

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

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



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WOLFE COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Wolfe County Fiscal Court for fiscal year ended June 30, 2010. We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Wolfe County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$3,673,355 as of June 30, 2010. The fiscal court had unrestricted net assets of \$2,064,587 in its governmental activities as of June 30, 2010, with total net assets of \$3,673,355. The fiscal court had total debt principal as of June 30, 2010 of \$10,989,321 with \$445,502 due within the next year.

Report Comment:

2010-01 The Fiscal Court Lacks Adequate Segregation Of Duties

Deposits:

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

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DEVELOPMENT PROGRAMS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Raymond Hurst, Former Wolfe County Judge/Executive
Honorable Dennis Brooks, Wolfe County Judge/Executive
Members of the Wolfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wolfe 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 Wolfe 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, Wolfe 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, each major fund, and the aggregate remaining fund information of Wolfe County, Kentucky, as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has 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.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Raymond Hurst, Former Wolfe County Judge/Executive

Honorable Dennis Brooks, Wolfe County Judge/Executive

Members of the Wolfe County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wolfe 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 has 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 June 21, 2011 on our consideration of Wolfe County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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:

2010-01 The Fiscal Court Lacks Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 21, 2011

WOLFE COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Raymond Hurst	County Judge/Executive
Deweese Wilson	Magistrate
Marvin Carson	Magistrate
Garrett Denniston	Magistrate

Other Elected Officials:

Stephen Johnson	County Attorney
Dennis Brooks	Jailer
Steve Oliver	County Clerk
Debbie Sparks	Circuit Court Clerk
Chris Carson	Sheriff
Tim Ferguson	Property Valuation Administrator
James Frank Porter	Coroner

Appointed Personnel:

Reva Terrill	County Treasurer
Barbara Phillips	Finance Officer
Barbara Phillips	Occupational Tax Collector
Rebecca Long	Payroll Officer
Frankie Bryant	Road Supervisor
Rebecca Long	911 Administrator

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WOLFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

WOLFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 11,727,845
Total Current Assets	11,727,845
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation:	
Land and Land Improvements	675,351
Construction in Progress	912,216
Buildings and Building Improvements	413,256
Equipment	102,660
Vehicles	287,853
Infrastructure	543,495
Total Noncurrent Assets	2,934,831
Total Assets	14,662,676
LIABILITIES	
Current Liabilities:	
Revenue Bonds	430,000
Financing Obligations Payable	15,502
Total Current Liabilities	445,502
Noncurrent Liabilities:	
Revenue Bonds	10,500,000
Financing Obligations Payable	43,819
Total Noncurrent Liabilities	10,543,819
Total Liabilities	10,989,321
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,608,768
Unrestricted	2,064,587
Total Net Assets	\$ 3,673,355

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

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WOLFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

WOLFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Functions/Programs Reporting Entity	Program Revenues Received			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 400,661	\$ 47,159	\$ 486,642	\$ 75,272
Protection to Persons and Property	406,561	3,672	154,777	
General Health and Sanitation	7,600			
Social Services	61,023			
Recreation and Culture	1,990			
Roads	892,438	89,584	1,158,600	
Interest on Long-Term Debt	161,949			
Capital Projects	472,683			
Total Governmental Activities	\$ 2,404,905	\$ 140,415	\$ 1,800,019	\$ 75,272

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

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

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WOLFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

WOLFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Special Projects Fund
ASSETS					
Cash and Cash Equivalents	\$ 440,364	\$ 462,718	\$ 6,908	\$ 91,234	\$ 965,464
Total Assets	<u>440,364</u>	<u>462,718</u>	<u>6,908</u>	<u>91,234</u>	<u>965,464</u>
FUND BALANCES					
Reserved for:					
Encumbrances	542	13,834	505	1,289	
Unreserved:					
General Fund	439,822				
Special Revenue Funds		448,884	6,403	89,945	
Capital Projects Fund					965,464
Total Fund Balances	<u>\$ 440,364</u>	<u>\$ 462,718</u>	<u>\$ 6,908</u>	<u>\$ 91,234</u>	<u>\$ 965,464</u>

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

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

Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 9,663,258	\$ 97,899	\$ 11,727,845
<u>9,663,258</u>	<u>97,899</u>	<u>11,727,845</u>
	28	16,198
		439,822
	97,871	643,103
<u>9,663,258</u>		<u>10,628,722</u>
<u>\$ 9,663,258</u>	<u>\$ 97,899</u>	<u>\$ 11,727,845</u>

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

Total Fund Balances	\$ 11,727,845
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.	4,249,242
Accumulated Depreciation	(1,314,411)
Asset Held for Resale Are Not Financial Resources And Therefore Are Not Reported in the Funds.	
Long-Term Debt Is Not Due and Payable In The Current Period and, Therefore, Is Not Reported In The Funds.	
Bonds	(10,930,000)
Financing Obligations	<u>(59,321)</u>
Net Assets Of Governmental Activities	<u>\$ 3,673,355</u>

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

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

For The Year Ended June 30, 2010

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

For The Year Ended June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Special Projects Fund
REVENUES					
Taxes	\$ 588,052	\$	\$	\$	\$
In Lieu Tax Payments	5,531	72,065			
Excess Fees	35,250				
Licenses and Permits	858				
Intergovernmental	187,573	1,158,600	62,842	227,004	
Charges for Services	56				
Miscellaneous	40,714	89,584	571	4	
Interest	1,691	1,850	12	380	18,722
Total Revenues	<u>859,725</u>	<u>1,322,099</u>	<u>63,425</u>	<u>227,388</u>	<u>18,722</u>
EXPENDITURES					
General Government	474,245			27,086	
Protection to Persons and Property	74,569		273,151	1,343	
General Health and Sanitation	42,514			16,112	
Social Services				7,600	
Roads		745,032		103,289	
Debt Service		119,594		5,700	
Capital Projects					
Administration	276,582	186,591	14,778	10,319	
Total Expenditures	<u>867,910</u>	<u>1,051,217</u>	<u>287,929</u>	<u>171,449</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(8,185)</u>	<u>270,882</u>	<u>(224,504)</u>	<u>55,939</u>	<u>18,722</u>
Other Financing Sources (Uses)					
Payment of Bond Anticipation Note Revenue Bond Proceeds Premium of Bond					
Transfers From Other Funds	205,166		229,600		
Transfers To Other Funds	(180,043)	(152,166)		(137,500)	
Total Financing Sources (Uses)	<u>25,123</u>	<u>(152,166)</u>	<u>229,600</u>	<u>(137,500)</u>	
Net Change in Fund Balances	16,938	118,716	5,096	(81,561)	18,722
Fund Balances - Beginning (Restated)	423,426	344,002	1,812	172,795	946,742
Fund Balances - Ending	<u>\$ 440,364</u>	<u>\$ 462,718</u>	<u>\$ 6,908</u>	<u>\$ 91,234</u>	<u>\$ 965,464</u>

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

WOLFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Public Properties Corporation Fund	Non- Major Governmental Funds	Total Governmental Funds
\$	\$	\$ 588,052
	2,330	79,926
	167,207	202,457
		858
		1,636,019
		56
7,082	3,097	141,052
29,904	273	52,832
<u>36,986</u>	<u>172,907</u>	<u>2,701,252</u>
		501,331
	34,199	383,262
		58,626
		7,600
		848,321
36,655		161,949
733,279	114,787	848,066
116,395	29	604,694
<u>886,329</u>	<u>149,015</u>	<u>3,413,849</u>
<u>(849,343)</u>	<u>23,892</u>	<u>(712,597)</u>
(3,000,000)		(3,000,000)
10,930,000		10,930,000
375,383		375,383
	87,943	522,709
	(53,000)	(522,709)
<u>8,305,383</u>	<u>34,943</u>	<u>8,305,383</u>
7,456,040	58,835	7,592,786
2,207,218	39,064	4,135,059
<u>\$ 9,663,258</u>	<u>\$ 97,899</u>	<u>\$ 11,727,845</u>

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

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**WOLFE 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

WOLFE 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

Net Change in Fund Balances - Total Governmental Funds \$ 7,592,786

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 Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	779,873
Depreciation Expense	(166,060)
Disposal of Assest Held For Resale	(99,000)

The Issuance Of Long-Term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds While Financing Obligation And Bond Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions Have No Effect On Net Assets.

Revenue Bond Proceeds	(10,930,000)
Revenue Anticipation Note Payments	3,000,000
Financing Obligations Principal Payments	<u>118,748</u>

Changes in Net Assets of Governmental Activities \$ 296,347

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TO THE FINANCIAL STATEMENTS**

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WOLFE 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 Wolfe 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. 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 this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

The Wolfe County Public Properties Corporation

The Wolfe County Fiscal Court appoints the voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Wolfe County Public Properties Corporation.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Wolfe County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Wolfe 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 Wolfe 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 county. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

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.

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.

WOLFE 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)

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 Fiscal court 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.

Local Government Economic Assistance Fund - The purpose of this fund is to account for local government development funds received from the state government. The funds may be used for roads, protection of persons and property, social services, and general health and sanitation expenditures.

Special Projects Fund - The purpose of this fund is to account for economic development revenues for Wolfe County Fiscal Court. The primary source of the money for the county is coal severance funds received. The funds may be used for economic development.

Public Properties Corporation – The purpose of this fund is to account for the bond issue and the AOC building construction costs. The primary source of the money is from the issuance of a bond. The funds are used for the building of a new AOC Judicial building.

The primary government also has the following non-major funds: Area Development Fund, Fire Protection Fund, Search and Rescue Fund, Local Government Economic Development Fund, Cemetery Fund, and E-911 Fund are presented as special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Area Development Fund, Fire Protection Fund, Search and Rescue Fund, Local Government Economic Development Fund, Cemetery Fund, and E-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.

WOLFE 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)

Capital Projects Fund:

The Special Projects Fund and Public Properties Corporation Fund are presented as 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.

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.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Infrastructure	\$ 20,000	10-50
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25

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

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 State Local Finance Officer does not require the Public Properties Corporation to be budgeted.

J. Joint Venture

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 Wolfe County Fiscal Court:

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

Note 1. Summary of Significant Accounting Policies (Continued)

J, Joint Venture (Continued)

Three Forks Regional Jail

On October 6, 2000, the counties of Lee, Owsley, and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000 the corporation issued \$6,295,000 of first mortgage revenue bonds

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements on the bonds are the rental payments from the participating counties, as stipulated in the lease and sublease agreements dated October 1, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bond as follows (the "proportionate share" or "use allowance"): 40% for Lee County, 22% for Owsley County, and 38% for Wolfe County.

On December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping, and operation of the Three Forks Regional Jail.

The Three Forks Regional Jail Authority and the Three Forks Public Property Corporation are comprised of an eight-member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition the Lee County Jailer is a required member of the board.

A copy of the Three Forks Regional Jail audit report may be obtained by writing the management at 2475 Center Street, Beattyville, KY 41311 or on the web at www.auditor.ky.gov.

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.

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.

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

Note 3. 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	\$ 675,351	\$	\$	\$ 675,351
Construction in Progress	178,938	733,278		912,216
Total Capital Assets Not Being Depreciated	854,289	733,278		1,587,567
Capital Assets, Being Depreciated:				
Buildings	762,402			762,402
Building Improvements	15,695			15,695
Equipment	237,614			237,614
Vehicles	798,152			798,152
Infrastructure	801,217	46,595		847,812
Total Capital Assets Being Depreciated	2,615,080	46,595		2,661,675
Less Accumulated Depreciation For:				
Buildings	(347,418)	(12,193)		(359,611)
Building Improvements	(4,184)	(1,046)		(5,230)
Equipment	(111,550)	(23,404)		(134,954)
Vehicles	(451,450)	(58,849)		(510,299)
Infrastructure	(233,749)	(70,568)		(304,317)
Total Accumulated Depreciation	(1,148,351)	(166,060)		(1,314,411)
Total Capital Assets, Being Depreciated, Net	1,466,729	(119,465)		1,347,264
Governmental Activities Capital Assets, Net	<u>\$ 2,321,018</u>	<u>\$ 613,813</u>	<u>\$ 0</u>	<u>\$ 2,934,831</u>
<u>Governmental Activities:</u>				
General Government			\$ 27,914	
Protection to Persons and Property			28,299	
Social Services			2,397	
Recreation and Culture			1,990	
Roads, Including Depreciation of General Infrastructure Assets			105,460	
Total Depreciation Expense - Governmental Activities			<u>\$ 166,060</u>	

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

Note 4. Long-term Debt

A. Kentucky Association of Counties - Dump Truck

On June 12, 2008, the Fiscal Court entered into a capital lease agreement with Kentucky Association of Counties for the purpose of purchasing a new dump truck. The principal of the agreement was \$99,000 with repayment to be made on June 20, 2010. The County will make monthly interest payments commencing July 20, 2008. The principal balance of the agreement was \$0 as of June 30, 2010.

B. Kentucky Area Development District Leasing Trust - Jail Renovations

On April 16, 2006, the Fiscal Court entered into a capital lease agreement with Kentucky Area Development District for the purpose of financing their portion of the Three Forks Regional Jail renovation. The principal of the agreement was \$20,000 with repayment to be made on June 30, 2010. The County will make annual installments in accordance with the lease terms. The principal balance of the agreement was \$0 as of June 30, 2010.

C. First Mortgage Revenue Bonds - Judicial Building

In April 2010, the Wolfe County Public Properties Corporation entered into an agreement for the issuance of \$3,000,000 in First Mortgage Revenue Bond Anticipation Notes to finance costs during the initial construction phase of a Justice Center. The notes were issued for a two-year period, with semi-annual interest payments due May 1 and November 1 each year, beginning November 1, 2008, and principal due upon maturity at July 1, 2010. Principal on the notes were paid in full from the issuance of revenue bonds in April 2010, where Wolfe County Public Properties Corporation entered into an agreement for the issuance of \$10,930,000 First Mortgage Revenue Bonds, Series 2010, for the costs of the overall project. The bonds were issued for a twenty year period, with semi-annual interest payments due May 1 and November 1 of each year beginning November 1, 2010, and principal due upon maturity at May 1, 2030. Debt service requirements for the Revenue Bonds are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 430,000	\$ 374,376
2012	425,000	377,500
2013	435,000	371,125
2014	440,000	364,600
2015	450,000	355,800
2016-2020	2,420,000	1,606,350
2021-2025	2,840,000	1,181,650
2026-2030	3,490,000	534,150
Totals	<u>\$ 10,930,000</u>	<u>\$ 5,165,551</u>

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

Note 4. Long-term Debt (Continued)

D. Kentucky Association of Counties - Trucks and Snow Blades

On January 26, 2009, the Fiscal Court entered into a capital lease agreement with Kentucky Association of Counties for the purpose of purchasing trucks and snow plows. The principal of the agreement was \$80,000. The County will make monthly principal and interest payments commencing February 20, 2009. The principal balance of the agreement was \$59,321 as of June 30, 2010. Principle payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 15,502	\$ 2,400
2012	16,296	1,743
2013	17,129	1,049
2014	10,394	278
Totals	<u>\$ 59,321</u>	<u>\$ 5,470</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>					
Revenue Bonds	\$ 3,000,000	\$ 10,930,000	\$ 3,000,000	\$ 10,930,000	\$ 430,000
Financing Obligations	178,069		118,748	59,321	15,502
Governmental Activities Long Term Liabilities	<u>\$ 3,178,069</u>	<u>\$ 10,930,000</u>	<u>\$ 3,118,748</u>	<u>\$ 10,989,321</u>	<u>\$ 445,502</u>

Note 5. 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. 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.

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

Note 5. Employee Retirement System (Continued)

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

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

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 Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the fiscal year ended June 30, 2010, Wolfe 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 7. Prior Period Adjustments

	Governmental			
	<u>Activities</u>	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
Beginning balance	\$ 3,380,044	\$ 424,872	\$ 344,813	\$ 2,591
Adjustments:				
Prior year voided checks	<u>(3,036)</u>	<u>(1,446)</u>	<u>(811)</u>	<u>(779)</u>
Restated beginning balance	<u>\$ 3,377,008</u>	<u>\$ 423,426</u>	<u>\$ 344,002</u>	<u>\$ 1,812</u>

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

For The Year Ended June 30, 2010

WOLFE 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	\$ 458,400	\$ 466,564	\$ 588,052	\$ 121,488
In Lieu Tax Payments	9,000	9,000	5,531	(3,469)
Excess Fees		19,031	35,250	16,219
Licenses and Permits	1,900	1,900	858	(1,042)
Intergovernmental Revenue	59,760	59,760	187,573	127,813
Charges for Services	100	100	56	(44)
Miscellaneous	17,500	22,600	40,714	18,114
Interest	1,200	1,200	1,691	491
Total Revenues	<u>547,860</u>	<u>580,155</u>	<u>859,725</u>	<u>279,570</u>
EXPENDITURES				
General Government	466,925	541,437	474,245	67,192
Protection to Persons and Property	67,330	90,788	74,569	16,219
General Health and Sanitation	127,051	109,123	42,514	66,609
Administration	247,414	354,659	276,582	78,077
Total Expenditures	<u>908,720</u>	<u>1,096,007</u>	<u>867,910</u>	<u>228,097</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(360,860)</u>	<u>(515,852)</u>	<u>(8,185)</u>	<u>507,667</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(51,940)	(51,940)	(180,043)	128,103
Transfers From Other Funds	152,166	152,166	205,166	(53,000)
Total Financing Sources (Uses)	<u>\$ 100,226</u>	<u>\$ 100,226</u>	<u>\$ 25,123</u>	<u>\$ 75,103</u>
Net Changes in Fund Balance	(260,634)	(415,626)	16,938	432,564
Fund Balance - Beginning	<u>260,634</u>	<u>415,626</u>	<u>423,426</u>	<u>7,800</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 440,364</u>	<u>\$ 440,364</u>

WOLFE 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	\$ 78,000	\$ 78,000	\$ 72,065	\$ (5,935)
Intergovernmental Revenue	867,628	969,006	1,158,600	189,594
Miscellaneous	90,100	90,100	89,584	(516)
Interest	4,000	4,000	1,850	(2,150)
Total Revenues	<u>1,039,728</u>	<u>1,141,106</u>	<u>1,322,099</u>	<u>180,993</u>
EXPENDITURES				
Roads	856,800	958,948	745,032	213,916
Debt Service	117,762	120,762	119,594	1,168
Capital Projects	50,000	50,000		50,000
Administration	247,000	243,230	186,591	56,639
Total Expenditures	<u>1,271,562</u>	<u>1,372,940</u>	<u>1,051,217</u>	<u>321,723</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(231,834)</u>	<u>(231,834)</u>	<u>270,882</u>	<u>502,716</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(152,166)</u>	<u>(152,166)</u>	<u>(152,166)</u>	
Total Financing Sources (Uses)	<u>(152,166)</u>	<u>(152,166)</u>	<u>(152,166)</u>	
Net Changes in Fund Balance	(384,000)	(384,000)	118,716	502,716
Fund Balance - Beginning	<u>384,000</u>	<u>384,000</u>	<u>344,002</u>	<u>(39,998)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 462,718</u>	<u>\$ 462,718</u>

WOLFE 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	\$ 67,768	\$ 67,768	\$ 62,842	\$ (4,926)
Miscellaneous			571	571
Interest	125	125	12	(113)
Total Revenues	<u>67,893</u>	<u>67,893</u>	<u>63,425</u>	<u>(4,468)</u>
EXPENDITURES				
Protection to Persons and Property	228,200	273,695	273,151	544
Administration	17,633	14,933	14,778	155
Total Expenditures	<u>245,833</u>	<u>288,628</u>	<u>287,929</u>	<u>699</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(177,940)</u>	<u>(220,735)</u>	<u>(224,504)</u>	<u>(3,769)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	171,940	214,735	229,600	14,865
Total Financing Sources (Uses)	<u>171,940</u>	<u>214,735</u>	<u>229,600</u>	<u>14,865</u>
Net Changes in Fund Balance	(6,000)	(6,000)	5,096	11,096
Fund Balance - Beginning	6,000	6,000	1,812	(4,188)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,908</u>	<u>\$ 6,908</u>

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

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 165,000	\$ 165,000	\$ 227,004	\$ 62,004
Miscellaneous			4	4
Interest	300	300	380	80
Total Revenues	<u>165,300</u>	<u>165,300</u>	<u>227,388</u>	<u>62,088</u>
EXPENDITURES				
General Government	25,886	27,486	27,086	400
Protection to Persons and Property	2,500	2,500	1,343	1,157
General Health and Sanitation	11,005	16,605	16,112	493
Social Services	7,700	7,700	7,600	100
Recreation and Culture	4,000	200		200
Roads	106,759	103,359	103,289	70
Debt Service	5,350	5,700	5,700	
Administration	12,100	11,750	10,319	1,431
Total Expenditures	<u>175,300</u>	<u>175,300</u>	<u>171,449</u>	<u>3,851</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>55,939</u>	<u>65,939</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(120,000)</u>	<u>(162,795)</u>	<u>(137,500)</u>	<u>25,295</u>
Total Financing Sources (Uses)	<u>(120,000)</u>	<u>(162,795)</u>	<u>(137,500)</u>	<u>25,295</u>
Net Changes in Fund Balance	(130,000)	(172,795)	(81,561)	91,234
Fund Balance - Beginning	<u>130,000</u>	<u>172,795</u>	<u>172,795</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 91,234</u>	<u>\$ 91,234</u>

WOLFE 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.

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

June 30, 2010

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

June 30, 2010

	Area Development Fund	Fire Protection Fund	Search And Rescue Fund	Local Government Economic Development Fund	Cemetery Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,969	\$ 9,049	\$ 1,371	\$ 3,568	\$ 50
Total Assets	<u>1,969</u>	<u>9,049</u>	<u>1,371</u>	<u>3,568</u>	<u>50</u>
FUND BALANCES					
Unreserved:					
Special Revenue Funds	1,969	9,049	1,371	3,568	50
Total Fund Balances	<u>\$ 1,969</u>	<u>\$ 9,049</u>	<u>\$ 1,371</u>	<u>\$ 3,568</u>	<u>\$ 50</u>

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

WOLFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2010
(Continued)

<u>E-911 Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>\$ 81,892</u>	<u>\$ 97,899</u>
<u>81,892</u>	<u>97,899</u>
<u>81,892</u>	<u>97,899</u>
<u>\$ 81,892</u>	<u>\$ 97,899</u>

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

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WOLFE 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

WOLFE 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

	Area Development Fund	Fire Protection Fund	Search And Rescue Fund	Local Government Economic Development Fund
REVENUES				
Taxes	\$	\$ 2,330	\$	\$
Intergovernmental				75,272
Miscellaneous			3,097	
Interest	6		2	
Total Revenues	<u>6</u>	<u>2,330</u>	<u>3,099</u>	<u>75,272</u>
EXPENDITURES				
Protection to Persons and Property		2,317	2,543	
Social Services				
Capital Projects	1,748			113,039
			29	
Total Expenditures	<u>1,748</u>	<u>2,317</u>	<u>2,572</u>	<u>113,039</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,742)</u>	<u>13</u>	<u>527</u>	<u>(37,767)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds				87,943
Transfers To Other Funds				(53,000)
Total Financing Sources (Uses)				<u>34,943</u>
Net Change in Fund Balances	(1,742)	13	527	(2,824)
Fund Balances - Beginning	3,711	9,036	844	6,392
Fund Balances - Ending	<u>\$ 1,969</u>	<u>\$ 9,049</u>	<u>\$ 1,371</u>	<u>\$ 3,568</u>

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

WOLFE 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>Cemetery Fund</u>	<u>E-911 Fund</u>	<u>Total Non-Major Governmental Funds</u>
\$	\$	\$ 2,330
	91,935	167,207
		3,097
	265	273
	<u>92,200</u>	<u>172,907</u>
	29,339	34,199
		114,787
		29
	<u>29,339</u>	<u>149,015</u>
	62,861	23,892
		87,943
		<u>(53,000)</u>
		34,943
	62,861	58,835
50	19,031	39,064
<u>\$ 50</u>	<u>\$ 81,892</u>	<u>\$ 97,899</u>

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

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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 Raymond Hurst, Former Wolfe County Judge/Executive
The Honorable Dennis Brooks, Wolfe County Judge/Executive
Members of the Wolfe 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, each major fund, and the aggregate remaining fund information of Wolfe 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 June 21, 2011. Wolfe 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 Wolfe 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 Wolfe County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Wolfe 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 in the accompanying comment and recommendation as item 2010-01 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 Wolfe 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.

Management's response to the finding identified in our audit is included in the comment and recommendation. We did not audit management's response and, accordingly, we express no opinion on it.

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,

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

Crit Luallen
Auditor of Public Accounts

June 21, 2011

**WOLFE COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2010

**WOLFE COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS

2010-01 The Fiscal Court Lacks Adequate Segregation Of Duties

A lack of adequate segregation of duties exists over receipts and payroll preparation. The Finance Officer receives all receipts, makes deposits, and posts to the receipts ledger. The Finance Officer prepares all payroll reports, prepares checks to transfer monies from the County's funds into the payroll revolving account, and posts the payroll expenditures to the appropriations ledger. Also, the Finance Officer is the only person who signs paychecks and reconciles all bank accounts, including payroll account.

Segregation of duties over receipts and payroll preparation or implementation of compensating controls when limited by staff size is essential for providing protection from inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the fiscal court segregate the duties of receipts and payroll preparation or implement compensating controls to provide oversight to the employees responsible for these duties. The employee providing this oversight should document his or her review by initialing source documents. Examples of compensating controls are:

- A person independent of cash receipts, such as the County Judge/Executive, recount the daily deposit and agree with daily receipt documentation.
- An independent person should compare the Fiscal court approvals to invoices and cancelled checks. This person should not prepare checks.
- A person independent of payroll preparation review the payroll reports and supporting documentation.
- A person independent of cash receipts and disbursements reviews the bank reconciliation prepared by the Finance Officer.
- An independent person prepares the bank reconciliation.
- An independent person receives the unopened bank statement and reviews for unusual items before it is given to reconciler.

Former County Judge/Executive Raymond Hurst's Response: None.

County Judge/Executive Dennis Brook's Response: Will comply when funds are available.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

WOLFE COUNTY FISCAL COURT

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

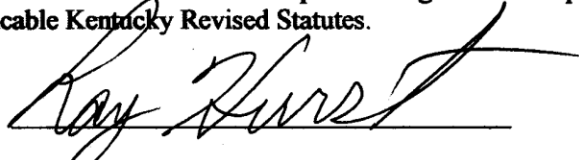
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

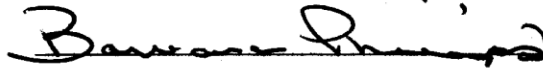
WOLFE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Wolfe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program and Local Government Economic Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "Ray Hunt", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to read "Barbara Smith", written over a horizontal line.

County Treasurer

