

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

**For The Fiscal Year Ended
June 30, 2008**

**ROSS & COMPANY, PLLC
Certified Public Accountants**

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY FISCAL COURT

June 30, 2008

Ross & Company, PLLC has completed the audit of the Whitley County Fiscal Court for fiscal year ended June 30, 2008. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Whitley County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$6,559,648 as of June 30, 2008. The fiscal court had unrestricted net assets of \$3,401,748 in its governmental activities as of June 30, 2008, with total net assets of \$6,511,056. Total net cash and cash equivalents for the business-type activities were \$28,984 with total net assets of \$48,592. The fiscal court had total debt principal as of June 30, 2008 of \$12,978,100 with \$558,600 due within the next year.

Deposits:

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

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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, 2008, 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 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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

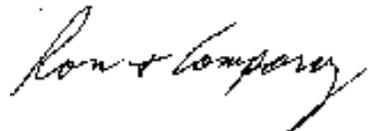
The County has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by 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 the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
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Members of the Whitley County Fiscal Court

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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements 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 17, 2009, 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.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

March 17, 2009

WHITLEY COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

Pat White, Jr.	County Judge/Executive
Roger Wells	Magistrate
David Myers	Magistrate
Joe Moses	Magistrate
Mike Barid	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 Administrator
Judy Brimm	Finance Officer

WHITLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

WHITLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 7,934,479	\$ 28,984	\$ 7,963,463
Investments	517,000		517,000
Total Current Assets	<u>8,451,479</u>	<u>28,984</u>	<u>8,480,463</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	686,769		686,769
Buildings	6,000,985		6,000,985
Equipment	775,308	19,608	794,916
Vehicles	482,549		482,549
Infrastructure	3,092,066		3,092,066
Total Noncurrent Assets	<u>11,037,677</u>	<u>19,608</u>	<u>11,057,285</u>
Total Assets	<u>19,489,156</u>	<u>48,592</u>	<u>19,537,748</u>
LIABILITIES			
Current Liabilities:			
General Obligation Bonds	140,000		140,000
Financing Obligations	418,600		418,600
Total Current Liabilities	<u>558,600</u>		<u>558,600</u>
Noncurrent Liabilities:			
General Obligation Bonds	7,155,000		7,155,000
Revenue Bond Anticipation Note	4,500,000		4,500,000
Financing Obligations	764,500		764,500
Total Noncurrent Liabilities	<u>12,419,500</u>		<u>12,419,500</u>
Total Liabilities	<u>12,978,100</u>		<u>12,978,100</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,559,577	19,608	2,579,185
Restricted For:			
Debt Service	549,731		549,731
Unrestricted	3,401,748	28,984	3,430,732
Total Net Assets	<u>\$ 6,511,056</u>	<u>\$ 48,592</u>	<u>\$ 6,559,648</u>

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, 2008

WHITLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Functions/Programs Reporting Entity	Expenses	Program Revenues Received	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 4,912,332	\$ 174,414	\$ 2,476,031
Protection to Persons and Property	1,213,631	1,609,884	1,604,011
General Health and Sanitation	60,994		85,817
Social Services	28,750		
Recreation and Culture	93,317		
Roads	2,951,404		1,312,863
Debt Service	319,217		
Total Governmental Activities	9,579,645	1,784,298	5,478,722
Business-type Activities:			
Jail Canteen	28,126	29,668	
Total Business-type Activities	28,126	29,668	
Total Primary Government	\$ 9,607,771	\$ 1,813,966	\$ 5,478,722

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Occupational License Tax
Occupational Net Profits Tax
Other Taxes

In Lieu Tax Payments

Excess Fees

Miscellaneous Revenues

Interest

Total General Revenues

Change in Net Assets

Net Assets - Beginning

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, 2008
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,261,887)	\$	\$ (2,261,887)
2,000,264		2,000,264
24,823		24,823
(28,750)		(28,750)
(93,317)		(93,317)
(1,638,541)		(1,638,541)
(319,217)		(319,217)
(2,316,625)		(2,316,625)
	1,542	1,542
	1,542	1,542
(2,316,625)	1,542	(2,315,083)
683,005		683,005
157,907		157,907
164,114		164,114
3,364,123		3,364,123
625,096		625,096
346,331		346,331
46,843		46,843
208,164		208,164
29,959		29,959
108,455		108,455
5,733,997		5,733,997
3,417,372	1,542	3,418,914
3,093,684	47,050	3,140,734
\$ 6,511,056	\$ 48,592	\$ 6,559,648

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

WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	Jail Fund	Occupational Tax Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,755,426	\$ 404,928	\$ 220,841	\$ 156,209
Investments				
Total Assets	<u>1,755,426</u>	<u>404,928</u>	<u>220,841</u>	<u>156,209</u>
FUND BALANCES				
Reserved for:				
Encumbrances	5,574	2,687	12,528	1,500
Unreserved:				
General Fund	1,749,852			
Special Revenue Funds		402,241	208,313	154,709
Debt Service Fund				
Fund Balances	<u>\$ 1,755,426</u>	<u>\$ 404,928</u>	<u>\$ 220,841</u>	<u>\$ 156,209</u>

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

WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

Detention Center Public Properties Corporation Fund	Justice Center Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 32,731	\$ 4,435,431	\$ 928,913	\$ 7,934,479
517,000			517,000
549,731	4,435,431	928,913	8,451,479
		204	22,493
			1,749,852
		928,709	1,693,972
549,731	4,435,431		4,985,162
\$ 549,731	\$ 4,435,431	\$ 928,913	\$ 8,451,479

Reconciliation Of The Balance Sheet - Governmental Funds To The Statement Of Net Assets:

Total Fund Balances	\$ 8,451,479
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.	15,092,723
Accumulated Depreciation	(4,055,046)
Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds	
Revenue Bonds	(4,500,000)
Financing Obligations	(1,183,100)
Bonded Debt	(7,295,000)
Net Assets Of Governmental Activities	<u>\$ 6,511,056</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, 2008

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

For The Year Ended June 30, 2008

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Occupational Tax Fund</u>
REVENUES				
Taxes	\$ 1,244,951	\$	\$	\$ 3,989,219
In Lieu Tax Payments	63,748	89,501		
Excess Fees	208,164			
Licenses and Permits	17,741			
Intergovernmental	226,599	2,583,498	1,470,737	
Charges for Services			63,402	
Miscellaneous	53,197	962	51,145	
Interest	33,499	30,572	2,365	18,101
Total Revenues	<u>1,847,899</u>	<u>2,704,533</u>	<u>1,587,649</u>	<u>4,007,320</u>
EXPENDITURES				
General Government	1,054,852			107,415
Protection to Persons and Property	145,463		1,501,653	
General Health and Sanitation	60,994			
Social Services	28,750			
Recreation and Culture	40,000			
Roads		2,195,276		
Debt Service	296,125	251,855	(157,724)	
Administration	466,413	258,305	337,667	2,050,500
Total Expenditures	<u>2,092,597</u>	<u>2,705,436</u>	<u>1,681,596</u>	<u>2,157,915</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(244,698)</u>	<u>(903)</u>	<u>(93,947)</u>	<u>1,849,405</u>
Other Financing Sources (Uses)				
Revenue Bond Anticipation Note Proceeds				
Transfers From Other Funds	2,074,665		1,410,010	
Transfers To Other Funds	(1,142,192)		(876,452)	(1,847,703)
Total Other Financing Sources (Uses)	<u>932,473</u>		<u>533,558</u>	<u>(1,847,703)</u>
Net Change in Fund Balances	687,775	(903)	439,611	1,702
Fund Balances - Beginning	1,067,651	405,831	(218,770)	154,507
Fund Balances - Ending	<u>\$ 1,755,426</u>	<u>\$ 404,928</u>	<u>\$ 220,841</u>	<u>\$ 156,209</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, 2008
(Continued)

Detention Center Public Properties Corporation Fund	Justice Center Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 414,068	\$ 5,648,238
			153,249
			208,164
			17,741
		1,197,888	5,478,722
		1,209,239	1,272,641
		4,786	110,090
920	6,238	16,477	108,172
<u>920</u>	<u>6,238</u>	<u>2,842,458</u>	<u>12,997,017</u>
		331,570	1,493,837
		1,199,928	2,847,044
			60,994
			28,750
		53,317	93,317
		326,308	2,521,584
636,661	67,346		1,094,263
13,275	3,461	375,895	3,505,516
<u>649,936</u>	<u>70,807</u>	<u>2,287,018</u>	<u>11,645,305</u>
<u>(649,016)</u>	<u>(64,569)</u>	<u>555,440</u>	<u>1,351,712</u>
	4,500,000		4,500,000
649,930			4,134,605
		(268,258)	(4,134,605)
<u>649,930</u>	<u>4,500,000</u>	<u>(268,258)</u>	<u>4,500,000</u>
914	4,435,431	287,182	5,851,712
548,817		641,731	2,599,767
<u>\$ 549,731</u>	<u>\$ 4,435,431</u>	<u>\$ 928,913</u>	<u>\$ 8,451,479</u>

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

**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, 2008

**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, 2008

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ 5,851,712

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.

Capital Outlay	2,176,671
Depreciation Expense	(802,342)
Asset Disposal, Net Value	(16,369)

Debt Proceeds Provide a Current Financial Resource to the Governmental Funds. While principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions have no effect on net assets and have been eliminated from the Statement of Activities.

Financing Obligation Proceeds	
Bond Issuance	
Revenue Bond Anticipation Note Proceeds	(4,500,000)
Financing Obligations Principal Amount	572,700
Bond Principal Payments	<u>135,000</u>

Change in Net Assets of Governmental Activities \$ 3,417,372

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

June 30, 2008

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

June 30, 2008

	Business-Type Activities - Enterprise Funds
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 28,984
Total Current Assets	28,984
Noncurrent Assets:	
Capital Assets:	
Equipment	26,319
Less Accumulated Depreciation	(6,711)
Total Noncurrent Assets	19,608
Total Assets	48,592
Net Assets	
Invested in Capital Assets, Net of Related Debt	19,608
Unrestricted	28,984
Total Net Assets	\$ 48,592

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

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

For The Year Ended June 30, 2008

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

For The Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 29,668
Total Operating Revenues	29,668
Operating Expenses	
Inventory	18,733
Educational and Recreational	1,783
Refunds	660
Depreciation	2,237
Miscellaneous	4,713
Total Operating Expenses	28,126
Operating Income	1,542
Change In Net Assets	1,542
Total Net Assets - Beginning	47,050
Total Net Assets - Ending	\$ 48,592

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

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

For The Year Ended June 30, 2008

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

For The Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts from Customers	\$ 29,668
Inventory	(18,733)
Educational and Recreational	(1,783)
Refunds	(660)
Miscellaneous	(4,713)
Net Cash Provided By	
Operating Activities	3,779
Net Increase (Decrease) in Cash and Cash	
Equivalents	3,779
Cash and Cash Equivalents - July 1, 2007	25,205
Cash and Cash Equivalents - June 30, 2008	28,984
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	1,542
Plus: Depreciation Expense	2,237
Net Cash Provided By Operating	
Activities	\$ 3,779

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

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

June 30, 2008

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

June 30, 2008

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 30,502</u>
Total Assets	<u> 30,502</u>
Liabilities	
Amounts Held In Custody For Others	<u> 30,502</u>
Total Liabilities	<u>\$ 30,502</u>

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, 2008

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, 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 are 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. The county has no discretely presented component units.

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 these organizations. This organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Detention Center Public Properties Corporation

The Whitley County Fiscal Court (Fiscal Court) established the Detention Center Public Properties Corporation (Corporation) for the purpose of financing the construction of the Whitley County Detention Center and to account for the debt service payments on the bonded debt. 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, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Justice Center Public Properties Corporation

The Whitley County Fiscal Court (Fiscal Court) established the Justice Center Public Properties Corporation (Corporation) for the purpose of financing the construction of the Whitley County Justice Center and to account for the debt service payments on the bonded debt. 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 below officials from the geographic area constituting Whitley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. 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.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(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 31 following the assessment, and subject to lien and sale on July 15, following the delinquency date.

Funds are characterized as either major or non-major funds. Major funds are those funds 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 funds) 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 a major fund.

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 Kentucky 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 Kentucky 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 Kentucky Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

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

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(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 – 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 construction of the Whitley County Detention Center. The Kentucky Department for Local Government does not require the Fiscal Court to report or budget these funds.

Justice Center Capital Projects 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 Whitley County Justice Center. The Kentucky 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, Ambulance Fund, Federal Grant Fund, Forestry Fund, Tourist Tax Fund, and the 911 Fund.

Special Revenue Funds:

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

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 primary government reports the following major proprietary fund:

**WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

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

Proprietary Funds (Continued)

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, 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.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(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	\$ 15,000	10-75
Building Improvements	\$ 15,000	10-60
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 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.

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, 2008
(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 Public Properties Corporation Fund (blended component unit) is not budgeted by the county. The Kentucky Department for Local Government 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, 2008
(Continued)

Note 2. Deposits and Investments

A. 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.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposit may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of June 30, 2008, Whitley County's investments were as follows:

<u>Investments</u>	<u>Maturity</u>	<u>Cost</u>	<u>Market</u>	<u>Rating</u>	<u>Concentration</u>
Primary Government					
Federal National Mortgage Association	10/8/2027	\$ 517,000	\$ 190,835	AAA	1.000

Interest Rate Risk

The County does not have a formal policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

Credit Risk and Concentration of Credit Risk

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government; certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity; uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency; banker's acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in the highest category by a nationally recognized rating agency; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; and securities issued by a state or local government, or any instrumentality or agency

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk and Concentration of Credit Risk (Continued)

thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing in no more than 20% in any one of four specifically mentioned investments as outlined in KRS 66.480. Certificates of deposit are not considered a limited investment per KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2008, the County's investments were insured or registered, or held by the County or its agent in the County's name.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2008 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
Total Capital Assets Not Being Depreciated	317,125			317,125
Capital Assets, Being Depreciated:				
Buildings	7,466,810	245,222		7,712,032
Land Improvements	416,889			416,889
Equipment	1,067,626	151,288		1,218,914
Vehicles	786,246	144,976	(25,698)	905,524
Infrastructure	2,887,054	1,635,185		4,522,239
Total Capital Assets Being Depreciated	12,624,625	2,176,671	(25,698)	14,775,598
Less Accumulated Depreciation For:				
Buildings	(1,506,509)	(204,538)		(1,711,047)
Land Improvements	(35,433)	(11,812)		(47,245)
Equipment	(365,927)	(77,679)		(443,606)
Vehicles	(359,052)	(73,252)	9,329	(422,975)
Infrastructure	(995,112)	(435,061)		(1,430,173)
Total Accumulated Depreciation	(3,262,033)	(802,342)	9,329	(4,055,046)
Total Capital Assets, Being Depreciated, Net	9,362,592	1,374,329	(16,369)	10,720,552
Governmental Activities Capital Assets, Net	<u>\$ 9,679,717</u>	<u>\$ 1,374,329</u>	<u>\$ (16,369)</u>	<u>\$ 11,037,677</u>
Business-Type Activities:				
Capital Assets, Being Depreciated:				
Equipment	\$ 26,319	\$	\$	\$ 26,319
Total Capital Assets Being Depreciated	26,319			26,319
Less Accumulated Depreciation For:				
Equipment	(4,474)	(2,237)		(6,711)
Total Accumulated Depreciation	(4,474)	(2,237)		(6,711)
Total Capital Assets, Being Depreciated, Net	21,845	(2,237)		19,608
Business-Type Activities Capital Assets, Net	<u>\$ 21,845</u>	<u>\$ (2,237)</u>	<u>\$</u>	<u>\$ 19,608</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets (Continued)

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

<u>Governmental Activities:</u>	
General Government	\$ 174,810
Protection to Persons and Property	156,267
Roads, Including Depreciation of General Infrastructure Assets	<u>471,265</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 802,342</u></u>
 <u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 2,237</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 2,237</u></u>

Note 4. Long-term Debt

A. General Obligation Bonds, Series 2002

On April 1, 2002, the county issued \$7,685,000 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 \$7,295,000 as of June 30, 2008, with principal paid annually on April 1. Future principal and interest payments for the remaining years are:

Fiscal Year Ended	Governmental Activities	
	Principal	Interest
June 30		
2009	\$ 140,000	\$ 372,989
2010	150,000	365,989
2011	155,000	358,489
2012	165,000	350,739
2013	175,000	342,489
2014-2018	1,000,000	1,573,687
2019-2023	1,280,000	1,296,276
2024-2028	1,635,000	935,888
2029-2033	2,105,000	466,700
2034	<u>490,000</u>	<u>25,480</u>
Totals	<u><u>\$ 7,295,000</u></u>	<u><u>\$ 6,088,726</u></u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Long-term Debt (Continued)

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 \$350,000 as of June 30, 2008. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 80,000	\$ 16,570
2010	85,000	12,970
2011	90,000	8,975
2012	95,000	4,655
Totals	<u>\$ 350,000</u>	<u>\$ 43,170</u>

C. 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 \$48,100 as of June 30, 2008. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 23,600	\$ 1,645
2010	24,500	614
Totals	<u>\$ 48,100</u>	<u>\$ 2,259</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Long-term Debt (Continued)

D. 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 zero, as of June 30, 2008.

E. 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 zero as of June 30, 2008.

F. 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 \$495,000 as of June 30, 2008. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 25,000	\$ 21,300
2010	25,000	20,400
2011	25,000	19,500
2012	30,000	18,600
2013	30,000	17,430
2014-2018	160,000	68,685
2019-2023	200,000	29,452
Totals	<u>\$ 495,000</u>	<u>\$ 195,367</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Long-term Debt (Continued)

G. Justice Center

On May 7, 2008 the Whitley County Public Properties Corporation issued \$4,500,000 in First Mortgage Revenue Refunding Bond Anticipation Note for the purpose of financing the construction of the Whitley County Justice Center.

The Whitley County Public Properties Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of obtaining office rental space for AOC at the Justice Center.

Whitley County and the Public Properties Corporation are acted as agents for the AOC in order to plan, design, and construct the Justice Center. They are now acting as agents for the AOC in managing and maintaining the Justice Center. The Public Properties Corporation and the county expect annual rentals for the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided by in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service requirements for the bonds.

The use allowance payment commenced with the occupancy of the Justice Center by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until 2010, but the lease does not obligate the AOC to do so. At June 30, 2008, the principal balance outstanding on these bonds was \$4,500,000. Future bond principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$	\$ 117,705
2010	4,500,000	119,700
Totals	<u>\$ 4,500,000</u>	<u>\$ 237,405</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Long-term Debt (Continued)

I. Refunding of 1995 Bonds and 1997 Certificates (Continued)

The financing obligation agreement dated April 2, 2004, for \$1,215,000, requires variable semi-annual payments for 5 years to be paid in full April 20, 2009. The principal balance of the agreement was \$290,000 as of June 30, 2008. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 290,000	\$ 9,200
Totals	\$ 290,000	\$ 9,200

J. Bank Note Payable

On June 30, 2008, Whitley County Fiscal Court refinanced a bank note of \$673,000 previously dated April 26, 2005. The original purpose of the bank note was to cover operating expense of the General Fund and Jail Fund. Maturity date on the note is June 30, 2008, with semiannual payments due beginning December 20, 2005. The bank note is a variable rate loan, with the rate ranging from no less than 6.00% or higher than 18.00%. The principal balance of the bank note was paid in full as of June 30, 2008.

K. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 7,430,000	\$	\$ 135,000	\$ 7,295,000	\$ 140,000
Revenue Bond Anticipation Note		4,500,000		4,500,000	
Bank Note Payable	242,894		242,894		
Financing Obligations	1,755,800		572,700	1,183,100	418,600
Governmental Activities					
Long-term Liabilities	\$ 9,428,694	\$ 4,500,000	\$ 950,594	\$ 12,978,100	\$ 558,600

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$319,217 in interest on long-term bonds, bank notes, and financing obligations.

Note 6. Related Party Transactions

During the year ended June 30, 2008, Whitley County Fiscal Court paid JLG Identification Solutions, Inc., \$2,580 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 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. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 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 33.87 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is 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 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 the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road Suite 110, Frankfort, KY 40601-8862.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2008, 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.

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

For The Year Ended June 30, 2008

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

For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,096,086	\$ 1,221,958	\$ 1,244,951	\$ 22,993
In Lieu Tax Payments	73,000	75,904	63,748	(12,156)
Excess Fees	122,736	208,264	208,164	(100)
Licenses and Permits	17,200	17,225	17,741	516
Intergovernmental	210,000	266,975	226,599	(40,376)
Miscellaneous	30,550	51,839	53,197	1,358
Interest	22,000	25,026	33,499	8,473
Total Revenues	<u>1,571,572</u>	<u>1,867,191</u>	<u>1,847,899</u>	<u>(19,292)</u>
EXPENDITURES				
General Government	1,002,562	1,150,892	1,054,852	96,040
Protection to Persons and Property	127,450	177,720	145,463	32,257
General Health and Sanitation	91,950	162,744	60,994	101,750
Social Services	36,500	36,500	28,750	7,750
Recreation and Culture	40,000	40,000	40,000	
Debt Service	1,056,941	1,056,941	296,125	760,816
Administration	664,320	1,457,914	466,413	991,501
Total Expenditures	<u>3,019,723</u>	<u>4,082,711</u>	<u>2,092,597</u>	<u>1,990,114</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,448,151)</u>	<u>(2,215,520)</u>	<u>(244,698)</u>	<u>1,970,822</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	2,396,212	2,396,212	2,074,665	(321,547)
Transfers To Other Funds	(1,248,061)	(1,248,061)	(1,142,192)	105,869
Total Other Financing Sources (Uses)	<u>1,148,151</u>	<u>1,148,151</u>	<u>932,473</u>	<u>(215,678)</u>
Net Changes in Fund Balance	(300,000)	(1,067,369)	687,775	1,755,144
Fund Balance - Beginning	300,000	1,067,369	1,067,651	282
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,755,426</u>	<u>\$ 1,755,426</u>

WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 66,000	\$ 89,501	\$ 89,501	\$
Intergovernmental	1,968,094	2,936,658	2,583,498	(353,160)
Miscellaneous	1,100	1,100	962	(138)
Interest	15,000	26,542	30,572	4,030
Total Revenues	<u>2,050,194</u>	<u>3,053,801</u>	<u>2,704,533</u>	<u>(349,268)</u>
EXPENDITURES				
Roads	1,728,825	2,752,133	2,195,276	556,857
Debt Service	423,619	423,619	251,855	171,764
Administration	297,750	283,879	258,305	25,574
Total Expenditures	<u>2,450,194</u>	<u>3,459,631</u>	<u>2,705,436</u>	<u>754,195</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(400,000)</u>	<u>(405,830)</u>	<u>(903)</u>	<u>404,927</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	325,000	325,000		(325,000)
Transfers To Other Funds	<u>(325,000)</u>	<u>(325,000)</u>		<u>325,000</u>
Total Other Financing Sources (Uses)				
Net Changes in Fund Balance	(400,000)	(405,830)	(903)	404,927
Fund Balance - Beginning (Restated)	<u>400,000</u>	<u>405,830</u>	<u>405,831</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 404,928</u>	<u>\$ 404,928</u>

WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,156,500	\$ 1,286,270	\$ 1,470,737	\$ 184,467
Charges for Services	63,350	63,350	63,402	52
Miscellaneous	36,000	47,821	51,145	3,324
Interest	4,500	4,500	2,365	(2,135)
Total Revenues	<u>1,260,350</u>	<u>1,401,941</u>	<u>1,587,649</u>	<u>185,708</u>
EXPENDITURES				
Protection to Persons and Property	1,438,348	1,610,177	1,501,653	108,524
Debt Service	729,556	737,106	85,170	651,936
Administration	390,485	366,821	337,667	29,154
Total Expenditures	<u>2,558,389</u>	<u>2,714,104</u>	<u>1,924,490</u>	<u>789,614</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,298,039)</u>	<u>(1,312,163)</u>	<u>(336,841)</u>	<u>975,322</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,514,843	1,514,843	1,410,010	(104,833)
Transfers To Other Funds	(226,804)	(226,804)	(876,452)	(649,648)
Total Other Financing Sources (Uses)	<u>1,288,039</u>	<u>1,288,039</u>	<u>533,558</u>	<u>(754,481)</u>
Net Changes in Fund Balance	(10,000)	(24,124)	196,717	220,841
Fund Balance - Beginning	<u>10,000</u>	<u>24,124</u>	<u>(218,770)</u>	<u>(242,894)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (22,053)</u>	<u>\$ (22,053)</u>

WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,000,000	\$ 4,000,000	\$ 3,989,219	\$ (10,781)
Interest	15,000	15,000	18,101	3,101
Total Revenues	<u>4,015,000</u>	<u>4,015,000</u>	<u>4,007,320</u>	<u>(7,680)</u>
EXPENDITURES				
General Government	120,700	133,130	107,415	25,715
Administration	2,030,050	2,092,127	2,050,500	41,627
Total Expenditures	<u>2,150,750</u>	<u>2,225,257</u>	<u>2,157,915</u>	<u>67,342</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,864,250</u>	<u>1,789,743</u>	<u>1,849,405</u>	<u>59,662</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(1,944,250)</u>	<u>(1,944,250)</u>	<u>(1,847,703)</u>	<u>96,547</u>
Total Other Financing Sources (Uses)	<u>(1,944,250)</u>	<u>(1,944,250)</u>	<u>(1,847,703)</u>	<u>96,547</u>
Net Changes in Fund Balances	(80,000)	(154,507)	1,702	156,209
Fund Balances - Beginning	<u>80,000</u>	<u>154,507</u>	<u>154,507</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 156,209</u>	<u>\$ 156,209</u>

WHITLEY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

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. A formal budget is not adopted for the Public Properties Corporation Fund.

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.

Reconciliation to the Statement of Revenues, Expenditures, And Changes In Fund Balance:

Reconciliation of Jail Fund

Expenditures - Budgetary Basis	\$ 1,924,490
Less: Bank Note Principal Payments	<u>(242,894)</u>
Expenditures - Modified Cash Basis	<u>\$ 1,681,596</u>
Fund Balance - Budgetary Basis	\$ (22,053)
Plus: Bank Note Principal Payments	<u>242,894</u>
Fund Balance - Modified Cash Basis	<u>\$ 220,841</u>

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

June 30, 2008

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

June 30, 2008

	Local Government Economic Assistance Fund	Ambulance Fund	Forestry Fund	Tourist Tax Fund	911 Fund	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 403,057	\$ 235,860	\$ 4,762	\$ 7,951	\$ 277,283	\$ 928,913
Total Assets	<u>403,057</u>	<u>235,860</u>	<u>4,762</u>	<u>7,951</u>	<u>277,283</u>	<u>928,913</u>
FUND BALANCES						
Reserved for:						
Encumbrances		204				204
Unreserved:						
Special Revenue Funds	<u>403,057</u>	<u>235,656</u>	<u>4,762</u>	<u>7,951</u>	<u>277,283</u>	<u>928,709</u>
Total Fund Balances	<u>\$ 403,057</u>	<u>\$ 235,860</u>	<u>\$ 4,762</u>	<u>\$ 7,951</u>	<u>\$ 277,283</u>	<u>\$ 928,913</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 Supplemental Information

For The Year Ended June 30, 2008

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

For The Year Ended June 30, 2008

	Local Government Economic Assistance Fund	Federal Grant Fund	Ambulance Fund	Forestry Fund
REVENUES				
Taxes	\$	\$	\$	\$ 3,348
Intergovernmental	1,048,036		10,256	
Charges for Services			1,209,239	
Miscellaneous			4,703	73
Interest	8,158		951	136
Total Revenues	<u>1,056,194</u>	<u>-</u>	<u>1,225,149</u>	<u>3,557</u>
EXPENDITURES				
General Government	331,570			
Protection to Persons and Property	19,500		874,348	3,366
Recreation and Culture				
Roads	326,308			
Administration			300,974	
Total Expenditures	<u>677,378</u>	<u>-</u>	<u>1,175,322</u>	<u>3,366</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	<u>378,816</u>		<u>49,827</u>	<u>191</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(268,100)</u>	<u>(158)</u>		
Total Other Financing Sources (Uses)	<u>(268,100)</u>	<u>(158)</u>		
Net Change in Fund Balances	110,716	(158)	49,827	191
Fund Balances - Beginning	<u>292,341</u>	<u>158</u>	<u>186,033</u>	<u>4,571</u>
Fund Balances - Ending	<u>\$ 403,057</u>	<u>\$ 0</u>	<u>\$ 235,860</u>	<u>\$ 4,762</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 Supplemental Information
For The Year Ended June 30, 2008
(Continued)

<u>Tourist Tax Fund</u>	<u>911 Fund</u>	<u>Total Non-Major Governmental Funds</u>
\$ 51,703	\$ 359,017	\$ 414,068
	139,596	1,197,888
		1,209,239
	10	4,786
382	6,850	16,477
<u>52,085</u>	<u>505,473</u>	<u>2,842,458</u>
		331,570
	302,714	1,199,928
53,317		53,317
		326,308
	74,921	375,895
<u>53,317</u>	<u>377,635</u>	<u>2,287,018</u>
		555,440
<u>(1,232)</u>	<u>127,838</u>	<u>(268,258)</u>
		<u>(268,258)</u>
(1,232)	127,838	287,182
9,183	149,445	641,731
<u>\$ 7,951</u>	<u>\$ 277,283</u>	<u>\$ 928,913</u>

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

**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**

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Certified Public Accountants
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Louisville, KY
Telephone (502) 499-9088
Facsimile (502) 499-9132
www.rosscpas.com

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, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 17, 2009. 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Whitley County's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

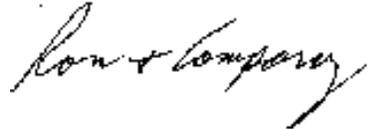
Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards

This report is intended solely for the information and use of management 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,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

March 17, 2009

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

WHITLEY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2008**

APPENDIX A