 40,000
2003	5.00	16,813	45,000
2004	5.00	14,563	45,000
2005	5.00	12,313	45,000
2006	5.00	9,875	50,000
2007-2009	5.25 to 5.40	13,164	160,000
Totals		<u>\$ 85,666</u>	<u>\$ 385,000</u>

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 5. Long-Term Debt (Continued)

C. Airport Board Note Payable

The Williamsburg-Whitley County Airport Board entered into a loan agreement with Town and Country Bank for \$150,000 on March 30, 2000, for the purchase of land. Terms of the agreement require 180 monthly payments of \$1,400 at 7.5% interest. The unpaid balance was \$143,006 as of June 30, 2001.

Fiscal Year Ended June 30	Interest Rate	Scheduled Interest	Scheduled Principal
2002	7.50	\$ 10,666	\$ 6,139
2003	*	10,182	6,623
2004	*	9,688	7,118
2005	*	9,100	7,705
2006	*	8,494	8,312
2007-2015	*	39,937	107,109
Totals		<u>\$ 88,067</u>	<u>\$ 143,006</u>

* Interest rate may change after 4-1-2003

Note 6. Lease-Purchase Agreements

The County has entered into the following lease-purchase agreements:

Description	Periodic Payment	Terms of Agreement	Ending Date	Principal Balance June 30, 2001
Ambulance	\$ 445	48 Months	May 5, 2002	\$ 4,752
Ambulance	Variable	48 Months	December 20, 2003	25,339
Ambulance	Variable	48 Months	February 20, 2005	71,131
Dump Trucks	Variable	11 Semi-annual	December 1, 2001	14,300
Motor Grader	\$ 3,195	48 Months	October 15, 2001	12,623

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 7. Capital Leases

A. 911 Emergency System

On April 22, 1997, the county entered into a Municipal Lease and Option Agreement with NAL Financial Corporation for \$309,374 for the purchase of a 911 Emergency System. Terms of the agreement require eighty-four (84) payments of \$4,677 beginning September 15, 1997, and ending September 15, 2004. The unpaid balance was \$158,415 as of June 30, 2001.

<u>Fiscal Year Ended June 30</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	6.03	\$ 9,957	\$ 46,172
2003	6.03	6,501	49,629
2004	6.03	2,786	53,343
2005	6.03	84	9,271
		<u>\$ 19,328</u>	<u>\$ 158,415</u>

B. Kentucky Area Development Lease

The county entered into a capital lease agreement totaling \$730,000 with the Kentucky Area Development District during May 2001. The purpose of the lease agreement is to provide interim financing totaling \$500,000 for the new detention facility project and interim financing totaling \$230,000 for the new justice center and roof repair project. Terms of the agreement stipulate a one-year repayment schedule to be paid by the issuance of bonds. As of June 30, 2001, the principal balance remaining was \$730,000. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	3.94	\$ 30,071	\$ 730,000

Note 8. Reserved Cash Balances

A. General Fund

\$420,299 of the General Fund cash balance as of June 30, 2001 is restricted for the use of two capital projects. During fiscal year ended June 30, 2001, the county deposited Kentucky Area Development District lease proceeds totaling \$730,000 into the General Fund. The purpose of the lease agreement is to provide interim financing totaling \$500,000 for the new detention facility project and interim financing totaling \$230,000 for the new justice center and roof repair project. As of June 30, 2001, the remaining cash balance for the new detention facility project is \$375,705 and the remaining cash balance for the new justice center and roof repair project is \$44,594, totaling \$420,299 of cash balances reserved for capital projects.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 8. Reserved Cash Balances (Continued)

A. General Fund (Continued)

The County received \$110,000 in House Bill 502 grants during fiscal year ended June 30, 2001. Of this amount, \$100,000 was for a Whitley County Animal Shelter and \$10,000 was for a Whitley County Water Tower. These funds were not expended as of June 30, 2001, and \$110,000 of the June 30, 2001 cash balance is reserved for these projects.

The ending cash balance of the General Fund is \$608,833 as of June 30, 2001. Of this amount a total of \$530,299 is restricted for the projects and grants listed above. This leaves an unreserved June 30, 2001, cash balance of \$78,534.

B. Williamsburg - Whitley County Airport Board

The Williamsburg - Whitley County Airport Board June 30, 2001, cash balance is \$119,026. Of this amount \$71,950 is restricted. The airport board received a federal and a state grant to prepare plans and specifications, and environmental assessment update for a new airport. The restricted cash balance consists of \$49,275 of federal funds and \$22,675 of state funds. This results in an unreserved June 30, 2001 cash balance of \$47,076.

Note 9. Whitley County Ambulance Service

In January 2001, Mountain Lifeline Ambulance Service ceased operations in Whitley County. On January 23, 2001, Whitley County Fiscal Court declared a State of Emergency relating to ambulance service protection and the court created a new Whitley County Ambulance Service Department. The new ambulance department is administered by the Whitley County Fiscal Court and is included as a budgeted fund of the county.

Note 10. Subsequent Events

A. 2002 Bond Issue

On April 16, 2002, the Whitley County Fiscal Court held the first reading approving the issuance of general obligation bonds totaling \$7,800,000. The purpose of the bonds is to finance the acquisition, construction, and equipping of a new detention center facility. The second reading approving the bond issuance is scheduled for May 21, 2002.

B. Kentucky Area Development District Lease

On April 18, 2002, the Whitley County Fiscal Court entered into a lease agreement with Kentucky Area Development District in the amount of \$765,000. The purpose of the lease is to acquire land for a new airport facility. Terms of the agreement stipulate a ten-year repayment schedule, with variable semi-annual interest payments and variable annual principal payments. The county expects to repay the lease from rental payments made to the county from the Kentucky Department of Transportation. The county is in reliance upon these rental payments to meet the debt service requirements for the lease.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 11. Insurance

For the fiscal year ended June 30, 2001, Whitley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Whitley County Jail Canteen Fund had income of \$75,089, less cost of goods sold of \$74,743, leaving net income at \$346. The Jail Canteen has a beginning balance of \$1,547, which results in an ending balance of \$1,893 as of June 30, 2001. All profit expenditures were for the benefit and/or recreation of the inmates.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

WHITLEY COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

Budgeted Funds	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 3,707,804	\$ 2,031,745	\$ (1,676,059)
Road and Bridge Fund	1,329,762	1,277,527	(52,235)
Jail Fund	251,864	256,660	4,796
Local Government Economic Assistance Fund	818,149	286,229	(531,920)
Forestry Fund	4,000	4,059	59
<u>Special Revenue Fund Type</u>			
911 Fund	235,938	251,082	15,144
Tourism Room Tax Fund	40,400	45,924	5,524
Community Development Block Grant - Revolving Loan Fund	7,000	6,548	(452)
Ambulance Fund	186,455	99,708	(86,747)
Totals	\$ 6,581,372	\$ 4,259,482	\$ (2,321,890)
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 6,581,372
Add: Budgeted Prior Year Surplus			439,551
Less: Transfers to Public Property Corporation			
Bond Fund			(374,000)
KACO Leasing Trust Equipment Lease- Principal			(43,000)
Transfers to Williamsburg-Whitley County Airport Board			(45,278)
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			\$ 6,558,645

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SCHEDULE OF OPERATING REVENUE

WHITLEY COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 1,177,239	\$ 941,432	\$ 235,807	\$
In Lieu Tax Payments	41,008	41,008		
Excess Fees	248,186	248,186		
Licenses and Permits	60,563	60,563		
Intergovernmental Revenues	2,411,457	2,353,868	57,589	
Charges for Services	117,333	16,890	100,443	
Miscellaneous Revenues	160,013	159,763	250	
Interest Earned	63,945	34,510	9,173	20,262
Total Operating Revenue	\$ 4,279,744	\$ 3,856,220	\$ 403,262	\$ 20,262

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

WHITLEY COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 895,997	\$ 882,649	\$ 13,348
Protection to Persons and Property	768,736	711,534	57,202
General Health and Sanitation	1,785,934	207,568	1,578,366
Social Services	9,312	9,311	1
Recreation and Culture	2,000	2,000	
Roads	986,076	933,423	52,653
Debt Service	93,000	90,177	2,823
Capital Projects	612,500	240,166	372,334
Administration	696,851	601,865	94,986
 Total Operating Budget - General Fund Type	 \$ 5,850,406	 \$ 3,678,693	 \$ 2,171,713
Other Financing Uses:			
Transfers to Public Property			
Corporation Bond Fund-			
Principal	260,000	260,000	
Interest	114,000	113,599	401
 TOTAL BUDGET - GENERAL FUND TYPE	 \$ 6,224,406	 \$ 4,052,292	 \$ 2,172,114

WHITLEY COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2001
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,663	\$	\$ 1,663
Protection to Persons and Property	596,010	447,360	148,650
Recreation and Culture	1,122	500	622
Debt Service	22,065	20,323	1,742
Administration	87,379	41,501	45,878
Total Operating Budget - Special Revenue Fund Type	\$ 708,239	\$ 509,684	\$ 198,555
Other Financing Uses:			
KACO Leasing Trust Equipment Lease- Principal	43,000	42,957	43
Transfer To Williamsburg-Whitley County Airport Board Fund	45,278	45,278	
Governmental Leasing Act- Motor Vehicles	77,000		77,000
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 873,517	\$ 597,919	\$ 275,598

SCHEDULE OF WILLIAMSBURG - WHITLEY
COUNTY AIRPORT BOARD EXPENDITURES

WHITLEY COUNTY
SCHEDULE OF WILLIAMSBURG - WHITLEY
COUNTY AIRPORT BOARD EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Williamsburg - Whitley County Airport Board Expenditures:

Bank Charges	\$ 165
Travel	1,259
Insurance	4,953
Bank Loan Payments	16,805
Legal Fees	3,511
Accounting Services	925
Advertising Costs	928
Excavating Services	5,000
Appraisal Services	350
Engineering Services	378,427
Construction Consulting Services	4,500
Contributions	600
Groundbreaking Ceremony	5,254
Miscellaneous	<u>1,449</u>
Total Disbursements	<u>\$ 424,126</u>

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



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Michael L. Patrick, Whitley County Judge/Executive
Members of the Whitley County Fiscal Court

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

We have audited the financial statements of Whitley County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated May 29, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether Whitley County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

• **Reference Number 2001-1:**

The Williamsburg-Whitley County Airport Board Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits



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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Whitley County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 29, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Michael L. Patrick, Whitley County Judge/Executive
Members of the Whitley County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Whitley 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 are applicable to each of its major federal programs for the year ended June 30, 2001. Whitley 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 Whitley County's management. Our responsibility is to express an opinion on Whitley 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 Whitley 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 Whitley County's compliance with those requirements.

In our opinion, Whitley 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, 2001.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Whitley County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Whitley County's internal control over compliance with 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 29, 2002

FINDINGS AND QUESTIONED COSTS

WHITLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Whitley County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Whitley County was disclosed during the audit.
4. No reportable conditions 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 Whitley County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Whitley County reported in Part C of this schedule.
7. The program tested as a major program was: U.S. Department of Transportation - Airport Development Program, CFDA #20.106
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Whitley County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

Reference Number 2001-1

The Williamsburg-Whitley County Airport Board Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On June 30, 2001, \$161,481 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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.

Airport Chairman Paul David Steely's Response:

We have now done this.

WHITLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2001
(Continued)

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

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

WHITLEY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs: Disaster and Emergency Assistance Grants- Coordinator Salary (CDEA #83.503)	Not Available	\$ 3,999
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet: JAIBG Program (CFDA #16.unknown)	98-JBVX-0021 (202) 2000-JBVX-0021 (202)	18,842 10,205
<u>National Oceanic and Atmospheric Administration</u>		
Passed-Through Eastern Kentucky PRIDE, Inc. PRIDE Community Grant Program (CFDA #11.469)	Whitley CS-0056 Whitley CS-0055 Whitley CS-0050	20,000 19,147 10,340
<u>U.S. Department of Transportation</u>		
Federal Aviation Administration- Passed-Through State Transportation Cabinet: Office of Intermodal Planning- Division of Aeronautics: Airport Development Program (CFDA #20.106)	3-21-0077-03	<u>358,875</u>
Total Cash Expenditures of Federal Awards		<u>\$ 441,408</u>

WHITLEY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

WHITLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2001

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

Fiscal Year Ended June 30, 2001

The Whitley 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.



Michael L. Patrick
County Judge/Executive



Iva Lynda Steely
County Treasurer