

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

**For The Fiscal Year Ended
June 30, 2006**

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Bruce Ramsey, Wayne County Judge/Executive
Members of the Wayne 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 Wayne County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Wayne County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, Wayne County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Wayne County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has chosen not to present 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 inquires of management regarding the methods of measurement and presentation of the budgetary comparison schedules. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
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Honorable Bruce Ramsey, Wayne County Judge/Executive
Members of the Wayne County Fiscal Court

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

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2006, on our consideration of Wayne County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

- The Fiscal Court Should Enter Into A Written Agreement With The Depository Institution Stating Collateral Will Be Pledged To Protect Deposits
- The Jail Canteen Lacks Adequate Segregation Of Duties

Respectfully submitted,


Tichenor & Associates, LLP

Audit fieldwork completed -
November 3, 2006

WAYNE COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Bruce Ramsey	County Judge/Executive
Jerry Sloan	Magistrate
Jesse Jones	Magistrate
Ricky Worley	Magistrate
Wade Upchurch	Magistrate

Other Elected Officials:

L. Lee Tobbe	County Attorney
Ray Upchurch	Jailer
Carol Jones	County Clerk
Richard Morrow	Circuit Court Clerk
James L. Hill	Sheriff
Bobby Upchurch	Property Valuation Administrator
Marvin S. Hicks	Coroner

Appointed Personnel:

Barbara Gehring	County Treasurer
Barbara Hagen	Occupational Tax Collector
Peggy Edwards	Finance Officer
Sue Thompson	Payroll Officer
Tony Blevins	Road Supervisor
Kathy Piercy	Jail Administrator

WAYNE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

WAYNE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,171,522	\$ 115,586	\$ 1,287,108
Notes Receivable (Cable System)	89,423		89,423
Total Current Assets	<u>1,260,945</u>	<u>115,586</u>	<u>1,376,531</u>
Noncurrent Assets:			
Notes Receivable (Cable System)	2,069,117		2,069,117
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	6,440,067	1,638,561	8,078,628
Land and Land Improvements	931,035	110,312	1,041,347
Buildings	3,827,320	890,564	4,717,884
Other Equipment	368,709	8,371	377,080
Vehicles and Equipment	647,478	2,300	649,778
Infrastructure Assets - Net of Depreciation	<u>1,271,619</u>		<u>1,271,619</u>
Total Noncurrent Assets	<u>15,555,345</u>	<u>2,650,108</u>	<u>18,205,453</u>
Total Assets	<u>16,816,290</u>	<u>2,765,694</u>	<u>19,581,984</u>
LIABILITIES			
Current Liabilities:			
Revenue Bonds Payable	445,000		445,000
Financing Obligations Payable	178,635	7,500	186,135
Total Current Liabilities	<u>623,635</u>	<u>7,500</u>	<u>631,135</u>
Noncurrent Liabilities:			
Revenue Bonds Payable	11,135,000		11,135,000
Financing Obligations Payable	2,243,879	52,500	2,296,379
Total Noncurrent Liabilities	<u>13,378,879</u>	<u>52,500</u>	<u>13,431,379</u>
Total Liabilities	<u>14,002,514</u>	<u>60,000</u>	<u>14,062,514</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,642,254	2,590,108	4,232,362
Restricted For:			
Capital Projects	251,240		251,240
Debt Service	19,204		19,204
Unrestricted	901,078	115,586	1,016,664
Total Net Assets	<u>\$ 2,813,776</u>	<u>\$ 2,705,694</u>	<u>\$ 5,519,470</u>

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

WAYNE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

WAYNE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,724,003	\$ 782,175	\$ 418,122	\$
Protection to Persons and Property	2,580,820	1,322,356	11,376	
General Health and Sanitation	402,274			
Social Services	54,000			
Recreation and Culture	22,277			
Roads	975,538		1,340,667	
Airports	40,416			
Other Transportation Facilities and Services	6,040			
Debt Service	900,695			
Capital Projects	429,069			664,229
Total Governmental Activities	7,135,132	2,104,531	1,770,165	664,229
Business-type Activities:				
Jail Canteen	312,016	282,216	11,087	
Airport Board	161,404	90,937	35,553	1,499,811
Total Business-type Activities	473,420	373,153	46,640	1,499,811
Total Primary Government	\$ 7,608,552	\$ 2,477,684	\$ 1,816,805	\$ 2,164,040

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Occupational Taxes
Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Income

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated) (Note 11)

Net Assets - Ending

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

WAYNE COUNTY
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 For The Year Ended June 30, 2006
 (Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (523,706)	\$	\$ (523,706)
(1,247,088)		(1,247,088)
(402,274)		(402,274)
(54,000)		(54,000)
(22,277)		(22,277)
365,129		365,129
(40,416)		(40,416)
(6,040)		(6,040)
(900,695)		(900,695)
235,160		235,160
(2,596,207)		(2,596,207)
	(18,713)	(18,713)
	1,464,897	1,464,897
	1,446,184	1,446,184
\$ (2,596,207)	\$ 1,446,184	\$ (1,150,023)
\$ 472,141	\$	\$ 472,141
63,041		63,041
95,954		95,954
1,395,478		1,395,478
1,168,144		1,168,144
148,500		148,500
247,786		247,786
53,843	545	54,388
3,644,887	545	3,645,432
1,048,680	1,446,729	2,495,409
1,765,096	1,258,965	3,024,061
\$ 2,813,776	\$ 2,705,694	\$ 5,519,470

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

WAYNE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

WAYNE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Jail Fund	Justice Center Project Fund	Detention Facility Project Fund
ASSETS					
Cash and Cash Equivalents	\$ 757,242	\$ 80,155	\$ 43,125	\$ 251,240	\$ 19,204
Total Assets	<u>\$ 757,242</u>	<u>\$ 80,155</u>	<u>\$ 43,125</u>	<u>\$ 251,240</u>	<u>\$ 19,204</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 91,187	\$ 68,751	\$ 43,397	\$	\$
Unreserved:					
General Fund	666,055				
Special Revenue Funds		11,404	(272)		
Capital Projects Fund				251,240	
Debt Service Fund					19,204
Total Fund Balances	<u>\$ 757,242</u>	<u>\$ 80,155</u>	<u>\$ 43,125</u>	<u>\$ 251,240</u>	<u>\$ 19,204</u>

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

WAYNE COUNTY
 BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 June 30, 2006
 (Continued)

	Non- Major Funds	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 20,556	\$ 1,171,522
Total Assets	<u>\$ 20,556</u>	<u>\$ 1,171,522</u>
FUND BALANCES		
Reserved for:		
Encumbrances	\$	\$ 203,335
Unreserved:		
General Fund		666,055
Special Revenue Funds	20,556	31,688
Capital Projects Fund		251,240
Debt Service Fund		19,204
Total Fund Balances	<u>\$ 20,556</u>	<u>\$ 1,171,522</u>

Reconciliation to Statement of Net Assets:

Total Fund Balances	\$ 1,171,522
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.	14,982,237
Accumulated Depreciation	(1,496,009)
Receivable (Cable System)	2,158,540
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(2,422,514)
Bonded Debt	<u>(11,580,000)</u>
Net Assets Of Governmental Activities	<u>\$ 2,813,776</u>

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

For The Year Ended June 30, 2006

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

For The Year Ended June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Justice Center Project Fund</u>
REVENUES				
Taxes	\$ 2,642,613	\$	\$	\$
In Lieu Tax Payments	287,698	666		
Excess Fees	148,500			
Licenses and Permits	27,974			
Intergovernmental	550,095	1,565,244	1,284,141	664,229
Charges for Services	782,175		38,215	
Miscellaneous	26,701	100	39,939	
Interest	5,917	7,657	801	9,229
Total Revenues	<u>4,471,673</u>	<u>1,573,667</u>	<u>1,363,096</u>	<u>673,458</u>
EXPENDITURES				
General Government	991,982			5,203
Protection to Persons and Property	1,454,862		1,103,201	
General Health and Sanitation	397,674			
Social Services	54,000			
Recreation and Culture	22,277			
Roads		1,573,783		
Airports	40,416			
Road Facilities		6,040		
Debt Service	5,843		2,000	584,542
Capital Projects				429,069
Administration	984,259	76,209	177,853	
Total Expenditures	<u>3,951,313</u>	<u>1,656,032</u>	<u>1,283,054</u>	<u>1,018,814</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>520,360</u>	<u>(82,365)</u>	<u>80,042</u>	<u>(345,356)</u>
Other Financing Sources (Uses)				
Bond Issuance Premiums				
Bond Issuance Discounts				(1,630)
Debt Issuance				560,000
Payments to Refunded Bond Escrow Agent				
Transfers From Other Funds	54,650	146,327	150,000	
Transfers to Other Funds	(307,246)	(20,000)	(264,100)	
Total Other Financing Sources (Uses)	<u>(252,596)</u>	<u>126,327</u>	<u>(114,100)</u>	<u>558,370</u>
Net Change in Fund Balances	267,764	43,962	(34,058)	213,014
Fund Balances - Beginning (Restated) (Note 11)	489,478	36,193	77,183	38,226
Fund Balances - Ending	<u>\$ 757,242</u>	<u>\$ 80,155</u>	<u>\$ 43,125</u>	<u>\$ 251,240</u>

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

WAYNE COUNTY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 For The Year Ended June 30, 2006
 (Continued)

	Detention Facility Project Fund	Non- Major Funds	Total Governmental Funds
REVENUES			
Taxes	\$	\$ 3,328	\$ 2,645,941
In Lieu Tax Payments	-		288,364
Excess Fees			148,500
Licenses and Permits			27,974
Intergovernmental		76,756	4,140,465
Charges for Services			820,390
Miscellaneous			66,740
Interest	30,152	87	53,843
Total Revenues	<u>30,152</u>	<u>80,171</u>	<u>8,192,217</u>
EXPENDITURES			
General Government	717	23,216	1,021,118
Protection to Persons and Property		29,490	2,587,553
General Health and Sanitation			397,674
Social Services			54,000
Recreation and Culture			22,277
Roads			1,573,783
Airports			40,416
Road Facilities			6,040
Debt Service	721,633		1,314,018
Capital Projects			429,069
Administration		6,296	1,244,617
Total Expenditures	<u>722,350</u>	<u>59,002</u>	<u>8,690,565</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(692,198)</u>	<u>21,169</u>	<u>(498,348)</u>
Other Financing Sources (Uses)			
Bond Issuance Premiums	26,547		26,547
Bond Issuance Discounts			(1,630)
Debt Issuance	4,135,000		4,695,000
Payments to Refunded Bond Escrow Agent	(4,125,000)		(4,125,000)
Transfers From Other Funds	264,100	10,919	625,996
Transfers to Other Funds		(34,650)	(625,996)
Total Other Financing Sources (Uses)	<u>300,647</u>	<u>(23,731)</u>	<u>594,917</u>
Net Change in Fund Balances	(391,551)	(2,562)	96,569
Fund Balances - Beginning (Restated) (Note 11)	410,755	23,118	1,074,953
Fund Balances - Ending	<u>\$ 19,204</u>	<u>\$ 20,556</u>	<u>\$ 1,171,522</u>

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

WAYNE 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, 2006

WAYNE 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, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 96,569
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	1,294,036
Depreciation Expense	(237,661)
Notes Receivable principal received are receipted in the Governmental Funds as source of current financial resources. These transaction have no effect on net assets.	(86,798)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while financing obligation and bond principle payments are expensed in the governmental funds as a use of current financial resources. These transactions, however, have no effect on net assets	
Bond Issue Proceeds	(4,695,000)
Financing Obligations Payments	172,534
Bond Payments	<u>4,505,000</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,048,680</u>

WAYNE COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2006

WAYNE COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities - Enterprise Funds		
	Jail Canteen Fund	Airport Board Fund	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 37,012	\$ 78,574	\$ 115,586
Total Current Assets	<u>37,012</u>	<u>78,574</u>	<u>115,586</u>
Noncurrent Assets:			
Capital Assets			
Land and Land Improvements		110,312	110,312
Buildings		1,161,952	1,161,952
Construction in Progress		1,638,561	1,638,561
Vehicles and Equipment	13,568	9,500	23,068
Less Accumulated Depreciation	(5,197)	(278,588)	(283,785)
Total Noncurrent Assets	<u>8,371</u>	<u>2,641,737</u>	<u>2,650,108</u>
Total Assets	<u>45,383</u>	<u>2,720,311</u>	<u>2,765,694</u>
Liabilities			
Current Liabilities:			
Financing Obligations		7,500	7,500
Noncurrent Liabilities:			
Financing Obligations		52,500	52,500
Total Liabilities		<u>60,000</u>	<u>60,000</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	8,371	2,581,737	2,590,108
Unrestricted	37,012	78,574	115,586
Total Net Assets	<u>\$ 45,383</u>	<u>\$ 2,660,311</u>	<u>\$ 2,705,694</u>

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

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

For The Year Ended June 30, 2006

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

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds		
	Jail Canteen Fund	Airport Board Fund	Total
Operating Revenues			
Canteen Receipts	\$ 282,216	\$	\$ 282,216
Airport Receipts		90,937	90,937
Total Operating Revenues	282,216	90,937	373,153
Operating Expenses			
Cost of Sales	185,416	107,168	292,584
Commissions		1,559	1,559
Contract Labor		2,534	2,534
Dues and Subscriptions		2,694	2,694
Educational and Recreational	10,856		10,856
Insurance		9,935	9,935
Labor and Materials		2,430	2,430
Personnel Costs	66,618		66,618
Repairs and Maintenance		3,995	3,995
Sales Tax	11,665	5,891	17,556
Depreciation	1,565	20,023	21,588
Interest		1,350	1,350
Miscellaneous	6,494	2,386	8,880
Utilities		1,439	1,439
Total Operating Expenses	282,614	161,404	444,018
Operating Income (Loss)	(398)	(70,467)	(70,865)
Nonoperating Revenues (Expenses)			
Interest Income		545	545
Other Receipts		1,499,811	1,499,811
Transfers In		35,553	35,553
Transfers Out	(8,739)		(8,739)
Inmate Pay From State	11,087		11,087
Inmate Refunds	(20,663)		(20,663)
Total Nonoperating Revenues (Expenses)	(18,315)	1,535,909	1,517,594
Change In Net Assets	(18,713)	1,465,442	1,446,729
Total Net Assets - Beginning (Restated) (Note 11)	64,096	1,194,869	1,258,965
Total Net Assets - Ending	\$ 45,383	\$ 2,660,311	\$ 2,705,694

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

WAYNE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

WAYNE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds		
	Jail Canteen Fund	Airport Board Fund	Totals
Cash Flows From Operating Activities			
Receipts From Customers	\$ 282,216	\$ 90,937	\$ 373,153
Cost of Sales	(185,416)	(107,168)	(292,584)
Commissions		(1,559)	(1,559)
Contract Labor		(2,534)	(2,534)
Dues and Subscriptions		(2,694)	(2,694)
Educational and Recreational	(10,856)		(10,856)
Insurance		(9,935)	(9,935)
Personnel Costs	(66,618)		(66,618)
Labor and Materials		(2,430)	(2,430)
Interest		(1,350)	(1,350)
Repairs and Maintenance		(3,995)	(3,995)
Sales Tax	(11,665)	(5,891)	(17,556)
Miscellaneous	(6,494)	(2,386)	(8,880)
Utilities		(1,439)	(1,439)
Net Cash Provided By Operating Activities	1,167	(50,444)	(49,277)
Cash Flows From Noncapital Financing Activities			
Inmate Pay From State	11,087		11,087
Transfers In		35,553	35,553
Transfers Out	(8,739)		(8,739)
Inmate Refunds on Accounts	(20,663)		(20,663)
Net Cash Provided By Noncapital Financing Activities	(18,315)	35,553	17,238
Cash Flows From Capital and Related Financing Activities			
State and Federal Monies		1,499,812	1,499,812
Borrowed Money			
Capital Outlay		(1,473,162)	(1,473,162)
Net Cash (Used) Provided By Capital and Related Financing Activities		26,650	26,650

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

WAYNE COUNTY
 STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
 For The Year Ended June 30, 2006
 (Continued)

	Business-Type Activities - Enterprise Funds		
	Jail Canteen Fund	Airport Board Fund	Totals
Cash Flows From Investing Activities			
Interest Earned	\$	\$ 545	\$ 545
Net Cash Provided By Investing Activities		545	545
Net Increase (Decrease) in Cash and Cash Equivalents	(17,148)	12,304	(4,844)
Cash and Cash Equivalents - July 1, 2005	54,160	66,270	120,430
Cash and Cash Equivalents - June 30, 2006	<u>\$ 37,012</u>	<u>\$ 78,574</u>	<u>\$ 115,586</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ (398)	\$ (70,467)	\$ (70,865)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities			
Depreciation Expense	<u>1,565</u>	<u>20,023</u>	<u>21,588</u>
Net Cash Provided By Operating Activities	<u>\$ 1,167</u>	<u>\$ (50,444)</u>	<u>\$ (49,277)</u>

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

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TO THE FINANCIAL STATEMENTS**

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WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

Wayne County Public Properties Corporation

The fiscal court appoints a 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 Public Properties Corporation. The Public Properties Corporation's financial information is reported in the Justice Center Project Fund and Detention Facility Project Fund.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Wayne County Airport Board

The Wayne County Airport Board (the Board) was established to oversee the operations of the Wayne County Airport. The Board does not have separate corporate powers from those of the Fiscal Court. Therefore, management must include the Board as a component unit and the Board's financial activity has been blended with that of the Fiscal Court. The Board's financial information is reported in the Airport Board Fund.

C. Wayne County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Wayne 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 Wayne County, Kentucky.

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

D. Government-wide and Fund Financial Statements

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

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

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(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.

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

Separate financial statements are provided for governmental funds and proprietary 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 Governor's Office for Local Development 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 Governor's Office for Local Development 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 Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Detention Facility Project Fund - This fund accounts for the accumulation of resources for the payment of long-term debt principal and interest for the Wayne County Detention Facility and is a part of the Public Properties Corporation. The Public Properties Corporation issued debt to build a detention facility and has entered into a contract, lease, and option with the County. The Governor's Office for local Development does not require the fiscal court to report or budget these funds.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Governmental Funds (Continued)

Justice Center Project Fund - This fund accounts for the funds used for construction of a new Justice Center and is a part of the Public Properties Corporation, a blended component unit of the county. The Public Properties Corporation issued debt to build the Justice Center and has entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The government also has the following non-major governmental funds: Local Government Economic Assistance Fund, Homeland Security Fund, Emergency Management Fund, and Timberland Tax Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Homeland Security Fund, Emergency Management Fund, and Timberland Tax Fund are 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.

Capital Projects Fund:

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

Debt Service Fund:

The Detention Facility Project fund is a debt service fund. Debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

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 lien and sale the 3rd Saturday in April following the delinquency date.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

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 and services in the Jail Canteen Fund and the Airport Board Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Airport Board Fund - This fund is used to account for the operations of the Wayne County Airport. Operating revenues of this fund are derived mainly from fuel and water sales and the rental of hangar space at the airport. Operating expenses consist mainly of the cost of sales, office expenses and depreciation.

E. Cash and Cash Equivalents

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).

WAYNE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land and 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.

Costs 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
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-25
Infrastructure	20,000	10-50

G. Long-term Obligations

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

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

"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. Formal budgets are not adopted for the Public Properties Corporation Fund, the Jail Canteen Fund, or the Airport Board 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.

J. Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Wayne County Fiscal Court:

Tri-County Animal Control is considered a joint venture with Wayne, Clinton and Cumberland County Fiscal Courts.

Monticello-Wayne County Park is considered a joint venture with the Wayne County Fiscal Court and the City of Monticello.

Community Telecom Services is considered a joint venture with the Wayne County Fiscal Court and the City of Monticello.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 2. Deposits

The county 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. However, two of the depository institutions did not have written agreements with the county stating that collateral will be pledged to protect deposits.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the government's deposits 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 August 31, 2005, \$1,576,003 of the government's bank balance of \$2,799,535 was exposed to custodial credit risk as follows:

- Uncollateralized and uninsured - \$1,576,003

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government: Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 925,035	\$ 6,000	\$	\$ 931,035
Construction In Progress	6,010,998	429,069		6,440,067
Total Capital Assets Not Being Depreciated	6,936,033	435,069		7,371,102
Capital Assets, Being Depreciated:				
Buildings	4,347,719			4,347,719
Other Equipment	355,509	161,205		516,714
Vehicles and Equipment	1,350,834	34,380		1,385,214
Infrastructure	698,106	663,382		1,361,488
Total Capital Assets Being Depreciated	\$ 6,752,168	\$ 858,967	\$	\$ 7,611,135

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Less Accumulated Depreciation For:				
Buildings	\$ (469,900)	\$ (50,499)	\$	\$ (520,399)
Other Equipment	(109,460)	(38,545)		(148,005)
Vehicles and Equipment	(643,578)	(94,158)		(737,736)
Infrastructure	(35,410)	(54,459)		(89,869)
Total Accumulated Depreciation	(1,258,348)	(237,661)		(1,496,009)
Total Capital Assets, Being Depreciated, Net	5,493,820	621,306		6,115,126
Governmental Activities Capital Assets, Net	<u>\$ 12,429,853</u>	<u>\$ 1,056,375</u>	<u>\$</u>	<u>\$ 13,486,228</u>
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 90,312	\$ 20,000	\$	\$ 110,312
Construction in progress	192,899	1,445,662		1,638,561
Total Capital Assets Not Being Depreciated	283,211	1,465,662		1,748,873
Capital Assets, Being Depreciated:				
Buildings	1,161,952			1,161,952
Other equipment	13,568			13,568
Vehicles and Equipment	9,500			9,500
Total Capital Assets Being Depreciated	1,185,020			1,185,020
Less Accumulated Depreciation For:				
Buildings	(251,635)	(19,753)		(271,388)
Other Equipment	(3,632)	(1,565)		(5,197)
Vehicles and Equipment	(6,930)	(270)		(7,200)
Total Accumulated Depreciation	(262,197)	(21,588)		(283,785)
Total Capital Assets, Being Depreciated, Net	922,823	(21,588)		901,235
Business-Type Activities Capital Assets, Net	<u>\$ 1,206,034</u>	<u>\$ 1,444,074</u>	<u>\$</u>	<u>\$ 2,650,108</u>

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

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

Governmental Activities:

General Government	\$ 21,075
Protection to Persons and Property	146,849
General Health and Sanitation	4,600
Roads, Including Depreciation of General Infrastructure Assets	<u>65,137</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 237,661</u>

Business-Type Activities

Jail Canteen	\$ 1,565
Airport	<u>20,023</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 21,588</u>

Note 4. Long-term Debt

A. Justice Center - Series 2003 Bond Issue

On January 1, 2003, the Public Properties Corporation issued \$7,395,000 of First Mortgage Revenue Bonds, Series 2003, for the construction of the Wayne County Justice Center. The bonds have various interest rates from 3.50% to 4.25%. Interest is payable each March 1 and September 1, commencing September 1, 2003. Principal is payable each September 1, commencing September 1, 2004. Revenue bonds outstanding at June 30, 2006, were \$6,885,000. Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 265,000	\$ 277,684
2008	275,000	267,559
2009	290,000	256,603
2010	300,000	244,802
2011	310,000	232,603
2012-2016	1,760,000	961,318
2017-2021	2,160,000	560,818
2022-2025	<u>1,525,000</u>	<u>98,919</u>
Totals	<u>\$ 6,885,000</u>	<u>\$ 2,900,306</u>

B. Justice Center - Series 2005 Bonds

On September 1, 2005, the Public Properties Corporation issued \$560,000 of First Mortgage Revenue Bonds, Series 2005, for the final construction of the Wayne County Justice Center. The bonds have various interest rates from 3.30% to 4.1%. Interest is payable each March 1 and September 1 commencing March 1, 2006. Principal is payable each September 1 commencing September 1, 2006. Revenue bonds outstanding at June 30, 2006, were \$560,000. Future debt service requirements are:

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

B. Justice Center - Series 2005 Bonds (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 25,000	\$ 20,928
2008	25,000	20,103
2009	20,000	19,360
2010	25,000	18,618
2011	25,000	17,793
2012-2016	140,000	74,335
2017-2021	170,000	37,820
2022-2025	130,000	14,230
Totals	<u>\$ 560,000</u>	<u>\$ 223,187</u>

C. Detention Center - Series 1999 First Mortgage Revenue Bonds

On November 10, 1999, the Public Properties Corporation issued \$4,665,000 of First Mortgage Revenue Bonds, Series 1999, for the construction of the Wayne County Detention Facility. During fiscal year 2006, the Public Properties Corporation issued General Obligation Refunding Bonds, Series 2006 (Note 4.D.). A portion of this bond issue was used to defease the First Mortgage Revenue Bonds, Series 1999. As of June 30, 2006, the escrow account had a balance of \$4,125,000.

D. Detention Center - Series 2006 Refunding Bonds

On March 1, 2006, the Public Properties Corporation issued \$4,135,000 of General Obligation Refunding Bonds, Series 2006, for the Wayne County Detention Facilities Project. The bonds have an interest rate of 4.0%. Interest is payable each May 1 and November 1 commencing May 1, 2006. Principal is payable each November 1 commencing November 1, 2006. General Obligation Refunding Bonds outstanding at June 30, 2006, were \$4,135,000. Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 155,000	\$ 162,300
2008	160,000	156,000
2009	160,000	149,600
2010	170,000	143,000
2011	175,000	136,100
2012-2016	985,000	567,700
2017-2021	1,190,000	350,800
2022-2025	1,140,000	93,200
Totals	<u>\$ 4,135,000</u>	<u>\$ 1,758,700</u>

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 5. Financing Obligations

The county has entered into the following agreements:

A. Voting Machines

On June 27, 1997, the Wayne County Fiscal Court entered into a \$100,000 agreement with Kentucky Association of Counties Leasing Trust Program for the acquisition of voting machines. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments ending on January 20, 2007. As of June 30, 2006, the principal balance remaining was \$12,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2007	\$ 12,000	\$ 418
Totals	\$ 12,000	\$ 418

B. Fire Pumper

On April 5, 2004, the Wayne County Fiscal Court entered into a \$163,000 agreement with Kentucky Association of Counties Leasing Trust Program for the acquisition of a Fire Pumper. Terms of the agreement stipulate a five-year repayment schedule, with variable interest payments and variable annual principal payments ending on April 20, 2009. As of June 30, 2006, the principal balance remaining was \$119,741. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 31,437	\$ 3,644
2008	42,230	2,479
2009	46,074	887
Totals	\$ 119,741	\$ 7,010

C. Ambulances

On December 22, 2003, the Wayne County Fiscal Court entered into a \$150,900 agreement with Kansas State Bank of Manhattan for the acquisition of two 2003 McCoy Miller Type I Ambulances. Terms stipulated a five-year repayment schedule of twenty (20) quarterly payments through December 22, 2008, at 4.29% interest. As of June 30, 2006, the principal balance remaining was \$79,470. Future principal and interest requirements are:

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 5. Financing Obligations (Continued)

C. Ambulances (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 30,775	\$ 2,919
2008	32,116	1,577
2009	16,579	267
Totals	<u>\$ 79,470</u>	<u>\$ 4,763</u>

D. Airport Loan (Business-Type Activities)

On October 20, 2003, the Airport Board, with approval from the Wayne County Fiscal Court entered into a \$75,000 loan agreement with the Kentucky Transportation Cabinet for the improvement of the airport. Terms of the agreement stipulate a ten-year repayment schedule with interest of two percent. Future principal and interest requirements are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2007	\$ 7,500	\$ 1,200
2008	7,500	1,050
2009	7,500	900
2010	7,500	750
2011	7,500	600
2012-2014	22,500	900
Totals	<u>\$ 60,000</u>	<u>\$ 5,400</u>

E. Cable System Loan/Notes Receivable

On August 12, 2004, the Wayne County Fiscal Court passed and adopted a resolution authorizing the county to enter into a joint venture with the City of Monticello for the purchase and improvement of a cable television system. Financing of the county's portion of the project is to be provided through a certain lease agreement between the Kentucky League of Cities Leasing Trust ("the Lessor") and the County ("the Lessee") at an aggregate principal amount not to exceed \$2,300,000. Terms of the agreement stipulate a twenty-year repayment schedule beginning December 2004, with interest of 2.23%. The annual debt service to be paid from the cable service fees collected. Future principal and interest requirements are:

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 5. Financing Obligations (Continued)

E. Cable System Loan/Notes Receivable (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 89,423	\$ 63,937
2008	92,012	61,348
2009	94,956	58,404
2010	97,733	55,627
2011	100,685	52,676
2012-2016	550,654	216,147
2017-2021	638,801	128,000
2022-2025	494,276	29,705
Totals	<u>\$ 2,158,540</u>	<u>\$ 665,844</u>

The County has also recorded a note receivable due from the joint venture for the amount of the debt incurred by the County as follows:

Current Portion	\$ 89,423
Long-Term Portion	<u>2,069,117</u>
Total	<u>\$ 2,158,540</u>

F. Ambulance and Heart Monitor

On October 13, 2004, the Wayne County Fiscal entered into a \$74,000 agreement with Kentucky Association of Counties Leasing Trust Program for the acquisition of an Ambulance and Heart Monitor. Terms of the agreement stipulate a five-year repayment schedule, with a 2.73% fixed interest rate and annual principal payments of \$15,000 ending on January 20, 2009. As of June 30, 2006, the principal balance remaining was \$44,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 15,000	\$ 1,342
2008	15,000	839
2009	<u>14,000</u>	<u>301</u>
Totals	<u>\$ 44,000</u>	<u>\$ 2,482</u>

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 5. Financing Obligations (Continued)

G. Hope Center

On February 16, 2001, the Wayne County Fiscal Court entered into a lease with option to purchase agreement with the Commonwealth of Kentucky for the acquisition of the Hope Center formerly the Old Maintenance Site. Terms of the agreement stipulate a yearly principal payment of \$2,922 for a period of ten years ending on July 1, 2010. As of June 30, 2006, the principal balance remaining was \$8,764.

Governmental Activities	
Fiscal Year Ended June 30	Scheduled Principal
2008	\$ 2,922
2009	2,922
2010	2,920
Totals	<u>\$ 8,764</u>

H. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds (Note 4.)	\$ 11,390,000	\$ 4,695,000	\$ 4,505,000	\$ 11,580,000	\$ 445,000
Financing Obligations	2,595,048		172,534	2,422,514	178,635
Governmental Activities Long-term Liabilities	<u>\$ 13,985,048</u>	<u>\$ 4,695,000</u>	<u>\$ 4,677,534</u>	<u>\$ 14,002,514</u>	<u>\$ 623,635</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Long Term Airport Loan	<u>\$ 67,500</u>	<u>\$ 0</u>	<u>\$ 7,500</u>	<u>\$ 60,000</u>	<u>\$ 7,500</u>

Note 6. Interest on Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$13,071 in interest on financing obligations and \$441,973 in interest on bonds and notes.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

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 10.98 percent.

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

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On February 24, 2000, the Wayne County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2006, Wayne County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Fund Balance - Deficit

As of June 30, 2006, the Jail Fund had a deficit in its' unreserved special revenue fund balance in the amount of \$272. This deficit was due to the existence of encumbrances in the amount of \$43,397.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 11. Prior Period Adjustments

Beginning net assets of the governmental activities and business-type activities have been restated for the following:

	Governmental Activities
Net Assets as of June 30, 2005	\$ 1,654,309
Capital asset omission	125,989
Accumulated depreciation of prior year omission	(10,117)
Prior year capital asset accumulated depreciation computation error	(5,133)
Cash balance computation error - General Fund	600
Cash balance computation error - Detention Center Fund	(953)
Prior year outstanding checks voided in current year - Jail Fund	401
Net increase to Net Assets as of June 30, 2005	110,787
Restated Net Asset balance as of June 30, 2005	\$ 1,765,096

The fund balances of the General Fund, Jail Fund, and Detention Center Fund have also been restated by \$600, \$401, and (\$953) respectively for the above reasons.

	Business - Type Activities
Net Assets as of June 30, 2005	\$ 1,258,463
Adjustment to Depreciation expense	502
Restated Net Asset balance as of June 30, 2005	\$ 1,258,965

The beginning net assets of the Jail Canteen Fund was restated by \$502 due to an adjustment to depreciation expense.

WAYNE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

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

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,558,550	\$ 2,628,113	\$ 2,642,613	\$ 14,500
In Lieu Tax Payments	215,000	246,142	287,698	41,556
Excess Fees	78,754	117,338	148,500	31,162
Licenses and Permits	17,375	25,849	27,974	2,125
Intergovernmental Revenue	345,620	544,218	550,095	5,877
Charges for Services	561,100	713,412	782,175	68,763
Miscellaneous	76,650	65,600	26,701	(38,899)
Interest	6,000	6,595	5,917	(678)
Total Revenues	3,859,049	4,347,267	4,471,673	124,406
EXPENDITURES				
General Government	826,331	1,067,996	991,982	76,014
Protection to Persons and Property	1,378,855	1,565,560	1,454,862	110,698
General Health and Sanitation	301,919	413,794	397,674	16,120
Social Services	45,124	57,294	54,000	3,294
Recreation and Culture	55,600	56,600	22,277	34,323
Airports	10,750	42,750	40,416	2,334
Debt Service	2,922	5,852	5,843	9
Administration	1,033,079	1,274,298	984,259	290,039
Total Expenditures	3,654,580	4,484,144	3,951,313	532,831
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	204,469	(136,877)	520,360	657,237
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		54,650	54,650	
Transfers To Other Funds	(549,564)	(407,246)	(307,246)	100,000
Total Other Financing Sources (Uses)	(549,564)	(352,596)	(252,596)	100,000
Net Changes in Fund Balance	(345,095)	(489,473)	267,764	757,237
Fund Balance - Beginning (Restated) (Note 11)	345,095	489,478	489,478	
Fund Balance - Ending	\$ 0	\$ 5	\$ 757,242	\$ 757,237

WAYNE COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Required Supplementary Information - Modified Cash Basis
 For The Year Ended June 30, 2006
 (Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 669	\$ 669	\$ 666	\$ (3)
Intergovernmental Revenue	1,514,482	1,574,666	1,565,244	(9,422)
Miscellaneous	100	100	100	
Interest	5,000	5,000	7,657	2,657
Total Revenues	1,520,251	1,580,435	1,573,667	(6,768)
EXPENDITURES				
Roads	1,658,281	1,608,058	1,573,783	34,275
Other Transportation Facilities and Services	4,850	6,450	6,040	410
Administration	133,447	128,447	76,209	52,238
Total Expenditures	1,796,578	1,742,955	1,656,032	86,923
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(276,327)	(162,520)	(82,365)	80,155
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	76,327	146,327	146,327	
Transfers To Other Funds		(20,000)	(20,000)	
Total Other Financing Sources (Uses)	76,327	126,327	126,327	
Net Changes in Fund Balance	(200,000)	(36,193)	43,962	80,155
Fund Balance - Beginning	200,000	36,193	36,193	
Fund Balance - Ending	\$ 0	\$ 0	\$ 80,155	\$ 80,155

WAYNE COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Required Supplementary Information - Modified Cash Basis
 For The Year Ended June 30, 2006
 (Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,035,054	\$ 1,281,781	\$ 1,284,141	\$ 2,360
Charges for Services	48,000	38,994	38,215	(779)
Miscellaneous	43,800	37,678	39,939	2,261
Interest	850	700	801	101
Total Revenues	1,127,704	1,359,153	1,363,096	3,943
EXPENDITURES				
Protection to Persons and Property	1,144,624	1,145,302	1,103,201	42,101
Debt Service	352,068	2,000	2,000	
Administration	229,830	274,933	177,853	97,080
Total Expenditures	1,726,522	1,422,235	1,283,054	139,181
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(598,818)	(63,082)	80,042	143,124
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	464,818	250,000	150,000	(100,000)
Transfers To Other Funds		(264,100)	(264,100)	
Total Other Financing Sources (Uses)	464,818	(14,100)	(114,100)	(100,000)
Net Changes in Fund Balance	(134,000)	(77,182)	(34,058)	43,124
Fund Balance - Beginning (Restated) (Note 11)	134,000	77,183	77,183	
Fund Balance - Ending	\$ 0	\$ 1	\$ 43,125	\$ 43,124

WAYNE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

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.

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

June 30, 2006

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

June 30, 2006

	<u>LGEA Fund</u>	<u>Homeland Security Fund</u>	<u>Emergency Management Fund</u>	<u>Timberland Tax Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 8,832	\$ 1,938	\$ 1,690	\$ 8,096	\$ 20,556
Total Assets	<u>\$ 8,832</u>	<u>\$ 1,938</u>	<u>\$ 1,690</u>	<u>\$ 8,096</u>	<u>\$ 20,556</u>
FUND BALANCES					
Unreserved:					
Special Revenue Funds	\$ 8,832	\$ 1,938	\$ 1,690	\$ 8,096	\$ 20,556
Total Fund Balances	<u>\$ 8,832</u>	<u>\$ 1,938</u>	<u>\$ 1,690</u>	<u>\$ 8,096</u>	<u>\$ 20,556</u>

WAYNE 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, 2006

WAYNE 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, 2006

	LGEA Fund	Homeland Security Fund	Emergency Management Fund	Timberland Tax Fund	Total Non-Major Governmental Funds
REVENUES					
Taxes	\$	\$	\$	\$ 3,328	\$ 3,328
Intergovernmental	30,730	34,650	11,376		76,756
Interest	55			32	87
Total Revenues	<u>30,785</u>	<u>34,650</u>	<u>11,376</u>	<u>3,360</u>	<u>80,171</u>
EXPENDITURES					
General Government	23,216				23,216
Protection to Persons and Property		6,882	18,742	3,866	29,490
Administration	4,315		1,981		6,296
Total Expenditures	<u>27,531</u>	<u>6,882</u>	<u>20,723</u>	<u>3,866</u>	<u>59,002</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>3,254</u>	<u>27,768</u>	<u>(9,347)</u>	<u>(506)</u>	<u>21,169</u>
Other Financing Sources (Uses)					
Transfers From Other Funds	5,573		5,346		10,919
Transfers To Other Funds		(34,650)			(34,650)
Total Other Financing Sources (Uses)	<u>5,573</u>	<u>(34,650)</u>	<u>5,346</u>		<u>(23,731)</u>
Net Change in Fund Balances	8,827	(6,882)	(4,001)	(506)	(2,562)
Fund Balances - Beginning	<u>5</u>	<u>8,820</u>	<u>5,691</u>	<u>8,602</u>	<u>23,118</u>
Fund Balances - Ending	<u>\$ 8,832</u>	<u>\$ 1,938</u>	<u>\$ 1,690</u>	<u>\$ 8,096</u>	<u>\$ 20,556</u>

WAYNE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2006

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

For The Year Ended June 30, 2006

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wayne County, Kentucky.
2. One reportable condition relating to the internal control of the audit of the financial statements is reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Wayne County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of major federal awards programs for Wayne County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Wayne County reported in Part C of this schedule.
7. The program tested as a major program was: Airport Improvement Program Grant (CFDA 20.106)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Wayne County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

1. The Jail Canteen Lacks Adequate Segregation Of Duties

The Jail Canteen has a lack of adequate segregation of duties. Due to the entities diversity of official operations, small size and budget restrictions the county has limited options for establishing an adequate segregation of duties. We recommend the following controls be implemented to mitigate this internal control weakness:

- An independent person should review incoming invoices and compare them to the packing slip or purchase order. This can be documented by the person initialing the invoice.
- An independent person should complete bank reconciliation's or review the Canteen Bookkeeper's bank reconciliation's for accuracy. This can be documented by the person initialing the bank reconciliation.
- An independent person should mail checks after final signature.
- Two signatures should be required on every check written for the Jail Canteen.

County Jailer Ray Upchurch's Response: Since meeting with CPA, I have began to review and initial all bills, plus sign all checks along with Canteen Supervisor, also will review the balance for accuracy.

WAYNE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006
(Continued)

2. The Fiscal Court Should Enter Into A Written Agreement With The Depository Institution Stating Collateral Will Be Pledged To Protect Deposits

The Fiscal Court does not have a written pledge agreement in place with two (2) depository institutions stating collateral will be pledged to protect deposits. On August 31, 2005, \$1,576,003 of the Fiscal Court's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend the Fiscal Court enter into a written agreement with depository institutions stating collateral will be pledged to protect deposits.

County Judge/Executive Bruce Ramsey's Response: We will check with 1st Southern to get this done.

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

None

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Year Findings - Financial Statement Audit

1. The Wayne County Airport Board Should Make Contractual Agreements Setting Forth Responsibilities Of Each Party. This comment has been corrected.
2. The Wayne County Airport Board Should Strengthen Internal Controls. This comment has been corrected.

WAYNE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2006

WAYNE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2006

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Agriculture</u>		
Passed-Through State Department of Forestry:		
Cooperative Forestry Assistance - Consolidated Payment Grant (CFDA # 10.664)	05-DG-11083121-050	\$ 16,793
Total U.S. Department of Agriculture		<u>\$ 16,793</u>
<u>U.S. Department of Commerce</u>		
Passed-Through State Department of Commerce:		
Congressionally Identified Awards and Projects		
PRIDE -		
Open Dump Clean Up (CFDA # 11.469)	CF05-44	\$ 50,165
	SG05-13	99,250
Total U.S. Department of Commerce		<u>\$ 149,415</u>
<u>U.S. Department of Transportation</u>		
Direct Program:		
Airport Improvement Program - Taxiway Construction		\$ 1,456,183
Ramp and Apron (CFDA # 20.106)		2,798
Total U.S. Department of Transportation		<u>\$ 1,458,981</u>

WAYNE COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2006
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-Through State Board of Elections:		
Voting Access for Individuals with Disabilities - Grants for Protection and Advocacy Systems		
HAVA PL 107252 (CFDA # 93.618)	SBE-05-48	\$ 119,063
Total U.S. Election Assistance Commission		<u>\$ 119,063</u>
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Emergency Management:		
State Domestic Preparedness Equipment Support Program - EOP Update Planning and Preparedness (CFDA # 97.004)	M-04647883	\$ 2,500
Emergency Management Assistance Program - Emergency Management Performance Grant (CFDA # 97.042)	M-05029993	1,685
Passed-Through State Department of Homeland Security:		
Homeland Security Grant Program - Enhance Capabilities to Respond to CBRNE Events (CFDA # 97.067)	5140L	35,527
Total U.S. Department of Homeland Security		<u>\$ 39,712</u>
Total Cash Expenditures of Federal Awards		<u>\$ 1,783,964</u>

WAYNE COUNTY FISCAL COURT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal activity of the Wayne County Fiscal Court and is presented on the modified-cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic 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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The Honorable Bruce Ramsey, Wayne County Judge/Executive
Members of the Wayne 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 Wayne County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 3, 2006. Wayne 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 Wayne County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Wayne County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs.

- **The Jail Canteen Lacks Adequate Segregation Of Duties**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above 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 Wayne 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 one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and is included in the accompanying schedule of findings and questioned costs.

- The Fiscal Court Should Enter Into A Written Agreement With The Depository Institution Stating Collateral Will Be Pledged To Protect Deposits

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

Respectfully submitted,

Tichenor & Associates LLP

Tichenor & Associates, LLP

Audit fieldwork completed -
November 3, 2006

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

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The Honorable Bruce Ramsey, Wayne County Judge/Executive
Members of the Wayne County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Wayne County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Wayne County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Wayne County's management. Our responsibility is to express an opinion on Wayne County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Wayne County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Wayne County's compliance with those requirements.

In our opinion, Wayne County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

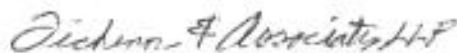
The management of Wayne County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Wayne County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Tichenor & Associates, LLP

Audit fieldwork completed -
November 3, 2006

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

WAYNE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

WAYNE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

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



Name

County Judge/Executive



Name

County Treasurer