

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

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Whitley County Fiscal Court for fiscal year ended June 30, 2004. Management did not include the Jail Canteen Fund, Whitley County Fiscal Court's major enterprise fund, and only business-type activity. Since the amount by which this departure would affect the assets, fund balances, liabilities, net assets, revenues, and expenses of the business-type activities and the omitted major fund is not reasonably determinable, we have issued an adverse opinion on the Jail Canteen Fund and Whitley County Fiscal Court's business-type activities. We have issued unqualified opinions on Whitley County Fiscal Court's governmental activities, General Fund, Road Fund, Jail Fund, Ambulance Fund, Whitley County Public Properties Corporation Fund, Detention Facility Bond Fund, and the aggregate remaining fund information of Whitley County, Kentucky. We have also issued an unqualified opinion on compliance for the audit of the major federal awards program for Whitley County.

Financial Condition:

The fiscal court had unrestricted net assets of \$(58,423) in its governmental funds as of June 30, 2004, with total net assets of \$(975,205). As noted above, the fiscal court's only enterprise fund, the Jail Canteen Fund, has been omitted from the fiscal court's financial statement. The fiscal court had total debt principal as of June 30, 2004 of \$11,631,802 with \$762,569 due within the next year.

Report Comments:

- 2004-01** The Fiscal Court Should Pay Invoices Within Thirty Days
- 2004-02** The Fiscal Court Should Pay The County Judge/Executive In Accordance With Maximum Salary And Training Incentive Guidelines As Established By The Governor's Office For Local Development
- 2004-03** The Fiscal Court Should Pay The Jailer In Accordance With The Salary Guidelines As Established By The Governor's Office For Local Development
- 2004-04** Jail Telephone Commissions Should Be Deposited In The Jail Fund
- 2004-05** Internal Controls Over Employee Time Recordkeeping Should Be Strengthened

Deposits:

The fiscal court and component units' 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
James R. Farris, Secretary
Finance and Administration Cabinet
Honorable Michael L. Patrick, Former Whitley County Judge/Executive
Honorable Pat White, Jr., Whitley County Judge/Executive
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Whitley County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Whitley County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, 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.

Management has not included the Jail Canteen Fund, a major enterprise fund in Whitley County's financial statements. Accounting principles generally accepted in the United States of America require the Jail Canteen Fund to be presented as a major enterprise fund and financial information about the Jail Canteen Fund to be a part of the business-type activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, fund balances, liabilities, net assets, revenues, and expenses of the business-type activities and the omitted major fund is not reasonably determinable.

In our opinion, because of the omission of the Jail Canteen Fund, as discussed above, the financial statements referred to above do not present fairly in conformity with the basis of accounting described in Note 1, the financial position of the Jail Canteen Fund and the business-type activities of Whitley County, Kentucky, as of June 30, 2004, or the changes in financial position or cash flows thereof for the year then ended.



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Finally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, General Fund, Road Fund, Jail Fund, Ambulance Fund, Whitley County Public Properties Corporation Fund, Detention Facility Bond Fund, and the aggregate remaining fund information of Whitley County, Kentucky, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has elected to implement Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Whitley County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2007, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

- 2004-01** The Fiscal Court Should Pay Invoices Within Thirty Days
- 2004-02** The Fiscal Court Should Pay The County Judge/Executive In Accordance With Maximum Salary And Training Incentive Guidelines As Established By The Governor's Office For Local Development
- 2004-03** The Fiscal Court Should Pay The Jailer In Accordance With The Salary Guidelines As Established By The Governor's Office For Local Development
- 2004-04** Jail Telephone Commissions Should Be Deposited In The Jail Fund
- 2004-05** Internal Controls Over Employee Time Recordkeeping Should Be Strengthened

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 14, 2007

WHITLEY COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Mike 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:

Jeffrey L. Gray	County Treasurer
Judy Brimm	Finance Officer

WHITLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

WHITLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,029,580
Investments	517,000
Total Current Assets	1,546,580
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Construction In Progress	5,565,229
Land and Land Improvements	317,125
Buildings	1,333,540
Equipment	439,325
Vehicles	373,507
Infrastructure Assets - Net of Depreciation	1,081,291
Total Noncurrent Assets	9,110,017
Total Assets	10,656,597
LIABILITIES	
Current Liabilities:	
Bonds Payable	115,000
Financing Obligations Payable	647,569
Total Current Liabilities	762,569
Noncurrent Liabilities:	
Bonds Payable	7,685,000
Financing Obligations Payable	3,184,233
Total Noncurrent Liabilities	10,869,233
Total Liabilities	11,631,802
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	(1,512,514)
Restricted For:	
Debt Service	595,732
Unrestricted	(58,423)
Total Net Assets	\$ (975,205)

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

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WHITLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

WHITLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 2,420,234	\$ 1,156	\$ 307,729	\$
Protection to Persons and Property	2,087,810	960,117	1,652,799	433,576
General Health and Sanitation	1,183,051			
Social Services	12,500		191,056	
Recreation and Culture	46,606			
Roads	982,603		1,462,853	
Debt Service	652,559			
Capital Projects	720,451			
Total Governmental Activities	<u>\$ 8,105,814</u>	<u>\$ 961,273</u>	<u>\$ 3,614,437</u>	<u>\$ 433,576</u>
Total Primary Government	<u>\$ 8,105,814</u>	<u>\$ 961,273</u>	<u>\$ 3,614,437</u>	<u>\$ 433,576</u>

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Unmined Minerals

TVA

National Forest

In Lieu of Taxes

Other Taxes

Excess Fees

Commissions

Insurance Proceeds

Reimbursements

Miscellaneous Revenues

Off Track Betting Proceeds

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

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

WHITLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental	
Activities	
\$	(2,111,349)
	958,682
	(1,183,051)
	178,556
	(46,606)
	480,250
	(652,559)
	(720,451)
	<u>(3,096,528)</u>
	(3,096,528)
	<u>633,578</u>
	85,599
	141,885
	11,171
	8,136
	9,165
	63,868
	395,687
	109,000
	1,058
	598,038
	177
	106,783
	23,783
	<u>128,869</u>
	<u>2,316,797</u>
	(779,731)
	<u>(195,474)</u>
\$	<u><u>(975,205)</u></u>

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WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

Ended June 30, 2004

WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 712,737	\$ 9,315	\$ 12,944	\$ 63,763
Investments				
Total Assets	<u>\$ 712,737</u>	<u>\$ 9,315</u>	<u>\$ 12,944</u>	<u>\$ 63,763</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 97,324	\$ 128,484	\$ 67,580	\$
Debt Service				
Unreserved:				
General Fund	615,413			
Special Revenue Funds		(119,169)	(54,636)	63,763
Capital Projects Funds				
Debt Service Funds				
Total Fund Balances	<u>\$ 712,737</u>	<u>\$ 9,315</u>	<u>\$ 12,944</u>	<u>\$ 63,763</u>

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

WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Public Properties Corporation Fund	Detention Facility Bond Fund	Non- Major Funds	Total Governmental Funds
\$ 9,920	\$ 78,732	\$ 142,169	\$ 1,029,580
	517,000		517,000
<u>\$ 9,920</u>	<u>\$ 595,732</u>	<u>\$ 142,169</u>	<u>\$ 1,546,580</u>
\$	\$	\$	\$ 293,388
	595,732		595,732
			615,413
		141,469	31,427
		700	700
<u>9,920</u>			<u>9,920</u>
<u>\$ 9,920</u>	<u>\$ 595,732</u>	<u>\$ 142,169</u>	<u>\$ 1,546,580</u>

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

Total Fund Balances	\$ 1,546,580
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	10,897,374
Accumulated Depreciation	(1,787,357)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(3,831,802)
Bonded Debt	(7,800,000)
Net Assets Of Governmental Activities	<u>\$ (975,205)</u>

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

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

For The Year Ended June 30, 2004

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

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>
REVENUES				
Taxes	\$ 1,032,820	\$	\$	\$
In Lieu Tax Payments	72,004	9,165		
Excess Fees	109,000			
Licenses and Permits	289			
Intergovernmental	1,593,556	1,526,442	237,732	11,133
Charges for Services			50,354	806,228
Miscellaneous	725,139	247	852	2,786
Interest	61,528	942	44	283
Total Revenues	<u>3,594,336</u>	<u>1,536,796</u>	<u>288,982</u>	<u>820,430</u>
EXPENDITURES				
General Government	1,480,187	14,400		
Protection to Persons and Property	314,716		852,241	752,890
General Health and Sanitation	525,795			
Social Services	12,500			
Recreation and Culture				
Roads		1,128,129		
Debt Service	520,607	180,775		31,049
Capital Projects	2,556,883	29,111		
Administration	485,059	151,330	157,593	187,862
Total Expenditures	<u>5,895,747</u>	<u>1,503,745</u>	<u>1,009,834</u>	<u>971,801</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,301,411)</u>	<u>33,051</u>	<u>(720,852)</u>	<u>(151,371)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	785,800			48,000
Proceeds of Refunding Bonds	1,405,000			
Payment to Refunded Bond Escrow Agent				
Transfers From Other Funds	341,850	339,250	706,500	105,000
Transfers To Other Funds	(2,319,963)	(414,641)		(9,100)
Total Other Financing Sources (Uses)	<u>212,687</u>	<u>(75,391)</u>	<u>706,500</u>	<u>143,900</u>
Net Change in Fund Balances	(2,088,724)	(42,340)	(14,352)	(7,471)
Fund Balances - Beginning	2,801,461	51,655	27,296	71,234
Fund Balances - Ending	<u>\$ 712,737</u>	<u>\$ 9,315</u>	<u>\$ 12,944</u>	<u>\$ 63,763</u>

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

WHITLEY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Public Properties Corporation Fund	Detention Facility Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 235,347	\$ 1,268,167
			81,169
			109,000
			289
		783,400	4,152,263
		700	857,282
		20	729,044
19,644	45,316	1,112	128,869
<u>19,644</u>	<u>45,316</u>	<u>1,020,579</u>	<u>7,326,083</u>
			1,494,587
		237,721	2,157,568
		657,256	1,183,051
			12,500
		46,606	46,606
		36,389	1,164,518
711,832	398,238	56,129	1,898,630
		86,484	2,672,478
		47,753	1,029,597
<u>711,832</u>	<u>398,238</u>	<u>1,168,338</u>	<u>11,659,535</u>
<u>(692,188)</u>	<u>(352,922)</u>	<u>(147,759)</u>	<u>(4,333,452)</u>
			833,800
			1,405,000
(1,095,667)			(1,095,667)
1,467,854		84,750	3,045,204
		(301,500)	(3,045,204)
<u>372,187</u>		<u>(216,750)</u>	<u>1,143,133</u>
(320,001)	(352,922)	(364,509)	(3,190,319)
329,921	948,654	506,678	4,736,899
<u>\$ 9,920</u>	<u>\$ 595,732</u>	<u>\$ 142,169</u>	<u>\$ 1,546,580</u>

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

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**WHITLEY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

**WHITLEY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (3,190,319)
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated over their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	2,577,249
Depreciation Expense	(269,599)
Financing Obligation and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.	
Financing Obligations	666,738
Bond Payments	579,333
Bond and Financing Obligation Proceeds and Defeasances Are Expensed in the Governmental Funds as Other Financing Sources.	
Financing Obligation Proceeds	(833,800)
Proceeds of Refunding Bonds	(1,405,000)
Payment to Refunded Bond Escrow Agent	1,095,667
	<hr/>
Change in Net Assets of Governmental Activities	<u><u>\$ 363,402</u></u>

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

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

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

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. 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 Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

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

Whitley County Public Properties Corporation

The Whitley County Fiscal Court (Fiscal Court) established the Whitley County Public Properties Corporation (Corporation) for the purpose of financing courthouse renovations and road projects. The Corporation's governing body consists entirely of the Fiscal Court members. Therefore, management must include the Corporation as part of the reporting entity, and the Corporation's financial activity is blended with that of the Fiscal Court.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Whitley County Elected Officials

Kentucky law provides for election of the officials below 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. These financial statements are not required to be included in the financial statements of Whitley County, Kentucky.

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

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale on July 16, following the delinquency date.

Funds are characterized as either major or non-major funds. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, and expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements. Whitley County has omitted its major enterprise fund from its financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development (GOLD) requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund - The primary purpose of this fund is to provide emergency medical service for the county. The primary sources of revenue for this fund are federal, state, and private insurance billings.

Whitley County Public Properties Corporation Fund - The Whitley County Public Properties Corporation, a blended component unit of the County, is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest issued by the Corporation for the purpose of courthouse renovations and road projects. GOLD does not require the Fiscal Court to report or budget these funds.

Detention Facility Bond Fund - This fund is used to account for the accumulation of resources for, and the payment of principal and interest on general obligation bonds issued by the County for the purpose of financing the acquisition, construction, and equipping of a new detention center. GOLD does not require the Fiscal Court to report or budget these funds.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Governmental Funds (Continued)

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Federal Grants Fund, Forestry Fund, Tourism Room Tax Fund, 911 Fund, and the 92 E Water Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Ambulance Fund, Local Government Economic Assistance Fund, Federal Grants Fund, Forestry Fund, Tourism Room Tax Fund, and 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The 92 E Water Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Whitley County Public Properties Corporation Fund and the Detention Facility Bond Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government has the following major proprietary fund:

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 Fund. However, the Jail Canteen Fund is omitted from the primary government's financial statements, as those records were not available.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	\$ 15,000	10-75
Building Improvements	\$ 15,000	10-60
Machinery and Equipment	\$ 10,000	3-25
Vehicles	\$ 10,000	3-12

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

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

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Whitley County Public Properties Corporation Fund (blended component unit) and the Detention Facility Bond Fund are not budgeted by the county treasurer. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

J. Related Organizations and Joint Ventures

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 Water Highway District.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Whitley County Fiscal Court:

- The Williamsburg/Whitley County Airport Board (with the City of Williamsburg)

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits and Investments

A. Deposits

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, 2004, the primary government's deposit's 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.

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Investments	Category			Carrying Amount	Market Value
	1	2	3		
Governmental Securities	\$ 517,000	\$	\$	\$ 517,000	\$ 121,417

Note 3. Interfund Transfers

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Jail	Support for Jail Operations	\$ 411,500
General	911	Support for 911 Operations	84,500
General	Public Properties Corporation	Debt Service Requirements	1,385,963
General	Ambulance	Support for Ambulance Service	105,000
General	Federal Grants	Return of Federal Grant Monies	250
General	Road	Return of Restricted Road Monies	332,750
Road	General	General Government Activities	332,750
Road	Public Properties Corporation	Debt Service Requirements	81,891
LGEA	Road	Support for Road Activities	6,500
LGEA	Jail	Support for Jail Operations	295,000
Ambulance	General	Return of Excess Support	9,100
			\$ 3,045,204

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 317,125	\$	\$	\$ 317,125
Construction In Progress	3,613,202	1,952,027		5,565,229
Total Capital Assets Not Being Depreciated	3,930,327	1,952,027		5,882,354
Capital Assets, Being Depreciated:				
Buildings	2,306,699			2,306,699
Equipment	575,084	78,027		653,111
Vehicles	452,499	239,675		692,174
Infrastructure	1,055,516	307,520		1,363,036
Total Capital Assets Being Depreciated	4,389,798	625,222		5,015,020
Less Accumulated Depreciation For:				
Buildings	(930,842)	(42,317)		(973,159)
Equipment	(184,710)	(29,076)		(213,786)
Vehicles	(247,155)	(71,512)		(318,667)
Infrastructure	(155,051)	(126,694)		(281,745)
Total Accumulated Depreciation	(1,517,758)	(269,599)		(1,787,357)
Total Capital Assets, Being Depreciated, Net	2,872,040	355,623		3,227,663
Government Activities Capital Assets, Net	\$ 6,802,367	\$ 2,307,650	\$ 0	\$ 9,110,017

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

<u>Governmental Activities:</u>	
General Government	\$ 76,850
Protection to Persons and Property	37,494
Roads, Including Depreciation of General Infrastructure Assets	155,255
Total Depreciation Expense - Governmental Activities	\$ 269,599

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Short-Term Debt

On May 1, 2003, Whitley County Fiscal Court entered into a \$245,000 financing obligation agreement with the Kentucky Area Development Districts (KADD) Financing Trust for the purpose of refinancing a KADD financing obligation dated May 31, 2002, in the amount of \$235,000 with one principal payment and one interest payment being due October 20, 2003. However, on July 3, 2003, this short-term financing obligation was paid in full from the proceeds of a new KADD financing obligation agreement dated July 3, 2003 in the amount of \$605,000. (Note 6. I.) Debt Service on the Statement of Activities includes \$1,920 in interest on the short-term borrowing.

Changes In Short-Term Liabilities

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
KADD Financing Obligation	\$ 245,000	\$ 0	\$ 245,000	\$ 0
Governmental Activities Short-term Liabilities	<u>\$ 245,000</u>	<u>\$ 0</u>	<u>\$ 245,000</u>	<u>\$ 0</u>

Note 6. Long-Term Debt

A. 911 Emergency System

On April 22, 1997, the county entered into a financing obligation 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 principal balance was \$9,271 as of June 30, 2004. Payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	<u>\$ 84</u>	<u>\$ 9,271</u>

B. Ambulances

On February 2, 2001, Whitley County entered into a \$77,095 financing obligation 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 \$13,720 as of June 30, 2004. Financing obligation payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest and Fees</u>	<u>Scheduled Principal</u>
2005	<u>\$ 251</u>	<u>\$ 13,720</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-Term Debt (Continued)

C. Road Paving Projects

On October 24, 2001, Whitley County entered into a \$495,000 financing obligation 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 \$210,000 as of June 30, 2004. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest and Fees	Scheduled Principal
2005	\$ 6,370	\$ 105,000
2006	2,347	105,000
Totals	<u>\$ 8,717</u>	<u>\$ 210,000</u>

D. General Obligation Bonds, Series 2002

Bonds outstanding of the Whitley County Detention Facility Bond Fund are \$7,800,000 of General Obligation Bonds issued on April 1, 2002, with interest rates of 5.0% through 5.20% payable semiannually October 1 and April 1. These bonds were issued for the purpose of financing the acquisition, construction, and equipping of a new detention center facility. The total issue of the bonds is \$7,800,000 with principal paid annually on April 1. Future principal and interest payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 398,239	\$ 115,000
2006	392,489	125,000
2007	386,239	130,000
2008	379,739	135,000
2009	372,989	140,000
2010-2014	1,751,445	825,000
2015-2019	1,523,695	1,050,000
2020-2024	1,231,452	1,345,000
2025-2029	851,824	1,720,000
2030-2034	357,240	2,215,000
Totals	<u>\$ 7,645,351</u>	<u>\$ 7,800,000</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-Term Debt (Continued)

E. Airport Land

On April 18, 2002, Whitley County entered into a \$765,000 financing obligation 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. Interest on the financing obligation is payable on November 20 and May 20, while principal payments are due only on May 20 annually. The principal balance was \$640,000 as of June 30, 2004. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 28,658	\$ 70,000
2006	26,033	70,000
2007	23,058	75,000
2008	19,870	75,000
2009	16,570	80,000
2010-2012	26,600	270,000
Totals	<u>\$ 140,789</u>	<u>\$ 640,000</u>

F. Voting Machines

On July 25, 2002, Whitley County entered into a \$172,300 financing obligation 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 \$134,000 as of June 30, 2004. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 5,396	\$ 20,300
2006	4,511	21,000
2007	3,592	21,900
2008	2,636	22,700
2009	1,645	23,600
2010	614	24,500
Totals	<u>\$ 18,394</u>	<u>\$ 134,000</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-Term Debt (Continued)

G. General Obligations

On June 4, 2003, Whitley County entered into a \$440,000 financing obligation agreement with the Kentucky Area Development Districts Financing Trust. The financing obligation 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 \$360,000 as of June 30, 2004. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 19,808	\$ 85,000
2006	15,633	90,000
2007	10,772	90,000
2008	5,678	95,000
Totals	<u>\$ 51,891</u>	<u>\$ 360,000</u>

H. Road Improvements

On June 4, 2003, Whitley County entered into a \$310,000 financing obligation 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 \$255,000 as of June 30, 2004. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 14,188	\$ 60,000
2006	11,248	60,000
2007	7,998	65,000
2008	4,315	70,000
Totals	<u>\$ 37,749</u>	<u>\$ 255,000</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-Term Debt (Continued)

I. Court Facilities Project

On July 3, 2003, Whitley County entered into a \$605,000 financing obligation agreement with the Kentucky Area Development Districts Financing Trust for the court facilities project. A portion of the financing obligation proceeds was used to retire a \$245,000 financing obligation dated May 1, 2003 (Note 4.). The remaining proceeds were to be used to renovate a building for use as court facilities; however, the project was subsequently determined not to be a viable project. On January 20, 2004, \$170,000 and \$160,000 of the financing obligation proceeds were transferred to the General Fund and Jail Fund, respectively, and used for county operations. The agreement requires variable semi-annual payments to be paid in full May 20, 2023. The principal balance of the agreement was \$585,000 as of June 30, 2004. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 23,760	\$ 20,000
2006	23,280	20,000
2007	22,800	25,000
2008	22,200	25,000
2009	21,300	25,000
2010-2014	92,190	140,000
2015-2019	61,905	165,000
2020-2023	19,950	165,000
Totals	<u>\$ 287,385</u>	<u>\$ 585,000</u>

J. Ambulance

On October 23, 2003, Whitley County entered into a \$48,000 financing obligation agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of an ambulance. The agreement requires variable monthly payments for 36 months to be paid in full November 20, 2006. The principal balance of the agreement was \$39,011 as of June 30, 2004. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 987	\$ 15,791
2006	491	16,285
2007	54	6,935
Totals	<u>\$ 1,532</u>	<u>\$ 39,011</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-Term Debt (Continued)

K. Sheriff's Vehicles

On March 23, 2004, Whitley County entered into a \$180,800 financing obligation agreement with the Kentucky Association of Counties Leasing Trust Program for eight (8) new sheriff police cars with new equipment for each unit. The agreement requires variable monthly payments for 36 months to be paid in full on November 20, 2006. The principal balance of the agreement was \$180,800 as of June 30, 2004. Payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 4,398	\$ 58,487
2006	4,452	60,249
2007	1,333	62,064
Totals	<u>\$ 10,183</u>	<u>\$ 180,800</u>

L. Refunding of 1995 Bonds and 1997 Certificates

On April 2, 2004, Whitley County entered into a \$1,405,000 financing obligation agreement with the Kentucky Area Development Districts Financing Trust to refund \$1,130,000 of outstanding Public Project Refunding Revenue Bonds, Series 1995, issued for the purpose of courthouse renovations and certain road projects, and \$255,000 of Public Project Revenue Certificates of Participation, Series 1997, issued for road construction and repair. On November 1, 2004, \$1,095,667 of the proceeds plus an additional \$330,115 of 1995 Series debt service reserve monies were used to pay all future debt service payments on the 1995 Series and the 1997 Series. As a result, as of June 30, 2004, the 1995 Series and the 1997 Series are considered defeased and the liabilities for those bonds and certificates of participation have been removed from the government-wide statement of net assets.

The financing obligation agreement dated April 2, 2004, for \$1,405,000, requires variable semi-annual payments for 5 years to be paid in full April 20, 2009. The principal balance of the agreement was \$1,405,000 as of June 30, 2004. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 38,144	\$ 190,000
2006	32,013	205,000
2007	27,913	435,000
2008	17,038	285,000
2009	9,200	290,000
Totals	<u>\$ 124,308</u>	<u>\$ 1,405,000</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-Term Debt (Continued)

M. Changes In Long Term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 7,800,000	\$ 0	\$ 0	\$ 7,800,000	\$ 115,000
Public Project Refunding Revenue Bonds	1,375,000	0	1,375,000	0	
Public Project Revenue Certificates of Participation	300,000	0	300,000	0	
Financing Obligations	<u>2,014,740</u>	<u>2,238,800</u>	<u>421,738</u>	<u>3,831,802</u>	<u>647,569</u>
Governmental Activities Long-term Liabilities	<u>\$ 11,489,740</u>	<u>\$ 2,238,800</u>	<u>\$ 2,096,738</u>	<u>\$11,631,802</u>	<u>\$ 762,569</u>

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$641,265 in interest on long-term bonds and financing obligations.

Note 8. Related Party Transactions

During the year ended June 30, 2004, Whitley County Fiscal Court paid JLG Identification Solutions, Inc., \$658 for employee identification cards and uniforms for ambulance, 911, and jail employees, as well as jail inmates. The Whitley County Treasurer is a co-owner in this business. Because of the nature of the relationship between the business and the employee, the transactions are considered related party transactions.

Note 9. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a 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 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 9. Employee Retirement System (Continued)

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 presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 10. Deferred Compensation

The Whitley County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary. Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road Suite #1, Frankfort, KY 40601-8862.

Note 11. Insurance

For the fiscal year ended June 30, 2004, 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. Prior Period Interfund Transfer Receivables

The prior year audit reported an interfund transfer receivable of \$21,197 due to the Jail Fund from the Jail Canteen Fund for jail telephone commissions that had inappropriately been deposited in the Jail Canteen Fund. In addition, an interfund transfer receivable of \$2,409 was reported as being due to the Jail Canteen Fund from the Jail Fund for expenditures that were for normal jail operations rather than for the benefit or recreation of the prisoners. The net amount of the interfund transfer receivables as of June 30, 2003, resulted in \$18,788 due to the Jail Fund from the Jail Canteen Fund. County Jailer, Jerry F. Taylor maintained the records of the Jail Canteen Fund, and that fund has been omitted from the County's financial statements, as those records were not available. As a result of the stipulations for County Jailer, Jerry F. Taylor's probation (Note 15), which were considered satisfied as of November 15, 2005, Whitley County believes it is unlikely they will collect this receivable; therefore this receivable is no longer reflected on the County's financial statements.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 13. Prior Period Adjustment

The beginning fund balance of \$4,376,899 includes a prior period correction of \$1,000 on the beginning fund balance of the Detention Facility Bond Fund.

Note 14. Changes in Accounting Principles

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The beginning net assets balance for governmental activities was \$(195,474) and the beginning fund balance was \$4,736,899, for a decrease of \$4,932,373 due to capital assets previously not reported.

Note 15. Subsequent Events

On October 13, 2005, Jerry F. Taylor, Whitley County Jailer, entered an Alford Plea of Guilty in Whitley County Circuit Court on felony offenses of five counts of Forgery, First Degree. On November 14, 2005, Mr. Taylor was placed on supervised probation for a period of five years subject to his resignation as Jailer of Whitley County and full restitution to the Whitley County Fiscal Court, both of which were satisfied. Mr. Taylor resigned as Whitley County Jailer effective September 30, 2005 and made restitution of \$2,500 to the Whitley County Treasurer on September 30, 2005.

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

For The Year Ended June 30, 2004

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

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 943,268	\$ 1,003,524	\$ 1,032,820	\$ 29,296
In Lieu of Taxes	55,300	56,536	72,004	15,468
Excess Fees	107,681	109,000	109,000	
Licenses and Permits	44,125	44,125	289	(43,836)
Intergovernmental Revenue	2,966,916	3,242,966	1,593,556	(1,649,410)
Miscellaneous Revenues	38,400	636,439	725,139	88,700
Interest	19,125	56,489	61,528	5,039
Total Revenues	<u>4,174,815</u>	<u>5,149,079</u>	<u>3,594,336</u>	<u>(1,554,743)</u>
EXPENDITURES				
General Government	774,525	1,640,077	1,480,187	159,890
Protection to Persons and Property	273,790	444,507	314,716	129,791
General Health and Sanitation	1,064,868	1,068,875	525,795	543,080
Social Services	4,500	12,700	12,500	200
Debt Service	573,700	478,700	520,607	(41,907)
Capital Projects	4,317,115	4,404,117	2,556,883	1,847,234
Administration	483,472	547,579	485,059	62,520
Total Expenditures	<u>7,491,970</u>	<u>8,596,555</u>	<u>5,895,747</u>	<u>2,700,808</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(3,317,155)</u>	<u>(3,447,476)</u>	<u>(2,301,411)</u>	<u>1,146,065</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	588,800	769,600	785,800	16,200
Proceeds of Refunding Bonds			1,405,000	1,405,000
Transfers From Other Funds			341,850	341,850
Transfers To Other Funds	<u>(51,055)</u>	<u>(121,726)</u>	<u>(2,319,963)</u>	<u>(2,198,237)</u>
Total Other Financing Sources (Uses)	<u>537,745</u>	<u>647,874</u>	<u>212,687</u>	<u>(435,187)</u>
Net Changes in Fund Balance	<u>(2,779,410)</u>	<u>(2,799,602)</u>	<u>(2,088,724)</u>	<u>710,878</u>
Fund Balance - Beginning	<u>2,779,410</u>	<u>2,799,602</u>	<u>2,801,461</u>	<u>1,859</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 712,737</u>	<u>\$ 712,737</u>

WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 3,700	\$ 9,165	\$ 9,165	\$
Intergovernmental Revenue	1,499,450	2,068,001	1,526,442	(541,559)
Miscellaneous	1,600	1,600	247	(1,353)
Interest	3,000	3,000	942	(2,058)
Total Revenues	<u>1,507,750</u>	<u>2,081,766</u>	<u>1,536,796</u>	<u>(544,970)</u>
EXPENDITURES				
General Government	14,400	14,400	14,400	
Roads	953,600	1,271,888	1,128,129	143,759
Debt Service	392,400	263,141	180,775	82,366
Capital Projects		380,000	29,111	350,889
Administration	157,350	203,991	151,330	52,661
Total Expenditures	<u>1,517,750</u>	<u>2,133,420</u>	<u>1,503,745</u>	<u>629,675</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(10,000)</u>	<u>(51,654)</u>	<u>33,051</u>	<u>84,705</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			339,250	339,250
Transfers To Other Funds			(414,641)	(414,641)
Total Other Financing Sources (Uses)			<u>(75,391)</u>	<u>(75,391)</u>
Net Changes in Fund Balance	(10,000)	(51,654)	(42,340)	9,314
Fund Balance - Beginning	10,000	51,654	51,655	1
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,315</u>	<u>\$ 9,315</u>

WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 607,860	\$ 608,052	\$ 237,732	\$ (370,320)
Charges For Services	45,600	49,080	50,354	1,274
Miscellaneous	60,800	61,351	852	(60,499)
Interest	100	100	44	(56)
Total Revenues	<u>714,360</u>	<u>718,583</u>	<u>288,982</u>	<u>(429,601)</u>
EXPENDITURES				
Protection to Persons and Property	889,025	951,408	852,241	99,167
Debt Service	7,000	276		276
Administration	153,990	194,067	157,593	36,474
Total Expenditures	<u>1,050,015</u>	<u>1,145,751</u>	<u>1,009,834</u>	<u>135,917</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(335,655)</u>	<u>(427,168)</u>	<u>(720,852)</u>	<u>(293,684)</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	32,000	32,000		(32,000)
Transfers From Other Funds	281,655	367,872	706,500	338,628
Total Other Financing Sources (Uses)	<u>313,655</u>	<u>399,872</u>	<u>706,500</u>	<u>306,628</u>
Net Changes in Fund Balance	(22,000)	(27,296)	(14,352)	12,944
Fund Balance - Beginning	<u>22,000</u>	<u>27,296</u>	<u>27,296</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,944</u>	<u>\$ 12,944</u>

WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$		\$ 11,133	\$ 11,133
Charges For Services		806,000	806,000	806,228
Miscellaneous		500	2,706	2,786
Interest		500	500	283
Total Revenues		<u>807,000</u>	<u>820,339</u>	<u>820,430</u>
EXPENDITURES				
Protection to Persons and Property		713,030	776,155	752,890
Debt Service		46,200	31,200	31,049
Administration		167,390	201,222	187,862
Total Expenditures		<u>926,620</u>	<u>1,008,577</u>	<u>971,801</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		<u>(119,620)</u>	<u>(188,238)</u>	<u>(151,371)</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		68,400	68,400	48,000
Transfers From Other Funds		1,000	48,605	105,000
Transfers To Other Funds			(9,100)	(9,100)
Total Other Financing Sources (Uses)		<u>69,400</u>	<u>117,005</u>	<u>143,900</u>
Net Changes in Fund Balances		(50,220)	(71,233)	(7,471)
Fund Balances - Beginning		<u>50,220</u>	<u>71,233</u>	<u>71,234</u>
Fund Balances - Ending	\$	<u>0</u>	\$ <u>0</u>	\$ <u>63,763</u>
		<u>0</u>	<u>0</u>	<u>63,763</u>

WHITLEY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Fund and the Detention Facility Bond Fund.

The State Local Finance Officer does not require the Public Properties Corporation Fund and the Detention Facility Bond Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

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.

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

June 30, 2004

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

June 30, 2004

	Local Government Economic Assistance Fund	Federal Grants Fund	Forestry Fund	Tourist Room Tax Fund
ASSETS				
Cash and Cash Equivalents	\$ 110,805	\$ 158	\$ 4,546	\$ 7,735
Total Assets	<u>\$ 110,805</u>	<u>\$ 158</u>	<u>\$ 4,546</u>	<u>\$ 7,735</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	\$ 110,805	\$ 158	\$ 4,546	\$ 7,735
Capital Projects Fund				
Total Fund Balances	<u>\$ 110,805</u>	<u>\$ 158</u>	<u>\$ 4,546</u>	<u>\$ 7,735</u>

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

WHITLEY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2004
(Continued)

<u>911 Fund</u>	<u>92 E Water Fund</u>	<u>Total Non-Major Governmental Funds</u>
\$ 18,225	\$ 700	\$ 142,169
<u>\$ 18,225</u>	<u>\$ 700</u>	<u>\$ 142,169</u>
\$ 18,225	700	\$ 141,469 700
<u>\$ 18,225</u>	<u>\$ 700</u>	<u>\$ 142,169</u>

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

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WHITLEY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

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

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	Federal Grants Fund	Forestry Fund	Tourist Room Tax Fund
REVENUES				
Taxes	\$	\$	\$ 3,157	\$ 46,584
Intergovernmental Charges For Services	346,829			
Miscellaneous				
Interest	826		38	69
Total Revenues	<u>347,655</u>		<u>3,195</u>	<u>46,653</u>
EXPENDITURES				
Protection to Persons and Property			3,366	
General Health and Sanitation	367,664	92		
Recreation and Culture				46,606
Roads	36,389			
Debt Service				
Capital Projects				
Administration				
Total Expenditures	<u>404,053</u>	<u>92</u>	<u>3,366</u>	<u>46,606</u>
Excess (deficiency) of Revenues Over Expenditures	<u>(56,398)</u>	<u>(92)</u>	<u>(171)</u>	<u>47</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		250		
Transfers To Other Funds	(301,500)			
Total Other Financing Sources (Uses)	<u>(301,500)</u>	<u>250</u>		
Net Change in Fund Balances	(357,898)	158	(171)	47
Fund Balances - Beginning	468,703		4,717	7,688
Fund Balances - Ending	<u>\$ 110,805</u>	<u>\$ 158</u>	<u>\$ 4,546</u>	<u>\$ 7,735</u>

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

WHITLEY COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information
 For The Year Ended June 30, 2004
 (Continued)

911 Fund	92 EWater Fund	Total Non-Major Governmental Funds
\$ 185,606	\$	\$ 235,347
60,587	375,984	783,400
700		700
20		20
179		1,112
<u>247,092</u>	<u>375,984</u>	<u>1,020,579</u>
234,355		237,721
	289,500	657,256
		46,606
		36,389
56,129		56,129
	86,484	86,484
47,753		47,753
<u>338,237</u>	<u>375,984</u>	<u>1,168,338</u>
<u>(91,145)</u>		<u>(147,759)</u>
84,500		84,750
		(301,500)
<u>84,500</u>		<u>(216,750)</u>
(6,645)		(364,509)
24,870	700	506,678
<u>\$ 18,225</u>	<u>\$ 700</u>	<u>\$ 142,169</u>

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

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

For The Year Ended June 30, 2004

WHITLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an adverse opinion on the Jail Canteen Fund and the business-type activities. The auditor's report expresses an unqualified opinion on the governmental activities, General Fund, Road Fund, Jail Fund, Ambulance Fund, Whitley County Public Properties Corporation Fund, Detention Facility Bond Fund, and the aggregate remaining fund information of Whitley County, Kentucky.
2. One reportable condition relating to the internal control of the audit of the financial statements is reported in the Independent Auditor's Report.
3. Four 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 program for Whitley County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award program for Whitley County reported in Part C of this schedule.
7. The program tested as a major program was: U. S. Department of Housing and Urban Development - Community Development Block Grant - Whitley County Water District (WCWD) Hwy 92E Waterline Extension Project - CFDA 14.228.
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

STATE LAWS AND REGULATIONS

2004-01 The Fiscal Court Should Pay Invoices Within Thirty Days

During our testing of expenditures, our sample of 65 expenditures revealed 26 invoices were not paid within 30 working days. KRS 65.140 requires all bills for goods and services to be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor. We recommend the County comply with KRS 65.140 by paying all goods and services within thirty (30) working days.

Former County Judge/Executive Michael Patrick's Response: With the financial conditions of the county during this period, the fiscal court was often restricted with cash flow that prevented the court from being able to meet the 30 day requirement, but we continued to work on this issue to bring the county current on its bill paying process.

WHITLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

2004-02 The Fiscal Court Should Pay The County Judge/Executive In Accordance With Maximum Salary And Training Incentive Guidelines As Established By The Governor's Office For Local Development

The County Judge/Executive did not receive the maximum salary and training incentive payment for calendar year 2003 as established by the Governor's Office for Local Development in accordance with KRS 64.5275 by \$1,708 and \$3,035, respectively. We recommend the Fiscal Court pay the County Judge/Executive the additional calendar year 2003 salary and training incentive totaling \$4,743 as required by KRS 64.5275.

Former County Judge/Executive Michael Patrick's Response: During this fiscal year, and the financial conditions of the county, and not being capable of increasing county employee pay rates, I did not feel that it was fair or proper that I receive an increase in pay or incentives. I refused to accept the increases as were described and issued orders not to make the increases or payment of training incentives.

2004-03 The Fiscal Court Should Pay The Jailer In Accordance With Salary Guidelines As Established By The Governor's Office For Local Development

The County Jailer was not paid in accordance with the salary limit set by the Governor's Office for Local Development (GOLD) for a Jailer who operates a non-full service jail. GOLD's salary limitation for the County Jailer was \$54,645 for calendar year 2003; however, the County Jailer received an annual salary of \$62,775 resulting in a 2003 salary overpayment of \$8,130. In addition, the prior year audit reported the County Jailer was overpaid in salary by a total of \$34,966 from calendar years 1999-2002. We recommend that the fiscal court take action to collect the salary overpayments from the County Jailer or obtain written documentation from GOLD allowing the salary the County Jailer received for calendar year 2003, as well as for calendar years 1999-2002.

Former County Judge/Executive Michael Patrick's Response: In an election year, the salary for the incoming Jailer is established in the budget in May or June prior to the Official taking office. When the budget was approved for the 1998-1999 fiscal year, the Whitley County Jail was a Full Service Facility. It was my interpretation of Election Law that the salary could not be altered from the approved amount in the budget. Prior to Mr. Taylor taking office on January 1, 1999, and after the implementation of this fiscal year's budget, which came into affect on July 1, 1998, the facility was reclassified by the Department of Corrections as a Life Safety Facility. It is still my contention, that Mr. Taylor's salary was set according to the budget and election law and that he was not overpaid. During the intervening years since Mr. Taylor has assumed office, the Department for Local Government and/or Governor's Office for Local Development has approved Whitley County's Budget each year from 1999 through the 2003-2004 Budget. I believe, that with the approval from the State Local Finance Office on Whitley County's Budgets, that this was tacit approval of the salary paid to the Whitley County Jailer.

WHITLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

2004-04 Jail Telephone Commissions Should Be Deposited In The Jail Fund

During our testing of revenue, the County Treasurer informed us that he had not received any jail telephone commissions for FY 2004 from the County Jailer. Based on a confirmation we obtained from Securus Technology, jail telephone commission checks totaling \$11,832 were issued to the Whitley County Detention Center during FY 2004. The County Jailer should have turned these checks over to the County Treasurer to be deposited in the Jail Fund. It had been noted in the prior year audit report that \$21,197 of jail telephone commissions had been inappropriately deposited in the Jail Canteen. However, the Jail Canteen Fund has been omitted from the county's FY 2004 financial statements, as the records of the County Jailer were not available. As an alternative audit procedure, we obtained copies of check images (front and back) from Securus Technology in order to try to determine the disposition of the receipts. Based on those copies, it appears \$2,356 and \$2,743 were deposited in the Inmates Funds account and the Jail Canteen account, respectively. We were unable to determine the disposition of the balance of \$6,733 of jail telephone commissions that Securus Technology confirmed to us that should have been received for the audit period, as the best copies available of the check images were not legible.

In the future, we recommend the County Jailer turn over to the County Treasurer all jail telephone commissions when received. If the County Treasurer does not receive jail telephone commissions from the County Jailer on a timely basis, the County Treasurer should follow up with the County Jailer until resolved.

Former County Judge/Executive Michael Patrick's Response: During the 2003-2004 Fiscal Year, the Fiscal Court often requested from the Jailer that he turn over and provide the Court with the supporting documentation pertaining to the Telephone Commissions. Mr. Taylor refused to supply the Court with this information and revenue although many of these requests were made in open court.

REPORTABLE CONDITION

2004-05 Internal Controls Over Employee Time Recordkeeping Should Be Strengthened

During the testing of payroll, we noted instances of time sheets that were not signed by the employee and/or supervisor. We further noted instances of time sheets not being mathematically correct and not agreeing with hours paid. In order to strengthen internal controls in the area of employee time recordkeeping, we recommend all time sheets be signed by the employee and the next appropriate level of supervision, noting mathematical accuracy, approval of hours worked, and leave time taken. We further recommend time sheet changes be reviewed and initialed by the supervisor, noting approval of the changes. In order to ensure the proper amount is paid, we also recommend that the Payroll Officer review the approved time sheets for accuracy. Any discrepancies noted on time sheets should be resolved and properly documented.

WHITLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITION (Continued)

2004-05 Internal Controls Over Employee Time Recordkeeping Should Be Strengthened
(Continued)

Former County Judge/Executive Michael Patrick's Response: Although errors may have occurred, it was the policy that payroll calculations be performed as accurately as possible and signatures obtained from employees, supervisors, and officials. With the financial condition of the county during this period, we were unable to upgrade the time tracking equipment and procedures to increase the accuracy of the payroll system.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

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 was overpaid a total of \$34,966 from calendar year 1999 through calendar year 2002. This finding has not been corrected and is commented on in the current year findings.

2003-02 - Jail telephone commissions should be deposited in the Jail Fund. Jail telephone commissions totaling \$21,197 were deposited in the Jail Canteen account rather than the Jail Fund. This finding has not been corrected and is commented on in the current year findings.

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

None

**WHITLEY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Other Supplementary Information

WHITLEY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>Cash Programs:</u>		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Governor's Office For Local Development:		
Community Development Block Grant-		
WCWD Hwy 92E Waterline Extension Project		
(CFDA #14.228)	01-027	\$ 289,500
<u>U.S. Department of the Interior</u>		
Passed-Through State Department of Natural Resources:		
Abandoned Mine Land Reclamation Programs-		
Nevisdale Water Supply Project		
(CFDA #15.252)	M-02257078	86,484
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
JAIBG Program-		
Juvenile Drug Court	2002-JB-BX-0023 (204)	21,394
Juvenile Drug Court	2003-JB-BX-0033 (204)	10,704
(CFDA #16.523)		<hr/>
Total U.S. Department of Justice		\$ 32,098

WHITLEY COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Other Supplementary Information
 Fiscal Year Ended June 30, 2004
 (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 Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Public Assistance Grants -		
Severe Weather - February 2003 (CFDA #97.036)	FEMA-1454- DR-KY	\$ 79,557
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #97.042)	Not Available	4,748
State and Local All Hazard Emergency Operations Planning Grant (CFDA # 97.051)	Not Available	<u>8,993</u>
Total U.S. Department of Homeland Security		<u>93,298</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 501,380</u></u>

WHITLEY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

Note 1 - 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.

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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**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael L. Patrick, Former Whitley County Judge/Executive
The Honorable Pat White, Jr., Whitley County Judge/Executive
Members of the Whitley County Fiscal Court

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Whitley County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 14, 2007. An adverse opinion was issued on the Jail Canteen Fund, a major enterprise fund, and on the business-type activities due to the omission of the Jail Canteen Fund in the County's basic financial statements. Whitley County presents its financial statements in accordance with the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Whitley County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Whitley County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs.

2004-05 Internal Controls Over Employee Time Recordkeeping Should Be Strengthened

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



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)

Compliance And Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- 2004-01** The Fiscal Court Should Pay Invoices Within Thirty Days
- 2004-02** The Fiscal Court Should Pay The County Judge/Executive In Accordance With Maximum Salary And Training Incentive Guidelines As Established By The Governor's Office For Local Development
- 2004-03** The Fiscal Court Should Pay The Jailer In Accordance With Salary Guidelines As Established By The Governor's Office For Local Development
- 2004-04** Jail Telephone Commissions Should Be Deposited In The Jail Fund

This report is intended solely for the information and use of management and the Kentucky Governor's Office For Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 14, 2007

**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, Former Whitley County Judge/Executive
The Honorable Pat White, Jr., 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, 2004. 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 its major federal program for the year ended June 30, 2004.

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 reportable 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 these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 14, 2007

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

WHITLEY COUNTY FISCAL COURT

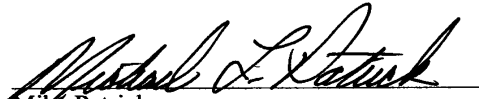
**For The Fiscal Year Ended
June 30, 2004**

Appendix A

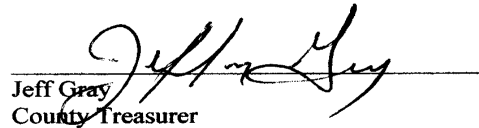
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
WHITLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

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.



Mike Patrick
County Judge/Executive



Jeff Gray
County Treasurer

