

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

**For The Fiscal Year Ended
June 30, 2003**



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

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Whitley County Fiscal Court audit for fiscal year ended June 30, 2003. 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 decreased by \$ 2,984,667 from the beginning of the prior fiscal year. Even though fund balances decreased, there was a cash surplus of \$4,764,006 as of June 30, 2003. Of this cash surplus, \$3,135,316 is reserved for the completion of several capital projects. Revenues increased by \$1,524,393 over prior year and disbursements increased by \$4,151,365 over prior year. The increase in revenues is attributed mainly to nonrecurring grant funds received during the current year. The increase in disbursements is attributed to prior year bond proceeds that were expended during the current year.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$9,475,000. Future collections of \$16,518,406 are needed over the next 21 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$2,259,740 as of June 30, 2003. Future principal and interest payments of \$2,606,426 are needed to meet these obligations.

Report Comments:

- The Jailer's Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development
- Jail Telephone Commissions Should Be Deposited In The Jail Fund

Deposits:

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

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration 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 equity arising from cash transactions of Whitley County, Kentucky, as of June 30, 2003; the statement of cash receipts, cash disbursements, and changes in cash balances – governmental fund types; the statement of cash receipts, cash disbursements, and changes in cash balances – proprietary fund type; and the related statement of cash flows 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 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 assets, liabilities, and equity of Whitley County, Kentucky, as of June 30, 2003, and its receipts and disbursements and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Michael L. Patrick, Whitley County Judge/Executive
Members of the Whitley County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2005, 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 comments:

- The Jailer's Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development
- Jail Telephone Commissions Should Be Deposited In The Jail Fund

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 31, 2005

WHITLEY COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Michael L. Patrick	County Judge/Executive
Nolan Bird	Magistrate
Burley Foley	Magistrate
Johnny Lawson	Magistrate
Wayne Wilson	Magistrate

Other Elected Officials:

Paul Winchester, Jr.	County Attorney
Jerry Taylor	Jailer
Tom Rains	County Clerk
Gary Barton	Circuit Court Clerk
Lawrence Hodge	Sheriff
Ronnie Moses	Property Valuation Administrator
Andy J. Croley	Coroner

Appointed Personnel:

Iva L. Steely	County Treasurer
Judy Brimm	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

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

June 30, 2003

	Governmental Fund Type		
	General	Special Revenue	Debt Service
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 3,377,694	\$ 104,492	\$ 1,277,575
Due from Jail Canteen (Note 9A)	21,197		
Due from Jail Fund (Note 9B)			
Total Assets	\$ 3,398,891	\$ 104,492	\$ 1,277,575
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Capital Lease	\$ 2,163,500	\$ 96,240	\$
Bond Payments			8,197,425
Total Other Resources	\$ 2,163,500	\$ 96,240	\$ 8,197,425
Total Assets and Other Resources	\$ 5,562,391	\$ 200,732	\$ 9,475,000

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

WHITLEY COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

<u>Proprietary</u> <u>Fund Type</u>	<u>Totals</u> <u>(Memorandum Only)</u>
 <u>Enterprise</u>	
\$ 28,107	\$ 4,787,868
	21,197
<u>2,409</u>	<u>2,409</u>
 <u>\$ 30,516</u>	 <u>\$ 4,811,474</u>
 <u>\$</u>	 <u>\$ 2,259,740</u>
	<u>8,197,425</u>
 <u>\$</u>	 <u>\$ 10,457,165</u>
 <u>\$ 30,516</u>	 <u>\$ 15,268,639</u>

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

WHITLEY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

	Governmental Fund Type		
	General	Special Revenue	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease (Note 5)	\$ 2,163,500	\$ 96,240	\$
Bonds:			
Series 1995 (Note 6A)			1,375,000
Series 1997 (Note 6B)			300,000
Detention Facility Bond Issue (Note 6C)			7,800,000
Due to Jail Fund (Note 9A)			
Due to Jail Canteen (Note 9B)	2,409		
Payroll Liabilities	23,862		
Total Liabilities	\$ 2,189,771	\$ 96,240	\$ 9,475,000
<u>Equity</u>			
Retained Earnings:			
Unrestricted	\$	\$	\$
Fund Balances:			
Reserved	3,123,733	11,583	
Unreserved	248,887	92,909	
Total Equity	\$ 3,372,620	\$ 104,492	\$
Total Liabilities and Equity	\$ 5,562,391	\$ 200,732	\$ 9,475,000

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

WHITLEY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Proprietary Fund Type	Totals (Memorandum Only)
<u>Enterprise</u>	
\$	\$ 2,259,740
	1,375,000
	300,000
	7,800,000
21,197	21,197
	2,409
	<u>23,862</u>
<u>\$ 21,197</u>	<u>\$ 11,782,208</u>
\$ 9,319	\$ 9,319
	3,135,316
	<u>341,796</u>
<u>\$ 9,319</u>	<u>\$ 3,486,431</u>
<u>\$ 30,516</u>	<u>\$ 15,268,639</u>

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

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES

WHITLEY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,928,181	\$ 1,453,219	\$ 238,948	\$ 956,288
Other Financing Sources:				
Transfers In	132,000	432,000	618,175	
Borrowed Money	225,000			
Kentucky Advance Revenue Program	500,000			
Lease-Purchase Proceeds	1,147,300			
Total Cash Receipts	<u>\$ 3,932,481</u>	<u>\$ 1,885,219</u>	<u>\$ 857,123</u>	<u>\$ 956,288</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 4,793,309	\$ 1,487,396	\$ 843,856	\$ 442,005
Other Financing Uses:				
Transfers Out	1,030,966	346,279		222,875
Bonds:				
Principal Paid				
Interest Paid				
Borrowed Money Repaid	225,000			
Capital Lease:				
Principal Paid	253,800	95,000		
Kentucky Advance Revenue Program Repaid	500,000			
Total Cash Disbursements	<u>\$ 6,803,075</u>	<u>\$ 1,928,675</u>	<u>\$ 843,856</u>	<u>\$ 664,880</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (2,870,594)	\$ (43,456)	\$ 13,267	\$ 291,408
Cash Balance - July 1, 2002 *	<u>5,672,055</u>	<u>95,111</u>	<u>14,029</u>	<u>177,295</u>
Cash Balance - June 30, 2003 *	<u>\$ 2,801,461</u>	<u>\$ 51,655</u>	<u>\$ 27,296</u>	<u>\$ 468,703</u>
	Note 7a			Note 7b

* Cash Balance Includes Investments

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

WHITLEY COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

General Fund Type		Special Revenue Fund Type				Debt Service Fund Type
Forestry Fund	911 Fund	Tourism Room Tax Fund	Ambulance Fund	92 E Water Fund	Public Properties Corporation Fund - 1995 Bond Issue	
\$ 3,235	\$ 245,307	\$ 48,782	\$ 823,472	\$ 1,256,016	\$ 19,661	
	75,520			200	304,932	
<u>\$ 3,235</u>	<u>\$ 320,827</u>	<u>\$ 48,782</u>	<u>\$ 823,472</u>	<u>\$ 1,256,216</u>	<u>\$ 324,593</u>	
\$ 3,364	\$ 268,871	\$ 49,480	\$ 786,295	\$ 1,256,016	\$	
			24,520			
					89,493	
					235,000	
	49,628		34,578			
<u>\$ 3,364</u>	<u>\$ 318,499</u>	<u>\$ 49,480</u>	<u>\$ 845,393</u>	<u>\$ 1,256,016</u>	<u>\$ 324,493</u>	
\$ (129)	\$ 2,328	\$ (698)	\$ (21,921)	\$ 200	\$ 100	
4,846	22,542	8,386	93,155	500	329,540	
<u>\$ 4,717</u>	<u>\$ 24,870</u>	<u>\$ 7,688</u>	<u>\$ 71,234</u>	<u>\$ 700</u>	<u>\$ 329,640</u>	

Note 7c

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

WHITLEY COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

<u>Debt Service Fund Type</u>		
<u>Public Properties Corporation Fund - 1997 Bond Issue</u>	<u>Detention Facility Bond Issue</u>	<u>Totals (Memorandum Only)</u>
\$	\$ 28,925	\$ 7,002,034
61,813		1,624,640
		225,000
		500,000
		1,147,300
<u>\$ 61,813</u>	<u>\$ 28,925</u>	<u>\$ 10,498,974</u>
\$	\$	\$ 9,930,592
		1,624,640
16,813	398,239	504,545
45,000		280,000
		225,000
		433,006
		500,000
<u>\$ 61,813</u>	<u>\$ 398,239</u>	<u>\$ 13,497,783</u>
\$	\$ (369,314)	\$ (2,998,809)
281	1,316,968	7,734,708
<u>\$ 281</u>	<u>\$ 947,654</u>	<u>\$ 4,735,899</u>

Note 13

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

WHITLEY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
<u>Cash Receipts</u>	<u>Jail Canteen Fund</u>
Jail Canteen Receipts	\$ 771,272
Total Cash Receipts	\$ 771,272
<u>Cash Disbursements</u>	
Jail Canteen Expenditures	\$ 757,130
Total Cash Disbursements	\$ 757,130
Excess of Cash Receipts Over Cash Disbursements	\$ 14,142
Cash Balance - July 1, 2002	13,965
Cash Balance - June 30, 2003	\$ 28,107
	Note 12

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

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

WHITLEY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
	Jail Canteen Fund
Cash Flows From Operating Activities:	
Operating Receipts	\$ 771,272
Operating Expenditures	757,130
Net Cash Provided By Operating Activities	\$ 14,142
Net Increase in Cash and Cash Equivalents	\$ 14,142
Cash and Cash Equivalents - July 1, 2002	13,965
Cash and Cash Equivalents - June 30, 2003	\$ 28,107

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

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

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 criteria stated in GASB 14, management has included the Public Properties Corporation Fund as part of the reporting entity.

Public Properties Corporation Fund

The Public Properties Corporation Fund 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 has been blended with that of the Fiscal Court.

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.

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, and the Forestry Fund.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

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, Ambulance Fund and the 92 E Water 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. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year. The Whitley County Debt Service Fund type includes the following county funds: Public Properties Corporation Fund – 1995 Bond Issue, Public Properties Corporation Fund – 1997 Bond Issue and the Detention Facility Bond Issue Fund.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Whitley County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

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 Fund. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

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 and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

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 – 1995 Bond Issue and Public Properties Corporation Fund – 1997 Bond Issue, and the Detention Facility Bond Fund (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 Governor's Office for Local Development does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

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. 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.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Joint Ventures

A joint venture is 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.

The Williamsburg/Whitley County Airport Board appears to be a joint venture between the City of Williamsburg and the Whitley County Fiscal Court. According to the ordinance establishing the board, the airport board is a jointly governed organization which should have an audit completed yearly. The Williamsburg/Whitley County Airport Board is legally separate from the Whitley County Fiscal Court and the City of Williamsburg. The Whitley County Fiscal Court appoints three of the six board members. The City of Williamsburg appoints the other three board members. Both entities must have their appointments approved by the other. The Whitley County Fiscal Court is not financially accountable for the Williamsburg/Whitley County Airport. The County has established a tourism tax that is paid to the airport board for operating receipts. The county has also purchased land for the airport board. The Airport Board is also receiving funds for the development of the airport. After the airport is constructed, the airport will be receiving funds from hangar rentals and the sale of fuel cells, as well as the tourism taxes unit.

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 6.34 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.

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.

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 3. Deposits and Investments

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, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

Note 4. Receivable

An Agreed Order of Adequate Protection with 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 prior year ending balance was \$967. Subsequent to prior year, Transcare Ambulance Service filed another bankruptcy suit. Whitley County believes it is unlikely that they will collect this receivable. Therefore, Whitley County has written the \$967 uncollected note receivable off and will no longer account for this receivable as an asset of the county.

Note 5. Capital Leases

A. 911 Emergency System Lease

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 required eighty-four (84) payments of \$4,677 beginning September 15, 1997, and ending September 15, 2004. The unpaid balance was \$62,614 as of June 30, 2003.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 2,786	\$ 53,343
2005	84	9,271
Totals	<u>\$ 2,870</u>	<u>\$ 62,614</u>

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 5. Capital Leases (Continued)

B. Airport Land Lease

On April 18, 2002, Whitley County entered into a \$765,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the acquisition of 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. Principal payments are due each year beginning on May 30, 2003 in the amounts indicated below. Interest on the lease is payable each November 20 and May 20, beginning November 20, 2002. As of June 30, 2003, the principal balance was \$705,000.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 30,932	\$ 65,000
2005	28,657	70,000
2006	26,032	70,000
2007	23,057	75,000
2008	19,870	75,000
2009-2012	43,170	350,000
Totals	<u>\$ 171,718</u>	<u>\$ 705,000</u>

C. Court Facilities Project And Roof Repair Lease

On May 31, 2002, Whitley County entered into a \$235,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the purpose of refinancing a portion of a Kentucky Area Development Lease dated May 2001 totaling \$230,000. The portion of the lease that was refinanced relates to the new court project building and courthouse roof repair. The Lease required two interest payments to be made on October 20, 2002, and April 20, 2003. One principal payment was due April 20, 2003. As of June 30, 2003, the lease was paid in full from proceeds of a refinanced lease agreement.

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 5. Capital Leases (Continued)

D. Court Facilities Project Lease and Roof Repair Lease Refinanced

On May 1, 2003, Whitley County entered into a \$245,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the purpose of refinancing a Kentucky Area Development Lease dated May 2002 in the amount of \$235,000. One principal payment and one interest payment is due October 20, 2003. As of June 30, 2003, the principal balance was \$245,000.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 4,839	\$ 245,000

E. Ambulance Lease

On February 8, 2000, Whitley County entered into a \$39,900 lease agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of an ambulance. The agreement requires variable monthly payments for 48 months to be paid in full December 20, 2003. As of June 30, 2003, the lease was paid in full.

F. Ambulance Lease

On February 2, 2001, Whitley County entered into a \$77,095 lease agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of ambulances. The agreement requires variable monthly payments for 48 months to be paid in full February 20, 2005. The principal balance of the agreement was \$36,626 as of June 30, 2003. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 1,007	\$ 19,906
2005	213	13,720
Totals	\$ 1,220	\$ 33,626

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 5. Capital Leases (Continued)

G. Road Paving Projects Lease

On October 24, 2001, Whitley County entered into a \$495,000 lease agreement with the Kentucky Association of Counties Leasing Trust Program for road paving projects. The agreement requires variable monthly payments for 60 months to be paid in full January 20, 2006. The principal balance of the agreement was \$310,000 as of June 30, 2003. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 8,184	\$ 100,000
2005	5,070	105,000
2006	1,868	105,000
Totals	<u>\$ 15,122</u>	<u>\$ 310,000</u>

H. Road Improvement Lease

On June 4, 2003, Whitley County entered into a \$310,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the purpose of road improvements. The agreement requires variable semi-annual payments for 54 months to be paid in full April 20, 2008. The principal balance of the agreement was \$310,000 as of June 30, 2003. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 15,244	\$ 55,000
2005	14,188	60,000
2006	11,248	60,000
2007	7,998	65,000
2008	4,315	70,000
Totals	<u>\$ 52,993</u>	<u>\$ 310,000</u>

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 5. Capital Leases (Continued)

I. General Obligation Lease

On June 4, 2003, Whitley County entered into a \$440,000 lease agreement with the Kentucky Area Development Districts Financing Trust. The lease proceeds were used to pay an outstanding bank loan, fund various county projects and to reimburse the county for repairs and expenses. The agreement requires variable semi-annual payments for 54 months to be paid in full May 1, 2008. The principal balance of the agreement was \$440,000 as of June 30, 2003. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 21,391	\$ 80,000
2005	19,808	85,000
2006	15,633	90,000
2007	10,772	90,000
2008	5,678	95,000
Totals	<u>\$ 73,282</u>	<u>\$ 440,000</u>

J. Voting Machine Lease

On July 25, 2002, Whitley County entered into a \$172,300 lease agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of voting machines. The agreement requires variable monthly payments for 89 months to be paid in full January 20, 2010. The principal balance of the agreement was \$153,500 as of June 30, 2003. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 6,248	\$ 19,500
2005	5,396	20,300
2006	4,511	21,000
2007	3,592	21,900
2008	2,636	22,700
2009-2010	2,259	48,100
Totals	<u>\$ 24,642</u>	<u>\$ 153,500</u>

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 6. Long Term Debt

A. 1995 Bond Issue

Bonds outstanding of the Whitley County Public Properties Corporation – 1995 Bond Issue are \$1,375,000. These refunding revenue bonds dated September 1, 1995, were 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. 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. Principal and interest payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 77,155	\$ 245,000
2005	63,925	255,000
2006	49,900	275,000
2007	34,500	600,000
Totals	<u>\$ 225,480</u>	<u>\$ 1,375,000</u>

B. 1997 Bond Issue

Bonds outstanding of the Whitley County Public Properties Corporation – 1997 Bond Issue are \$300,000. These refunding revenue bonds dated November 1, 1997, were issued for the purpose of road construction and repair. Principal payments are due each year on November 1, in the amounts indicated below. Interest on the bonds is payable each May 1 and November 1.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 14,563	\$ 45,000
2005	12,313	45,000
2006	9,875	50,000
2007	7,237	50,000
2008	4,441	55,000
2009	1,485	55,000
Totals	<u>\$ 49,914</u>	<u>\$ 300,000</u>

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 6. Long Term Debt (Continued)

C. Detention Facility Bond Issue

Bonds outstanding of the Whitley County Detention Facility Bond Issue are \$7,800,000. These General Obligation Bonds dated April 9, 2002, were issued for the purpose of financing the acquisition, construction, and equipping of a new detention center facility. Principal payments are due each year beginning on April 1, 2005, in the amounts indicated below. Interest on the bonds is payable each October 1 and April 1, beginning October 1, 2002.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 398,239	\$
2005	398,239	115,000
2006	392,489	125,000
2007	386,239	130,000
2008	379,739	135,000
2009-2013	1,790,694	785,000
2014-2018	1,573,694	1,000,000
2019-2023	1,296,186	1,280,000
2024-2028	937,888	1,635,000
2029-2033	466,700	2,105,000
2034	25,480	490,000
Totals	<u>\$ 8,045,587</u>	<u>\$ 7,800,000</u>

Note 7. Reserved Cash Balance

A. General Fund

The ending cash balance of the general fund is \$2,801,461 as of June 30, 2003. Of this amount, \$2,619,019 is reserved for the completion of the following projects:

Detention Center Project	\$ 2,579,568
Court Facilities Project	32,206
911 Tower	<u>7,245</u>
Total Reserved Balance	<u>\$ 2,619,019</u>

This leaves an \$182,442 unreserved general fund cash balance as of June 30, 2003.

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 7. Reserved Cash Balance (Continued)

B. Local Government Economic Assistance Fund

The ending cash balance of the Local Government Economic Assistance Fund is \$468,703 as of June 30, 2003. Cash requirements for economic development projects are as follows:

Local Government Economic Development - Waterline Projects	\$ 412,496
Local Government Economic Development - Animal Shelter Equipment	50,000
Litter Abatement	<u>42,218</u>
 Total Reserved Balance	 <u><u>\$ 504,714</u></u>

This left a (\$36,011) deficit Local Government Economic Assistance Fund cash balance as of June 30, 2003.

C. Ambulance Fund

The ending cash balance of the ambulance fund was \$71,234 as of June 30, 2003. Of this amount, \$11,583 was reserved for the completion of a Senate Bill 66 grant. This left a \$59,651 unreserved ambulance fund cash balance as of June 30, 2003.

Note 8. Insurance

For the fiscal year ended June 30, 2003, 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 9. Interfund Transfer Receivables

A. During fiscal year ended June 30, 2003, telephone commissions totaling \$21,197 were deposited into the jail canteen account. These receipts should have been deposited into the jail fund. Therefore, the jail fund is due \$21,197 from the jail canteen fund.

B. During fiscal year ended June 30, 2003, the jail canteen purchased \$1,205 of items that were not for the benefit or recreation of the prisoners. They were for normal jail operations and should have been paid by the jail fund. Since these expenditures did not meet requirements for jail canteen expenditures, the jail canteen is due \$1,205 from the Jail Fund for reimbursement. In addition, the jail canteen is due \$1,204 from the Jail Fund for a prior year interfund transfer that had not been settled as of June 30, 2003.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 10. Legal Actions Pending

The Whitley County Fiscal Court was a defendant in a legal action styled Anita Kelly & Teresa Fulton vs. Whitley County, Kentucky; Jerry Taylor, in his individual capacity and in his official capacity as the Whitley County Jailer; and Larry Taylor, United States District Court, for the Eastern District of Kentucky, at London, Civil Action No. 00-38. Plaintiffs alleged a violation of their civil rights due to sexual harassment, a retaliatory termination of their employment, wrongful termination including a violation of Kentucky's Whistle Blower Statute. This claim was tried before a jury in September 2002, and a jury returned a verdict in favor of the plaintiffs. The jury's verdict stated that the county was found to be in violation of the Kentucky Civil Rights Act. There were additional verdicts rendered against the other above named defendants but not against the County. The court has ruled that the County's portion of the damages awarded equated to a total of \$250,000 in compensatory damages for both plaintiffs. The court also ruled that the plaintiffs recover of the defendants Whitley County, Jerry Taylor and Larry Taylor, jointly and severally, attorney's fees and costs of \$350,000. This does not include other damages that were awarded against the other above named defendants. Subsequently, the Whitley County Fiscal Court has satisfied the judgment of \$600,000 rendered by the District Court for the \$250,000 in compensatory damages awarded against the County and the \$350,000 in attorney fees that was awarded against all defendants in the case. On November 17, 2003, the County's insurer reimbursed the county for the amount of the judgment against the County.

Note 11. Subsequent Events

A. On March 11, 2004, the Whitley Fiscal Court approved a lease with the Kentucky Area Development Districts Financing Trust in the amount of \$1,410,000. The proceeds of the lease are to be used to refund the outstanding bond issue dated May 1, 1995 totaling \$1,375,000 and the outstanding bond issue dated November 1, 1997 totaling \$300,000.

B. On July 3, 2003, Whitley County entered into a lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$605,000 for the court facilities project. A portion of the lease proceeds was used to retire a \$245,000 lease obtained for interim financing for the project. The remaining proceeds were deposited into the court facilities project bank account and are to be used to renovate a building for use as court facilities. On January 20, 2004, \$170,000 of the lease proceeds was transferred to the general fund and \$160,000 was transferred to the jail fund. As of end of fieldwork, these cash transfers had not been repaid to the court facilities project bank account.

Note 12. Jail Canteen Account

The beginning cash balance for the Jail Canteen Account is \$13,404 more than the prior year ending cash balance reflected in the prior year audit. This is the result of an inmate account that did not come to our attention until the current year audit. Therefore, we have increased the prior year ending balance by \$13,404 so that the beginning balance will be correctly stated.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 13. Detention Facility Bond Issue

The beginning cash balance for the Detention Facility Bond Issue is \$2,727 less than the ending cash balance reflected in the prior year audit report. This is the result of accrued interest that was not paid to the county until the current year. Therefore, we have decreased the prior year cash balance by \$2,727 so that the beginning balance will be correctly stated.

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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, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 4,576,197	\$ 1,928,181	\$ (2,648,016)
Road and Bridge Fund	1,715,862	1,453,219	(262,643)
Jail Fund	937,349	238,948	(698,401)
Local Government Economic Assistance Fund	729,300	956,288	226,988
Forestry Fund	3,800	3,235	(565)
<u>Special Revenue Fund Type</u>			
911 Fund	311,139	245,307	(65,832)
Tourism Room Tax Fund	44,300	48,782	4,482
Ambulance Fund	782,190	823,472	41,282
92 E Water Fund	1,640,200	1,256,016	(384,184)
Totals	<u>\$ 10,740,337</u>	<u>\$ 6,953,448</u>	<u>\$ (3,786,889)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 10,740,337
Add: Budgeted Prior Year Surplus			6,087,919
Less: Other Financing Uses			<u>(1,289,751)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 15,538,505</u>

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SCHEDULE OF OPERATING REVENUE

WHITLEY COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE			Totals (Memorandum Only)
	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type	
Taxes	\$ 953,480	\$ 235,210	\$	\$ 1,188,690
In Lieu Tax Payments	70,282			70,282
Excess Fees	168,137			168,137
Licenses and Permits	33,210			33,210
Intergovernmental Revenues	3,153,026	1,328,371		4,481,397
Charges for Services	45,650	804,448		850,098
Miscellaneous Revenues	39,879	4,016		43,895
Interest Earned	116,207	1,532	48,586	166,325
Total Operating Revenue	<u>\$ 4,579,871</u>	<u>\$ 2,373,577</u>	<u>\$ 48,586</u>	<u>\$ 7,002,034</u>

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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, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 894,111	\$ 863,855	\$ 30,256
Protection to Persons and Property	851,284	778,779	72,505
General Health and Sanitation	1,471,535	738,681	732,854
Social Services	4,434	3,234	1,200
Roads	1,388,632	1,376,502	12,130
Debt Service	32,832	38,943	(6,111)
Capital Projects	7,126,944	3,132,477	3,994,467
Administration	950,528	637,459	313,069
Total Operating Budget - General Fund Type	\$ 12,720,300	\$ 7,569,930	\$ 5,150,370
Other Financing Uses:			
Transfers to Detention Center			
Corporation Bond Fund-			
Principal	280,000	280,000	
Interest	86,745	86,745	
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	500,000	500,000	
Note Payable-Interest	225,000	225,000	
Capital Lease Agreements-			
Principal on Lease			
Road Paving Lease	95,000	95,000	
Voting Machine Lease	18,800	18,800	
Courthouse Project Lease		235,000	(235,000)
TOTAL BUDGET - GENERAL FUND TYPE	\$ 13,925,845	\$ 9,010,475	\$ 4,915,370

WHITLEY COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 913,063	\$ 857,980	\$ 55,083
General Health and Sanitation	1,000,250	702,500	297,750
Recreation and Culture	52,686	49,481	3,205
Debt Service	9,974	8,666	1,308
Capital Projects	639,020	553,516	85,504
Administration	203,212	188,519	14,693
 Total Operating Budget - Special Revenue Fund Type	 \$ 2,818,205	 \$ 2,360,662	 \$ 457,543
Other Financing Uses:			
KACO Leasing Trust Equipment Lease- Principal	34,578	34,578	
911 Equipment Lease- Principal	49,628	49,628	
 TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	 \$ 2,902,411	 \$ 2,444,868	 \$ 457,543

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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



C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

The 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, 2003, and have issued our report thereon dated January 31, 2005. 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 instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- 2003-01 The Jailer's Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development
- 2003-02 Jail Telephone Commissions Should Be Deposited In The Jail Fund

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 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.



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)

This report is intended solely for the information and use of management is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 31, 2005

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



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The 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, 2003. 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, 2003.

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.



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 (Continued)

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,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 31, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WHITLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S 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. Two instances of noncompliance material to the financial statements of Whitley County were 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 programs tested as major programs were: WCWD HWY 92E Waterline Extension Project (CFDA # 14.228), Nevisdale Water Supply Project, and Meadow Creek – Tacket Creek Groundwater Contamination Study (CFDA # 15.252).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Whitley County was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

None

NONCOMPLIANCES

Reference Number 2003-01

The Jailer's Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development

The jailer's salary was not paid in accordance with the salary limit set by the Governor's Office For Local Development. During calendar year 2002, the jailer received a salary overpayment in the amount of \$7,691. The jailer was paid \$61,056 for calendar year 2002. Since the Governor's Office For Local Development salary limit for the jailer was set at \$53,365, this caused an overpayment to occur. Because of this overpayment, we examined the jailer's payroll records beginning with his first year in office. Beginning with calendar year 1999, we found that the jailer had been overpaid each year that he had been in office. The jailer was overpaid a total salary of \$34,966 from calendar year 1999 to calendar year 2002. Our test did not include salaries paid to the jailer subsequent to calendar year 2002. Therefore, there could be additional salary overpayments. We found correspondence in the jailer's personnel file from the Governor's Office For Local Development directing the county to correct the jailer's salary. We recommend that the fiscal court take action to collect salary overpayments from the jailer or obtain written documentation from the Governor's Office For Local Development allowing the salary already paid to the jailer. We further recommend, that the county properly pay all officials in accordance with the salaries established by the Governor's Office For Local Development.

WHITLEY COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

NONCOMPLIANCES (Continued)

Reference Number 2003-01 (Continued)

The Jailer's Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development

County Judge/Executive Mike Patrick's Response:

My position on this matter is outlined in my letter to Bill Nighbert dated April 5, 2004. I believe that the reply from Richard Ornstein dated June 29, 2004 resolves this matter as we plan to abide by Mr. Ornstein's letter.

Auditor's Reply:

The county should obtain written documentation from the Governor's Office for Local Development setting the current constitutional and statutory maximum salary limit they are allowed to pay the jailer. In addition, the county should discuss this matter with the County Attorney and should obtain written documentation from the Governor's Office for Local Development allowing the salary overpayments already paid to the jailer.

Reference Number 2003-02

Jail Telephone Commissions Should Be Deposited In The Jail Fund

During our testing of revenue, we found that some jail telephone commissions were not deposited into the jail fund. Telephone commissions totaling \$21,197 were deposited into the jail canteen account. We recommend that the jailer's commissary account reimburse the jail fund a total of \$21,197 for telephone commissions that should have been deposited into the county jail fund during fiscal year ended June 30, 2003. We further recommend that the canteen account reimburse the county jail fund for any telephone commissions that have been deposited into the jail commissary account subsequent to June 30, 2003. In the future, all telephone commissions should be turned over to the county treasurer for deposit into the county jail fund.

County Judge/Executive Mike Patrick's Response:

We will contact the telephone company and request commission checks be sent directly to County Treasurer for deposit in jail fund.

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

None.

WHITLEY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through Governor's Office for Local Development:		
Community Development Block Grants-		
WCWD HWY 92E Waterline Extension Project (CFDA #14.228)	01-027	\$ 702,500
Total U.S. Department of Housing and Urban Development		<u>\$ 702,500</u>
<u>U.S. Department of the Interior</u>		
Passed-Through State Department of Natural Resources:		
Abandoned Mine Land Reclamation Programs-		
Nevisdale Water Supply Project Meadow Creek - Tackett Creek Groundwater Contamination Study (CFDA #15.252)	M-02257078 M-99003933 20986	\$ 553,515 45,380
Total U.S. Department of the Interior		<u>\$ 598,895</u>

WHITLEY COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs (Continued):		
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs: Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	\$ 5,322
Passed-Through State Department of Military Affairs: Disaster and Emergency Assistance Grants (Continued)- February 2003 Flood (CFDA #83.516)	FEMA-1454-DR-KY	\$ 41,698
Total U.S. Federal Emergency Management Agency		<u>\$ 47,020</u>
<u>National Oceanic and Atmospheric Administration</u>		
Passed-Through Eastern Kentucky PRIDE, Inc.: PRIDE Community Grant Program- 2002 Community Grant 2001 Fall Community Grant 2001 Fall Community Grant (CFDA # 11.469)	CF-02-43 CF-01-45 CF-01-44	\$ 22,152 13,454 30,050
Total National Oceanic and Atmospheric Administration		<u>\$ 65,656</u>

WHITLEY COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs (Continued):		
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
JAIBG Program		
Juvenile Drug Court	2001-JB-BX-0021-206	\$ 21,309
Juvenile Drug Court (CFDA # 16.unknown)	2002-JB-BX-0023-204	17,094
Total U.S. Department of Justice		<u>\$ 38,403</u>
Total Cash Expenditures of Federal Awards		<u>\$ 1,452,474</u>

WHITLEY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Whitley 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.

CERTIFICATION OF COMPLIANCE -

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

WHITLEY COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

Appendix A

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

WHITLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Whitley County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and 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

