

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

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



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WHITLEY COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Whitley County Fiscal Court for fiscal year ended June 30, 2010.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Whitley County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$8,734,847 as of June 30, 2010. The fiscal court had unrestricted net assets of \$12,905,332 in its governmental funds as of June 30, 2010, with total net assets of \$8,666,855. In its enterprise fund, total net cash and cash equivalents were \$52,858 with total net assets of \$67,992. The fiscal court had total debt principal as of June 30, 2010 of \$24,740,000 with \$965,000 due within the next year.

Report Comment:

2010-1 The Jailer Should Strengthen Controls Over Jail Commissary Operations

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
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, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the 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 in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Whitley County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.



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

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 supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 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 January 31, 2011 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.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2010-1 The Jailer Should Strengthen Controls Over Jail Commissary Operations

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 31, 2011

WHITLEY COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Pat White, Jr.	County Judge/Executive
Roger Wells	Magistrate
David Myers	Magistrate
Joe Moses	Magistrate
Mike Baird	Magistrate

Other Elected Officials:

Paul Winchester, Jr.	County Attorney
Ken Mobley	Jailer
Kay Schwartz	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
Phil Brennennstuhl	Occupational Tax Collector
Judy Brimm	Finance Officer

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WHITLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

WHITLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 12,905,332	\$ 52,858	\$ 12,958,190
Total Current Assets	<u>12,905,332</u>	<u>52,858</u>	<u>12,958,190</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	6,740,539		6,740,539
Land and Land Improvements	317,125		317,125
Buildings	6,869,015		6,869,015
Other Equipment	882,404		882,404
Vehicles and Equipment	936,670	15,134	951,804
Infrastructure Assets - Net of Depreciation	<u>4,755,770</u>		<u>4,755,770</u>
Total Noncurrent Assets	<u>20,501,523</u>	<u>15,134</u>	<u>20,516,657</u>
Total Assets	<u>33,406,855</u>	<u>67,992</u>	<u>33,474,847</u>
LIABILITIES			
Current Liabilities:			
General Obligation Bonds	850,000		850,000
Financing Obligations	115,000		115,000
Total Current Liabilities	<u>965,000</u>		<u>965,000</u>
Noncurrent Liabilities:			
General Obligation Bonds	23,260,000		23,260,000
Financing Obligations	515,000		515,000
Total Noncurrent Liabilities	<u>23,775,000</u>		<u>23,775,000</u>
Total Liabilities	<u>24,740,000</u>		<u>24,740,000</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	(4,238,477)	15,134	(4,223,343)
Restricted For:			
Debt Service	550,080		550,080
Capital Projects	10,776,023		10,776,023
Unrestricted	<u>1,579,229</u>	<u>52,858</u>	<u>1,632,087</u>
Total Net Assets	<u>\$ 8,666,855</u>	<u>\$ 67,992</u>	<u>\$ 8,734,847</u>

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, 2010

WHITLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,157,503	\$ 141,260	\$ 9,930	\$
Protection to Persons and Property	4,208,266	3,030,726	10,084	1,174,977
General Health and Sanitation	425,603		394,135	
Social Services	24,750			
Recreation and Culture	114,304			
Roads	1,876,099			1,727,756
Debt Service	716,676			
Capital Projects	4,753,973			
Total Governmental Activities	13,277,174	3,171,986	414,149	2,902,733
Business-type Activities:				
Jail Canteen	176,336	187,641		
Total Business-type Activities	176,336	187,641		
Total Primary Government	\$ 13,453,510	\$ 3,359,627	\$ 414,149	\$ 2,902,733

Component Units:

Taxes:
Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Occupational Taxes
Other Taxes
In Lieu Tax Payments
Excess Fees
Miscellaneous Revenues
Accrued Interest Received

Total General Revenues and Transfers
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, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,006,313)	\$	\$ (1,006,313)
7,521		7,521
(31,468)		(31,468)
(24,750)		(24,750)
(114,304)		(114,304)
(148,343)		(148,343)
(716,676)		(716,676)
(4,753,973)		(4,753,973)
(6,788,306)		(6,788,306)
	11,305	11,305
	11,305	11,305
(6,788,306)	11,305	(6,777,001)
681,784		681,784
162,833		162,833
155,296		155,296
3,938,810		3,938,810
1,363,346		1,363,346
194,105		194,105
184,863		184,863
268,541		268,541
472,444		472,444
7,422,022		7,422,022
633,716	11,305	645,021
8,033,139	56,687	8,089,826
\$ 8,666,855	\$ 67,992	\$ 8,734,847

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

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WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>	<u>Occupational Tax Fund</u>
ASSETS					
Cash and Cash Equivalents	\$ 960,218	\$ 222,389	\$ 96,155	\$ 56,088	\$ 130,110
Total Assets	<u>960,218</u>	<u>222,389</u>	<u>96,155</u>	<u>56,088</u>	<u>130,110</u>
FUND BALANCES					
Reserved for:					
Encumbrances	580	2,012	496	1,418	
Debt Service					
Capital Projects					
Unreserved:					
General Fund	959,638				
Special Revenue Funds		<u>220,377</u>	<u>95,659</u>	<u>54,670</u>	<u>130,110</u>
Total Fund Balances	<u>\$ 960,218</u>	<u>\$ 222,389</u>	<u>\$ 96,155</u>	<u>\$ 56,088</u>	<u>\$ 130,110</u>

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

Total Fund Balances	\$ 12,905,332
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.	26,681,165
Accumulated Depreciation	(6,179,642)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(630,000)
Bonds	<u>(24,110,000)</u>
Net Assets Of Governmental Activities	<u>\$ 8,666,855</u>

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

WHITLEY COUNTY
 BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 June 30, 2010
 (Continued)

Detention Center Public Properties Corporation Fund	Justice Center Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 550,080	\$ 10,776,023	\$ 114,269	\$ 12,905,332
<u>550,080</u>	<u>10,776,023</u>	<u>114,269</u>	<u>12,905,332</u>
		160	4,666
550,080			550,080
	10,776,023		10,776,023
			959,638
		<u>114,109</u>	<u>614,925</u>
<u>\$ 550,080</u>	<u>\$ 10,776,023</u>	<u>\$ 114,269</u>	<u>\$ 12,905,332</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, 2010

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

For The Year Ended June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>
REVENUES				
Taxes	\$ 1,308,467	\$	\$	\$
In Lieu Tax Payments	42,907	151,198		
Excess Fees	184,862			
Licenses and Permits	16,957			
Intergovernmental	528,667	1,727,756	1,404,257	10,084
Charges for Services			59,768	1,564,182
Miscellaneous	39,838	161,383	42,301	17,269
Interest	25,138	7,321	1,029	2,818
Total Revenues	<u>2,146,836</u>	<u>2,047,658</u>	<u>1,507,355</u>	<u>1,594,353</u>
EXPENDITURES				
General Government	1,603,905	2,706		
Protection to Persons and Property	1,184,793		1,739,359	1,486,149
General Health and Sanitation	434,318			
Social Services	24,750			
Recreation and Culture				
Roads		2,233,850		
Debt Service:	70,514			
Capital Projects				
Administration	444,341	309,798	435,755	477,244
Total Expenditures	<u>3,762,621</u>	<u>2,546,354</u>	<u>2,175,114</u>	<u>1,963,393</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,615,785)</u>	<u>(498,696)</u>	<u>(667,759)</u>	<u>(369,040)</u>
Other Financing Sources (Uses)				
Bond Issuance				
Discount On Bond Issuance				
Transfers From Other Funds	1,832,192	470,000	1,024,147	50,000
Transfers To Other Funds	(1,217,747)		(489,147)	
Total Other Financing Sources (Uses)	<u>614,445</u>	<u>470,000</u>	<u>535,000</u>	<u>50,000</u>
Net Change in Fund Balances	(1,001,340)	(28,696)	(132,759)	(319,040)
Fund Balances - Beginning	1,961,558	251,085	228,914	375,128
Fund Balances - Ending	<u>\$ 960,218</u>	<u>\$ 222,389</u>	<u>\$ 96,155</u>	<u>\$ 56,088</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, 2010
 (Continued)

Occupational Tax Fund	Detention Center Public Properties Corporation Fund	Justice Center Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 3,938,810	\$	\$	\$ 398,987	\$ 5,646,264
				194,105
				184,862
				16,957
		1,174,977	632,999	5,478,740
				1,623,950
	27,549		5,227	293,567
7,637	355,148	68,986	4,365	472,442
<u>3,946,447</u>	<u>382,697</u>	<u>1,243,963</u>	<u>1,041,578</u>	<u>13,910,887</u>
115,491			48,023	1,770,125
			736,694	5,146,995
				434,318
				24,750
			114,304	114,304
			346,698	2,580,548
	515,989	4,914,670		5,501,173
		4,753,973		4,753,973
1,971,478	31,048	191,276	123,539	3,984,479
<u>2,086,969</u>	<u>547,037</u>	<u>9,859,919</u>	<u>1,369,258</u>	<u>24,310,665</u>
<u>1,859,478</u>	<u>(164,340)</u>	<u>(8,615,956)</u>	<u>(327,680)</u>	<u>(10,399,778)</u>
		17,105,000		17,105,000
		(98,878)		(98,878)
	489,147		133,600	3,999,086
(1,832,192)			(460,000)	(3,999,086)
<u>(1,832,192)</u>	<u>489,147</u>	<u>17,006,122</u>	<u>(326,400)</u>	<u>17,006,122</u>
27,286	324,807	8,390,166	(654,080)	6,606,344
102,824	225,273	2,385,857	768,349	6,298,988
<u>\$ 130,110</u>	<u>\$ 550,080</u>	<u>\$ 10,776,023</u>	<u>\$ 114,269</u>	<u>\$ 12,905,332</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, 2010

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, 2010

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 6,606,344
<p>Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital Outlay	7,485,229
Depreciation Expense	(1,137,357)
<p>The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.</p>	
Financing Obligations Principal Payments	(17,105,000)
Bond Principal Payments	134,500
	<u>4,650,000</u>
Change in Net Assets of Governmental Activities	<u>\$ 633,716</u>

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WHITLEY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

WHITLEY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 52,858
Total Current Assets	52,858
Noncurrent Assets:	
Capital Assets:	
Equipment	26,319
Less Accumulated Depreciation	(11,185)
Total Noncurrent Assets	15,134
Total Assets	67,992
Net Assets	
Invested in Capital Assets, Net of Related Debt	15,134
Unrestricted	52,858
Total Net Assets	\$ 67,992

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

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WHITLEY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

WHITLEY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 187,641
Total Operating Revenues	187,641
Operating Expenses	
Cost of Sales	159,659
Educational and Recreational	3,496
Depreciation	2,237
Sales Tax	2,664
Miscellaneous	8,280
Total Operating Expenses	176,336
Operating Income (Loss)	11,305
Nonoperating Revenues (Expenses)	
Inmate Monies	830,423
Bail Payments	(592,340)
Court Payments	(136,615)
Inmate Refunds	(101,468)
Total Nonoperating Revenues (Expenses)	
Change In Net Assets	11,305
Total Net Assets - Beginning	56,687
Total Net Assets - Ending	\$ 67,992

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

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WHITLEY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

WHITLEY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund	Jail Canteen Fund
	<u> </u>	<u> </u>
Cash Flows From Operating Activities		
Cash Received From Customers	\$ 187,641	
Cash Payments To Suppliers	(163,155)	
Cash Payments To State	(2,664)	
Cash Payments To Other Sources	<u>(8,280)</u>	
Net Cash Provided By Operating Activities		<u>13,542</u>
Net Increase in Cash and Cash Equivalents		13,542
Cash and Cash Equivalents - July 1, 2009		<u>39,316</u>
Cash and Cash Equivalents - June 30, 2010	\$	<u><u>52,858</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
		<u> </u>
Operating Income	\$ 11,305	
Depreciation Expense	<u>2,237</u>	
Net Cash Provided By Operating Activities	\$	<u><u>13,542</u></u>

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

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WHITLEY COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

WHITLEY COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Agency Fund
	Jail Inmate Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 31,531
Total Assets	31,531
Liabilities	
Amounts Held In Custody For Others	31,531
Total Liabilities	\$ 31,531
Total Net Assets	\$

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

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TO THE FINANCIAL STATEMENTS**

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WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

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

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

B. Reporting Entity

The financial statements of 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. All other component units are discretely presented.

Blended Component Units

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

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 detention center and justice center 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.

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; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

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

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.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

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

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. The Department for Local Government 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.

Occupational Tax Fund - The purpose of this fund is to account for the collections of occupational tax imposed under provisions of KRS 68.197.

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

Governmental Funds (Continued)

Detention Center Public Properties Corporation Fund - This fund, 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 financing the Detention Center construction. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Justice Center Public Properties Corporation Fund - This fund, 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 financing the Justice Center construction. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Federal Grant Fund, Forestry Fund, Tourist Room Tax Fund, and the 911 Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Ambulance Fund, Local Government Economic Assistance Fund, Occupational Tax Fund, Federal Grant Fund, Forestry Fund, Tourist 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.

Debt Service Fund:

The Detention Center Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Capital Projects Fund:

The Justice Center Public Properties Corporation Fund is presented as a capital projects fund. Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

Proprietary Funds (Continued)

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 reports 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.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The County's agency fund, the Jail Inmate Fund, is used to account for inmate monies held by the Jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

E. Deposits and Investments

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

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

F. Capital Assets

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 15,000	10-75
Machinery and Equipment	\$ 10,000	3-25
Vehicles	\$ 10,000	3-12
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

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

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

H. Fund Equity

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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 Justice Center Public Properties Corporation Fund and the Detention Center Public Properties Corporation Fund (blended component units) are not budgeted by the county treasurer. The Governor's Department for Local Government does not require the fiscal court to report or budget these funds.

J. Related Organizations and Joint Venture

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)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D).. According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

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

Note 2. Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Operating Leases

A. Office Space Rental

The Whitley County Fiscal Court entered into two operating lease agreements with the Williamsburg-Whitley County Airport Board, Inc. The first lease is for the rent of the Whitley County EMS department at a rate of \$800 per month. The lease is for 20 years at which time a new lease can be negotiated. The second lease is for rent for the 911 department at a rate of \$1000 per month. The lease is for five years renegotiated at the end of the lease. Both agreements have an annual rent increase based upon the Consumer Price Index. The total expense related to these operating leases was \$21,600 for the fiscal year ended June 30, 2010. The future minimum lease payments for these operating leases are as follows:

Fiscal Year Ended June 30	EMS	911	Total
2011	\$ 12,000	\$ 9,600	\$ 21,600
2012	12,000	9,600	21,600
2013	12,000	9,600	21,600
2014	12,000	9,600	21,600
2015	12,000	9,600	21,600
2016-2020	60,000		60,000
2021-2025	60,000		60,000
2026-2030	60,000		60,000
	<u>\$ 240,000</u>	<u>\$ 48,000</u>	<u>\$ 288,000</u>

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

Note 3. Operating Leases (Continued)

B. Tower Space Rental

The Whitley County Fiscal Court entered into a lease agreement with a land owner. The lease agreement is for property to construction, operation and maintenance of a radio transmission tower. The lease commenced on October 1, 2008 and will terminate on October 1, 2013 with an automatic extension of four (4) additional terms of five (5) years each (Renewal Term). The lease amount is \$7,200 per year to be paid in equal monthly installments of \$600. The future minimum lease payments for these operating leases are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Payment</u>
2011	\$ 7,200
2012	7,200
2013	7,200
2014	7,200
2015	7,200
2016-2020	36,000
2021-2025	36,000
2026-2030	36,000
2031-2033	<u>21,600</u>
	<u>\$ 165,600</u>

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

Note 4. Capital Assets

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

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 317,125	\$	\$	\$ 317,125
Construction In Progress	1,986,566	4,753,973		6,740,539
Total Capital Assets Not Being Depreciated	<u>2,303,691</u>	<u>4,753,973</u>		<u>7,057,664</u>
Capital Assets, Being Depreciated: (Restated)				
Buildings	8,128,921	936,072		9,064,993
Other Equipment	934,035	318,848		1,252,883
Vehicles and Equipment	1,778,874	110,661		1,889,535
Infrastructure	6,050,415	1,365,675		7,416,090
Total Capital Assets Being Depreciated	<u>16,892,245</u>	<u>2,731,256</u>		<u>19,623,501</u>
Less Accumulated Depreciation For: (Restated)				
Buildings	(1,968,283)	(227,695)		(2,195,978)
Other Equipment	(267,095)	(103,384)		(370,479)
Vehicles and Equipment	(780,234)	(172,631)		(952,865)
Infrastructure	(2,026,673)	(633,647)		(2,660,320)
Total Accumulated Depreciation	<u>(5,042,285)</u>	<u>(1,137,357)</u>		<u>(6,179,642)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,849,960</u>	<u>1,593,899</u>		<u>13,443,859</u>
Governmental Activities Capital Assets, Net	<u>\$ 14,153,651</u>	<u>\$ 6,347,872</u>	<u>\$ 0</u>	<u>\$ 20,501,523</u>

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

Note 4. Capital Assets (Continued)

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

Governmental Activities:

General Government	\$ 162,872
Protection to Persons and Property	271,954
General Health and Sanitation	1,785
Roads, Including Depreciation of General Infrastructure Assets	<u>700,746</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 1,137,357</u></u>

Business-Type Activities

Jail Canteen	<u>\$ 2,237</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 2,237</u></u>

Capital asset activity for Business-Type Activities for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 26,319	\$	\$	\$ 26,319
Total Capital Assets Being Depreciated	26,319			26,319
Less Accumulated Depreciation For:				
Vehicles and Equipment	(8,948)	(2,237)		(11,185)
Total Accumulated Depreciation	(8,948)	(2,237)		(11,185)
Total Capital Assets, Being Depreciated, Net	<u>17,371</u>	<u>(2,237)</u>		<u>15,134</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 17,371</u></u>	<u><u>\$ (2,237)</u></u>	<u><u>\$</u></u>	<u><u>\$ 15,134</u></u>

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

Note 5. Long-term Debt

A. General Obligation Bonds, Series 2002

On April 1, 2002, the county issued \$7,800,000 of General Obligation Bonds issued 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 outstanding principal balance of the bonds was \$7,005,000 as of June 30, 2010, with principal paid annually on April 1. Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 155,000	\$ 358,489
2012	165,000	350,739
2013	175,000	352,489
2014	180,000	333,739
2015	190,000	324,739
2016-2020	1,105,000	1,471,194
2021-2025	1,410,000	1,163,097
2026-2030	1,810,000	763,119
2031-2034	1,815,000	242,060
Totals	<u>\$ 7,005,000</u>	<u>\$ 5,359,665</u>

B. 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 \$185,000 as of June 30, 2010. Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 90,000	\$ 8,975
2012	95,000	4,655
Totals	<u>\$ 185,000</u>	<u>\$ 13,630</u>

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

Note 5. Long-term Debt (Continued)

C. 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. 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 \$445,000 as of June 30, 2010. Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 25,000	\$ 19,500
2012	30,000	18,600
2013	30,000	17,430
2014	30,000	16,260
2015	30,000	15,090
2016-2020	175,000	54,653
2021-2023	125,000	12,112
Totals	<u>\$ 445,000</u>	<u>\$ 153,645</u>

D. First Mortgage Revenue Bonds, Series 2009

The Whitley County Public Properties Corporation (PPC), an agency and instrumentality of the Whitley County Fiscal Court, issued first mortgage revenue bonds, series 2009, for the purposes of construction of the Whitley County Judicial Center. On September 1, 2009, \$17,105,000 in bonds were issued at various interest rates ranging from 2% to 4%. Since these bonds were issued at a discount of \$98,878, net bond proceeds were \$17,006,122. The PPC has entered into an agreement to lease the Whitley County Judicial Center to the fiscal court for the amount of the bond payments. The fiscal court has a sublease with the Administrative Office of the Courts (AOC), Commonwealth of Kentucky, for approximately 100% of the Whitley County Judicial Center, whereby the AOC makes semi-annual payments directly to the paying agent to fund the debt service for the bond issue. Principal payments are due annually on September 1st and interest payments are due semiannually on March 1st and September 1st. As of June 30, 2009, the principal balance was \$17,105,000. Future debt service requirements are:

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

Note 5. Long-term Debt (Continued)

D. First Mortgage Revenue Bonds, Series 2009 (Continued)

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2011	\$ 695,000	\$ 534,803
2012	710,000	520,753
2013	725,000	506,403
2014	740,000	491,753
2015	755,000	475,859
2016-2020	4,095,000	2,059,513
2021-2025	4,830,000	1,331,446
2026-2029	4,555,000	368,411
Totals	<u>\$ 17,105,000</u>	<u>\$ 6,288,941</u>

E. Changes In Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 7,155,000	\$17,105,000	\$ 150,000	\$ 24,110,000	\$ 850,000
Bond Anticipation Notes	4,500,000		4,500,000		
Financing Obligations	764,500		134,500	630,000	115,000
Governmental Activities					
Long-term Liabilities	<u>\$ 12,419,500</u>	<u>\$ 17,105,000</u>	<u>\$ 4,784,500</u>	<u>\$ 24,740,000</u>	<u>\$ 965,000</u>

Note 6. Interest On Long Term Debt

Debt Service on the Statement of Activities includes \$33,984 in interest on financing obligations and \$654,459 in interest on bonds. Operating lease payments are also included in debt service.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

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

Note 7. Employee Retirement System (Continued)

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

The county's contribution for FY 2008 was \$572,534, FY 2009 was \$423,580, and FY 2010 was \$389,438.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Note 8. 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 permits 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 Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2010, 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 10. Related Party Transactions

During the fiscal year ended June 30, 2010, Whitley County Fiscal Court paid JLG Identification Solutions, Inc., \$11,307 for employee identification cards and uniforms for ambulance, 911, and jail employees, as well as inmates. The Whitley County Treasurer is a co-owner in this business. In addition, \$587 was paid to Central Automotive Supply, Inc., during the fiscal year for automotive parts. One of the Whitley County Fiscal Court's magistrates owns this business. Because of the nature of the relationship between the business and the employee, these transactions are considered related party transactions.

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

Note 11. Prior Period Adjustments

The prior year audit report shows the net asset ending balance of \$8,325,917. This beginning balance has been restated due to an increase of \$31,828 for prior year capital asset listing and a decrease of \$324,609 in the beginning fund balance for the Detention Center Public Properties Corporation Fund. Also, an immaterial difference due to rounding of \$3 increased the balance. The restated ending balance for Fiscal Year 2009 is \$8,033,139.

Note 12. Subsequent Events

On November 10, 2010 a jury found the Whitley County Fiscal Court guilty of negligence in a lawsuit also seeking damages for injuries received by a deputy of the Whitley County Sheriff's office. The verdict against the Fiscal Court and Sheriff totaled \$6.2 million dollars. An undisclosed settlement was reached on December 6, 2010.

The Whitley County Fiscal Court is a defendant in a lawsuit claiming a violation of civil rights. The case is being defended by the Dyche Law Office located in London, KY. The case has not progressed past the preliminary discovery stage and the outcome is uncertain.

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

For The Year Ended June 30, 2010

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

For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,193,322	\$ 1,247,872	\$ 1,308,467	\$ 60,595
In Lieu Tax Payments	47,300	49,954	42,907	(7,047)
Excess Fees	133,941	193,793	184,862	(8,931)
Licenses and Permits	18,125	18,125	16,957	(1,168)
Intergovernmental Revenue	203,775	549,687	528,667	(21,020)
Miscellaneous	19,100	44,716	39,838	(4,878)
Interest	25,000	25,000	25,138	138
Total Revenues	<u>1,640,563</u>	<u>2,129,147</u>	<u>2,146,836</u>	<u>17,689</u>
EXPENDITURES				
General Government	1,337,634	1,722,469	1,603,905	118,564
Protection to Persons and Property	1,104,555	1,204,993	1,184,793	20,200
General Health and Sanitation	322,995	734,632	434,318	300,314
Social Services	30,000	30,750	24,750	6,000
Debt Service	70,515	70,515	70,514	1
Administration	921,533	774,014	444,341	329,673
Total Expenditures	<u>3,787,232</u>	<u>4,537,373</u>	<u>3,762,621</u>	<u>774,752</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,146,669)</u>	<u>(2,408,226)</u>	<u>(1,615,785)</u>	<u>792,441</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds				
Transfers From Other Funds	1,961,109	1,961,109	1,832,192	(128,917)
Transfers To Other Funds	(1,514,440)	(1,514,440)	(1,217,747)	296,693
Total Other Financing Sources (Uses)	<u>446,669</u>	<u>446,669</u>	<u>614,445</u>	<u>167,776</u>
Net Changes in Fund Balance	(1,700,000)	(1,961,557)	(1,001,340)	960,217
Fund Balance - Beginning	<u>1,700,000</u>	<u>1,961,557</u>	<u>1,961,558</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 960,218</u>	<u>\$ 960,218</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 163,000	\$ 163,000	\$ 151,198	\$ (11,802)
Intergovernmental Revenue	1,411,149	1,769,916	1,727,756	(42,160)
Miscellaneous	1,100	161,451	161,383	(68)
Interest	17,000	17,000	7,321	(9,679)
Total Revenues	<u>1,592,249</u>	<u>2,111,367</u>	<u>2,047,658</u>	<u>(63,709)</u>
EXPENDITURES				
General Government	3,000	3,000	2,706	294
Roads	2,021,928	2,529,521	2,233,850	295,671
Administration	367,321	379,931	309,798	70,133
Total Expenditures	<u>2,392,249</u>	<u>2,912,452</u>	<u>2,546,354</u>	<u>366,098</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(800,000)</u>	<u>(801,085)</u>	<u>(498,696)</u>	<u>302,389</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds				
Transfers From Other Funds	550,000	550,000	470,000	(80,000)
Total Other Financing Sources (Uses)	<u>550,000</u>	<u>550,000</u>	<u>470,000</u>	<u>(80,000)</u>
Net Changes in Fund Balance	(250,000)	(251,085)	(28,696)	222,389
Fund Balance - Beginning	<u>250,000</u>	<u>251,085</u>	<u>251,085</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 222,389</u>	<u>\$ 222,389</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,348,000	\$ 1,392,413	\$ 1,404,257	\$ 11,844
Charges for Services	52,350	52,350	59,768	7,418
Miscellaneous	37,500	38,047	42,301	4,254
Interest	1,500	1,500	1,029	(471)
Total Revenues	<u>1,439,350</u>	<u>1,484,310</u>	<u>1,507,355</u>	<u>23,045</u>
EXPENDITURES				
Protection to Persons and Property	1,699,273	1,814,978	1,739,359	75,619
Administration	595,013	703,182	435,755	267,427
Total Expenditures	<u>2,294,286</u>	<u>2,518,160</u>	<u>2,175,114</u>	<u>343,046</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(854,936)</u>	<u>(1,033,850)</u>	<u>(667,759)</u>	<u>366,091</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,294,376	1,294,376	1,024,147	(270,229)
Transfers To Other Funds	(489,440)	(489,440)	(489,147)	293
Total Other Financing Sources (Uses)	<u>804,936</u>	<u>804,936</u>	<u>535,000</u>	<u>(269,936)</u>
Net Changes in Fund Balance	(50,000)	(228,914)	(132,759)	96,155
Fund Balance - Beginning	<u>50,000</u>	<u>228,914</u>	<u>228,914</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 96,155</u>	<u>\$ 96,155</u>

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

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 10,170	\$ 10,170	\$ 10,084	\$ (86)
Charges for Services	1,400,000	1,400,000	1,564,182	164,182
Miscellaneous	1,000	13,283	17,269	3,986
Interest	500	2,370	2,818	448
Total Revenues	<u>1,411,670</u>	<u>1,425,823</u>	<u>1,594,353</u>	<u>168,530</u>
EXPENDITURES				
Protection to Persons and Property	1,218,320	1,503,090	1,486,149	16,941
Administration	568,350	497,860	477,244	20,616
Total Expenditures	<u>1,786,670</u>	<u>2,000,950</u>	<u>1,963,393</u>	<u>37,557</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(375,000)</u>	<u>(575,127)</u>	<u>(369,040)</u>	<u>206,087</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>200,000</u>	<u>200,000</u>	<u>50,000</u>	<u>(150,000)</u>
Total Other Financing Sources (Uses)	<u>200,000</u>	<u>200,000</u>	<u>50,000</u>	<u>(150,000)</u>
Net Changes in Fund Balances	(175,000)	(375,127)	(319,040)	56,087
Fund Balances - Beginning	<u>175,000</u>	<u>375,127</u>	<u>375,128</u>	<u>1</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 56,088</u>	<u>\$ 56,088</u>

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

	OCCUPATIONAL TAX FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 4,000,000	\$ 4,000,000	\$ 3,938,810	\$ (61,190)
Interest	11,000	11,000	7,637	(3,363)
Total Revenues	<u>4,011,000</u>	<u>4,011,000</u>	<u>3,946,447</u>	<u>(64,553)</u>
EXPENDITURES				
General Government	136,800	141,763	115,491	26,272
Administration	1,988,091	2,010,951	1,971,478	39,473
Total Expenditures	<u>2,124,891</u>	<u>2,152,714</u>	<u>2,086,969</u>	<u>65,745</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,886,109</u>	<u>1,858,286</u>	<u>1,859,478</u>	<u>1,192</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(1,961,109)	(1,961,109)	(1,832,192)	128,917
Total Other Financing Sources (Uses)	<u>(1,961,109)</u>	<u>(1,961,109)</u>	<u>(1,832,192)</u>	<u>128,917</u>
Net Changes in Fund Balances	(75,000)	(102,823)	27,286	130,109
Fund Balances - Beginning	75,000	102,823	102,824	1
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 130,110</u>	<u>\$ 130,110</u>

WHITLEY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

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

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

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

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

June 30, 2010

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

June 30, 2010

	Local Government Economic Assistance Fund	Federal Grants Fund	Forestry Fund	Tourist Tax Fund	911 Fund	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 44,360	\$ 50	\$ 5,097	\$ 7,248	\$ 57,514	\$ 114,269
Total Assets	<u>44,360</u>	<u>50</u>	<u>5,097</u>	<u>7,248</u>	<u>57,514</u>	<u>114,269</u>
FUND BALANCES						
Reserved for:						
Encumbrances					160	160
Unreserved:						
Special Revenue Funds	44,360	50	5,097	7,248	57,354	114,109
Total Fund Balances	<u>\$ 44,360</u>	<u>\$ 50</u>	<u>\$ 5,097</u>	<u>\$ 7,248</u>	<u>\$ 57,514</u>	<u>\$ 114,269</u>

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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, 2010

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, 2010

	Local Government Economic Assistance Fund	Federal Grants Fund	Forestry Fund	Tourist Tax Fund
REVENUES				
Taxes	\$	\$	\$ 3,377	\$ 53,109
Intergovernmental	472,397			
Miscellaneous	300	50	16	
Interest	1,541		129	192
Total Revenues	<u>474,238</u>	<u>50</u>	<u>3,522</u>	<u>53,301</u>
EXPENDITURES				
General Government	48,023			
Protection to Persons and Property			3,481	
Recreation and Culture	60,000			54,304
Roads	346,698			
Administration				
Total Expenditures	<u>454,721</u>	<u></u>	<u>3,481</u>	<u>54,304</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources	<u>19,517</u>	<u>50</u>	<u>41</u>	<u>(1,003)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds				
Transfers To Other Funds	<u>(460,000)</u>			
Total Other Financing Sources (Uses)	<u>(460,000)</u>			
Net Change in Fund Balances	(440,483)	50	41	(1,003)
Fund Balances - Beginning (Restated)	484,843		5,056	8,251
Fund Balances - Ending	<u>\$ 44,360</u>	<u>\$ 50</u>	<u>\$ 5,097</u>	<u>\$ 7,248</u>

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, 2010
 (Continued)

<u>911 Fund</u>	<u>Total Non-Major Governmental Funds</u>
\$ 342,501	\$ 398,987
160,602	632,999
4,861	5,227
2,503	4,365
<u>510,467</u>	<u>1,041,578</u>
	48,023
733,213	736,694
	114,304
	346,698
<u>123,539</u>	<u>123,539</u>
<u>856,752</u>	<u>1,369,258</u>
<u>(346,285)</u>	<u>(327,680)</u>
133,600	133,600
	(460,000)
<u>133,600</u>	<u>(326,400)</u>
(212,685)	(654,080)
270,199	768,349
<u>\$ 57,514</u>	<u>\$ 114,269</u>

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



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable 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, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 31, 2011. Whitley County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Whitley County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Whitley County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Whitley County Fiscal Court's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as 2010-1 in the accompanying comment and recommendation to be a material weakness.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Whitley County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Whitley County Judge/Executive's and the County Jailer's responses to the finding identified in our audit are included in the accompanying comment and recommendation. We did not audit the County Judge/Executive and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government 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

January 31, 2011

**WHITLEY COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2010

**WHITLEY COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS

2010-1 The Jailer Should Strengthen Controls Over Jail Commissary Operations

The Jailer's office lacks adequate segregation of duties over receipts and disbursements. The bookkeeper is primarily responsible for preparing deposits, daily checkout sheets, receipt and disbursement ledgers, writing and signing checks, performing monthly bank reconciliations, maintaining monthly commissary sales totals, and preparing monthly sales tax returns. There is no oversight or independent review of the bookkeeper's responsibilities.

A proper segregation of duties over bookkeeping duties, such as preparation of daily deposits, daily checkout sheets, receipt and disbursement ledgers, check writing and signing, performance of monthly bank reconciliations, calculations of monthly commissary sales totals, and preparation of monthly sales tax returns is essential for preventing misappropriation of assets and/or inaccurate financial reporting. Properly designed internal controls for monthly disbursements, inventory management and sales tax return preparation also serve to prevent misappropriation of assets and/or inaccurate financial reporting. In addition, effective internal controls protect employees in the normal course of performing their daily responsibilities.

During our review the follow deficiencies were noted

- Receipts were not being properly accounted for. The jail utilizes three different areas to issue receipts, each with their own book; however, when the receipts are turned in they are not checked to ensure all receipts are accounted for.
- The May 19, 2010 total receipts agree to the deposit made; however, the breakdown of cash and checks were not accurately reflected in the receipt ledger. The receipt ledger showed \$9,170 in cash and a \$10 money order. The deposit slip showed \$9,020 in cash and \$160 in checks. When a complete detail deposit was received from the bank it reflected a \$10 money order, a check from the Jailer for \$45 and two release checks totaling \$105.
- A review of the deposit made for May 18, 2010, indicated that a check from the Whitley County Jail Inmate account in the amount of \$70 was made payable and cashed by a jail employee.

**WHITLEY COUNTY
COMMENT AND RECOMMENDATION
Supplemental Information
Fiscal Year Ended June 30, 2010
(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESS (Continued)

2010-1 The Jailer Should Strengthen Controls Over Jail Commissary Operations (Continued)

- Also noted on the May 18, 2010 deposit was a rebate check cashed for a jail employee, a withdrawal check for an inmate, and a third party check made payable and cashed by a jail employee.
- Additionally, our review of expenditures noted four expenditures did not have supporting documentation, four checks issued to a third party on behalf of the inmates, five instances of invoices not being properly canceled, and one instance of a missing invoice.
- One piece of supporting documentation submitted for payment was a sheet from a receipt book with no other information available, and a second piece of supporting documentation was simply just a phone message note.

We recommend the Jailer properly design internal controls to prevent misappropriation of assets and/or inaccurate financial reporting. Bookkeeping duties should be adequately segregated, and include reconciliation procedures that ensure monthly disbursements are accurate. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Jailer could provide this oversight. If the Jailer chooses to implement compensating controls, the Jailer should document his oversight on the appropriate source document.

The following are examples of other controls the Jailer could implement:

- The Jailer, or his designee, could periodically compare a daily bank deposit to the daily checkout sheet and receipts ledger.
- The Jailer could require dual signatures on all checks, with one being the Jailer's.
- The Jailer, or his designee, could compare bond fees, and booking fees recorded on daily checkout sheets or the receipts ledger to computer generated reports and monthly disbursements to the fiscal court. Any variances should be reconciled.
- The Jailer, or his designee, could compare the manual monthly commissary sales totals to the computer-generated sales reports and the monthly sales tax returns. Any variances should be reconciled.
- The Jailer, or his designee, could compare daily receipts with funds being deposited for accuracy in funds as well as categories of cash/checks.
- The Jailer, or his designee, could verify all receipts are being accounted for on the daily checkout. Any variances should be reconciled.

County Judge/Executive's Response: We have developed an internal control training program to assist and educate county employees in the proper procedures for internal controls.

County Jailer's Response: I agree with the auditors and their recommendations have been very helpful, and will help us in the future.

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

WHITLEY COUNTY FISCAL COURT

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

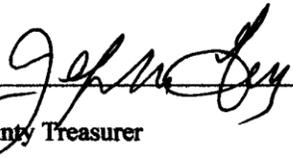
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
WHITLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

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.



County Judge/Executive



County Treasurer

