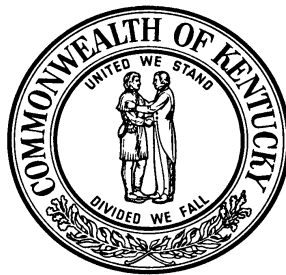


**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
FISCAL COURT**

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



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Cale Turner, Owsley County Judge/Executive

Members of the Owsley County Fiscal Court

The enclosed report prepared by Teddy Michael Prater, CPA, PLLC, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owsley County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements.

We engaged Teddy Michael Prater, CPA, PLLC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Teddy Michael Prater, CPA, PLLC evaluated Owsley County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script that reads "Crit Luallen".

Crit Luallen
Auditor of Public Accounts



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWSLEY COUNTY FISCAL COURT

June 30, 2010

Teddy Michael Prater CPA, PLLC has completed the audit of the Owsley County Fiscal Court for fiscal year ended June 30, 2010. We have issued an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information of Owsley County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Owsley County's major federal programs: Emergency Watershed Protection Program Grant (CFDA 10.923), and Public Assistance Grant (CFDA 97.036).

Financial Condition:

The fiscal court had net assets of \$4,008,115 as of June 30, 2010. The fiscal court had unrestricted net assets of \$683,033 in its governmental activities as of June 30, 2010. The fiscal court had total debt principal as of June 30, 2010 of \$313,019 with \$88,763 due within the next year.

Deposits:

As of June 30, 2010, the County's deposits were covered by FDIC insurance or a properly executed collateral security agreement.

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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT
PROGRAMS

TEDDY MICHAEL PRATER CPA, PLLC
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Salyersville, KY 41465
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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley 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 Owsley 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 Owsley 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 the 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, Owsley 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 Owsley County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

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
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court
(Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Owsley 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 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 December 22, 2010, on our consideration of Owsley County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Teddy Michael Prater CPA". The signature is written in a cursive, flowing style.

Teddy Michael Prater CPA, PLLC

December 22, 2010

OWSLEY COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Cale Turner	County Judge/Executive
Jesse Bishop Jr.	Magistrate
Larry Chandler	Magistrate
Mike Harris	Magistrate

Other Elected Officials:

Henley McIntosh	County Attorney
Hubert Shouse	Jailer
Sid Gabbard	County Clerk
Mike Mays	Circuit Court Clerk
Kelly Shouse	Sheriff
Sandra King	Property Valuation Administrator
Eddie Isaacs	Coroner

Appointed Personnel:

Barbara Whittaker	County Treasurer
Tammy Combs	Finance Officer
Harvey Roberts	Road Supervisor

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**OWSLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2010

OWSLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 683,033
Total Current Assets	683,033
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	103,402
Buildings	1,168,314
Vehicles and Equipment	1,199,717
Infrastructure	1,166,668
Total Noncurrent Assets	3,638,101
Total Assets	4,321,134
LIABILITIES	
Current Liabilities:	
Financing Obligations	88,763
Total Current Liabilities	88,763
Noncurrent Liabilities:	
Financing Obligations	224,256
Total Noncurrent Liabilities	224,256
Total Liabilities	313,019
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,325,082
Unrestricted	683,033
Total Net Assets	\$ 4,008,115

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

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**OWSLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

OWSLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Functions/Programs Reporting Entity	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Governmental Activities:					
General Government	\$ 912,168	\$	\$ 94,877	\$	\$ (817,291)
Protection to Persons and Property	287,350	256	1,752,791		1,465,697
General Health and Sanitation	356,279	371,370		61,014	76,105
Social Services	24,612				(24,612)
Recreation and Culture	109,967		169,757	85,371	145,161
Roads	1,895,092		1,040,551		(854,541)
Interest on Long-term and Short-term Debt	13,816				(13,816)
Capital Projects	155,313				(155,313)
Total Governmental Activities	\$ 3,754,597	\$ 371,626	\$ 3,057,976	\$ 146,385	(178,610)

General Revenues:

Taxes:

Real Property Taxes	102,818
Personal Property Taxes	29,003
Motor Vehicle Taxes	17,800
Insurance License Tax	192,383
In Lieu Tax Payments	67,420
Other Taxes	34,544
Miscellaneous Revenues	205,449
Interest Received	4,453

Total General Revenues	653,870
Change in Net Assets	475,260
Net Assets - Beginning	3,532,855
Net Assets - Ending	\$ 4,008,115

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

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**OWSLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2010

OWSLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>Local Government Economic Assistance Fund</u>	<u>Solid Waste Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 169,067	\$ 248,390	\$ 105,687	\$ 72,867
Total Assets	<u>\$ 169,067</u>	<u>\$ 248,390</u>	<u>\$ 105,687</u>	<u>\$ 72,867</u>
FUND BALANCES				
Unreserved:				
General Fund	\$ 169,067	\$	\$	\$
Special Revenue Funds		248,390	105,687	72,867
Total Fund Balances	<u>\$ 169,067</u>	<u>\$ 248,390</u>	<u>\$ 105,687</u>	<u>\$ 72,867</u>

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

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

<u>Parks and Recreation Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$ 75,753	\$ 11,269	\$ 683,033
<u>\$ 75,753</u>	<u>\$ 11,269</u>	<u>\$ 683,033</u>
\$ 75,753	\$ 11,269	\$ 169,067
<u>75,753</u>	<u>11,269</u>	<u>513,966</u>
<u>\$ 75,753</u>	<u>\$ 11,269</u>	<u>\$ 683,033</u>

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

Total Fund Balances	\$ 683,033
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.	5,484,171
Accumulated Depreciation	(1,846,070)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	<u>(313,019)</u>
Net Assets Of Governmental Activities	<u>\$ 4,008,115</u>

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

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

For The Year Ended June 30, 2010

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

For The Year Ended June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>Local Government Economic Assistance Fund</u>
REVENUES			
Taxes	\$ 375,878	\$	\$ 670
In Lieu Tax Payments	5,463	61,957	
Intergovernmental	128,567	2,568,336	200,794
Charges for Services	105,433		
Miscellaneous	46,458	149,592	72
Interest	1,245	1,940	524
Total Revenues	<u>663,044</u>	<u>2,781,825</u>	<u>202,060</u>
EXPENDITURES			
General Government	413,824	32,400	7,200
Protection to Persons and Property	9,211		64,324
General Health and Sanitation	71,630		7,935
Social Services	17,328		8,523
Recreation and Culture			
Roads		2,096,954	
Debt Service:			
Principal	10,000	553,964	
Interest		7,150	
Capital Projects		108,492	
Administration	178,660	175,451	12,663
Total Expenditures	<u>700,653</u>	<u>2,974,411</u>	<u>100,645</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	<u>(37,609)</u>	<u>(192,586)</u>	<u>101,415</u>
OTHER FINANCING SOURCES (USES)			
Borrowed Money		500,000	
Financing Obligation Proceeds		115,000	
Transfers From Other Funds	276,000	110,000	50,000
Transfers To Other Funds	(184,660)	(301,000)	(95,000)
Total Other Financing Sources (Uses)	<u>91,340</u>	<u>424,000</u>	<u>(45,000)</u>
Net Change in Fund Balances	53,731	231,414	56,415
Fund Balances - Beginning	115,336	16,976	49,272
Fund Balances - Ending	<u>\$ 169,067</u>	<u>\$ 248,390</u>	<u>\$ 105,687</u>

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

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

Solid Waste Fund	Parks and Recreation Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$ 376,548
			67,420
61,014	44,471	201,179	3,204,361
265,937		256	371,626
9,254		73	205,449
343	309	92	4,453
<u>336,548</u>	<u>44,780</u>	<u>201,600</u>	<u>4,229,857</u>
		48,910	502,334
		184,991	258,526
303,187			382,752
		4,938	30,789
	11,598	73,616	85,214
3,547			2,100,501
10,000	5,000		578,964
4,460	2,206		13,816
	46,821		155,313
19,188		7,553	393,515
<u>340,382</u>	<u>65,625</u>	<u>320,008</u>	<u>4,501,724</u>
<u>(3,834)</u>	<u>(20,845)</u>	<u>(118,408)</u>	<u>(271,867)</u>
			500,000
35,000			150,000
29,660	40,000	115,000	620,660
(40,000)			(620,660)
<u>24,660</u>	<u>40,000</u>	<u>115,000</u>	<u>650,000</u>
20,826	19,155	(3,408)	378,133
52,041	56,598	14,677	304,900
<u>\$ 72,867</u>	<u>\$ 75,753</u>	<u>\$ 11,269</u>	<u>\$ 683,033</u>

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

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**OWSLEY 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

**OWSLEY 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	\$	378,133
<p>Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p>		
Capital Outlay		536,921
Depreciation Expense		(283,065)
Disposal of Assets (Net)		(85,693)
<p>The Issuance of Debt Provides Current Financial Resources to Governmental Funds While Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions, However, Have no Effect on Net Assets.</p>		
Financing Obligations Proceeds		(150,000)
Financing Obligations Principal Payments		<u>78,964</u>
Change in Net Assets of Governmental Activities	\$	<u><u>475,260</u></u>

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

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NOTES TO FINANCIAL STATEMENTS**

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OWSLEY 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 the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements

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

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

B. Reporting Entity

The financial statements of Owsley 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. Based upon the application of the criteria stated in GASB 14 and GASB 39, there are no component units which merit consideration as part of the reporting entity.

C. Owsley County Elected Officials

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. 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.

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 through November 30, due at face value through December 31, delinquent at January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Since there is only one fund type (governmental) presented for Owsley County, major funds are those whose assets, liabilities, revenues, or expenditures are at least ten percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as a major fund. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

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

OWSLEY 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)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. 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 – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Solid Waste Fund - The primary purpose of this fund is to account for the receipts and expenditures relating to the county-wide garbage pickup service.

Parks and Recreation Fund – The purpose of this fund is to account for receipts and expenditures relating to the county parks and recreation system.

The primary government also has the following nonmajor funds: Jail Fund and Local Government Economic Development Fund.

Special Revenue Funds:

The Road Fund, Local Government Economic Assistance Fund, Solid Waste Fund, Parks and Recreation Fund, Jail Fund, and Local Government Economic Development 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.

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).

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

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

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

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

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

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest 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.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(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.

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 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, Three Forks Regional Jail is considered a joint venture of the Owsley County Fiscal Court.

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 of 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 of the bonds as follows (the “proportionate share” or “use allowance”): 40% for Lee County, 22% for Owsley County and 38% for Wolfe County.

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

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Venture (Continued)

By execution of the lease and subleases, each county is obligated for the amount of its proportionate share, plus any operating cost allowance required under the lease and subleases.

Each county is liable solely for its own proportionate share of total annual debt service for the bonds and no one county is liable for another county's debt. Payment of the annual debt service for the bonds is dependent upon each participating county paying its respective amount of its use allowance as rent under the lease or sublease, as the case may be, in full.

Each county has agreed in its lease and sublease agreements that in the event a county cannot pay its indebtedness, an Ad Valorem Tax will be levied in that county for an amount sufficient to provide full payment of the county's rentals due for that year.

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.

It is anticipated under the management agreement that the three participating counties will share equally in the operating costs of the facility based on a daily bed allocation of 15 beds at \$25 per day on a take-or-pay basis. It is anticipated under the management agreement that the counties will not be required to make additional payments for the operation of the facility; however, should there be a shortfall in operating revenue, the counties will pay equally to the authority, those moneys required to meet the debt service and operating costs.

The Three Forks Regional Jail Authority and the Three Fork's Public Properties Corporation are comprised of an eight (8) 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 Authority's most recent audit report may be obtained at Three Forks Regional Jail 2475 Center Street, Beattyville, Kentucky 41311.

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.

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

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

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

Note 3. Capital Assets

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

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 103,402	\$	\$	\$ 103,402
Construction In Progress	132,026		(132,026)	
Total Capital Assets Not Being Depreciated	235,428		(132,026)	103,402
Capital Assets, Being Depreciated:				
Buildings	1,482,154	143,534		1,625,688
Vehicles and Equipment	1,738,346	289,262	(130,300)	1,897,308
Infrastructure	1,621,622	236,151		1,857,773
Total Capital Assets Being Depreciated	4,842,122	668,947	(130,300)	5,380,769
Less Accumulated Depreciation For:				
Buildings	(428,655)	(28,719)		(457,374)
Vehicles and Equipment	(645,795)	(96,403)	44,607	(697,591)
Infrastructure	(533,162)	(157,943)		(691,105)
Total Accumulated Depreciation	(1,607,612)	(283,065)	44,607	(1,846,070)
Total Capital Assets, Being Depreciated, Net	3,234,510	385,882	(85,693)	3,534,699
Governmental Activities Capital Assets, Net	\$ 3,469,938	\$ 385,882	\$ (217,719)	\$ 3,638,101

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

Note 3. Capital Assets (Continued)

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

Governmental Activities:

General Government	\$ 16,319
Protection to Persons and Property	34,824
General Health and Sanitation	11,027
Social Services	5,331
Recreation and Culture	24,753
Roads, Including Depreciation of General Infrastructure Assets	<u>190,811</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 283,065</u>

Note 4. Short-term Debt

A. On July 1, 2009 and August 10, 2009, the Fiscal Court executed notes with the Farmers State Bank. The principal amount of each note was \$250,000 with an interest rate of 6.250%. The maturity dates were July 30, 2009 and September 30, 2009 respectfully.

B. Changes in Short-term Debt

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities:				
Borrowed Money	<u>\$</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$</u>

Note 5. Long-term Debt

A. Drill

On January 8, 2007, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a drill for the road department. The principal amount of the lease was \$58,000. The agreement requires monthly interest payments and annual principal payments in July to be paid in full July 2011, with an interest rate of 5.305%. Amount of principal outstanding as of June 30, 2010 was \$28,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest & Fees</u>
2011	15,000	755
2012	<u>13,000</u>	<u>58</u>
Totals	<u>\$ 28,000</u>	<u>\$ 813</u>

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

Note 5. Long-term Debt (Continued)

B. Ramming Hammer

On June 12, 2007, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a ramming hammer for the road department. The principal amount of the lease was \$35,500. The agreement requires monthly interest and principal payments to be paid in full June 2012, with an interest rate of 4.25% plus fees. Amount of principal outstanding as of June 30, 2010 was \$15,304. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2011	7,447	552
2012	7,857	440
Totals	<u>\$ 15,304</u>	<u>\$ 992</u>

C. Abe Lincoln Property Improvements

On August 11, 2008, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for renovating existing buildings and constructing additional structures on property owned by Owsley County referred to as the Abe Lincoln property. The principal amount of the lease was \$60,000. The agreement requires annual principal payments and monthly interest payments to be paid in full August 20, 2018, with an interest rate of 4.242%. Amount of principal outstanding as of June 30, 2010 was \$55,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	5,000	2,333
2012	5,000	2,164
2013	6,000	1,915
2014	6,000	1,661
2015	6,000	1,408
2016-2019	27,000	2,679
	<u>\$ 55,000</u>	<u>\$ 12,160</u>

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

Note 5. Long-term Debt (Continued)

D. Ambulance

On April 20, 2009, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of an ambulance. The principal amount of the lease was \$33,625. The agreement requires annual principal payments and monthly interest payments to be paid in full March 20, 2012, with an interest rate of 4.898%. Amount of principal outstanding as of June 30, 2010 was \$23,625. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	10,000	1,090
2012	13,625	593
Totals	<u>\$ 23,625</u>	<u>\$ 1,683</u>

E. Dump Truck/Dumpsters

On May 26, 2009, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a garbage truck for the solid waste department. The principal amount of the lease was \$88,000. The agreement requires principal payments every third month and monthly interest payments to be paid in full May 20, 2015, with an interest rate of 5.718%. Amount of principal outstanding as of June 30, 2010 was \$80,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	8,000	3,408
2012	8,000	3,131
2013	8,000	2,790
2014	8,000	2,451
2015	48,000	1,952
Totals	<u>\$ 80,000</u>	<u>\$ 13,732</u>

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

Note 5. Long-term Debt (Continued)

F. Patcher and Bushwacker.

On July 1, 2009, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a patcher and bushwacker for the road department. The principal amount of the lease was \$115,000. The agreement requires monthly principal and interest payments with a variable interest rate. The maturity date of the lease is June 20, 2012. Amount of principal outstanding as of June 30, 2010 was \$78,090. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	38,316	2,706
2012	39,774	1,129
Totals	<u>\$ 78,090</u>	<u>\$ 3,835</u>

G. Dump Truck/Dumpsters

On January 25, 2010, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a garbage truck for the solid waste department. The principal amount of the lease was \$35,000. The agreement requires principal payments in May and November and monthly interest payments to be paid in full November 20, 2015, with a variable interest rate. Principal amount outstanding as June 30, 2010 was \$33,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	5,000	1,527
2012	6,000	1,316
2013	6,000	1,061
2014	6,000	806
2015	6,000	552
2016	4,000	159
Totals	<u>\$ 33,000</u>	<u>\$ 5,421</u>

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

Note 5. Long-term Debt (Continued)

H. Changes In Long-term Debt

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 241,983</u>	<u>\$ 150,000</u>	<u>\$ 78,964</u>	<u>\$ 313,019</u>	<u>\$ 88,763</u>

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

Debt Service on the Statement of Activities includes \$12,576 interest on financing obligations and \$1,240 interest on short-term notes.

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

The county's contributions for years ended June 30, 2008, 2009, and 2010 were \$114,557, \$94,042 and \$115,882 respectively.

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 65, with a minimum of 60 months 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, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2010, Owsley 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.

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

For The Year Ended June 30, 2010

OWSLEY 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	\$ 369,075	\$ 369,075	\$ 375,878	\$ 6,803
In Lieu Tax Payments	21,400	21,400	5,463	(15,937)
Intergovernmental Revenue	811,250	870,934	118,567	(752,367)
Charges for Services	15,000	21,364	105,433	84,069
Miscellaneous	5,000	46,190	46,458	268
Interest	600	600	1,245	645
Total Revenues	<u>1,222,325</u>	<u>1,329,563</u>	<u>653,044</u>	<u>(676,519)</u>
EXPENDITURES				
General Government	422,565	487,886	413,824	74,062
Protection to Persons and Property	43,600	56,603	9,211	47,392
General Health and Sanitation	18,760	77,380	71,630	5,750
Social Services	18,000	25,408	17,328	8,080
Debt Service	100	100		100
Capital Projects	550,000	550,000		550,000
Administration	202,866	225,752	178,660	47,092
Total Expenditures	<u>1,255,891</u>	<u>1,423,129</u>	<u>690,653</u>	<u>732,476</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	<u>(33,566)</u>	<u>(93,566)</u>	<u>(37,609)</u>	<u>55,957</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	152,166	152,166	276,000	123,834
Transfers to Other Funds	(128,600)	(128,600)	(184,660)	(56,060)
Total Other Financing Sources (Uses)	<u>23,566</u>	<u>23,566</u>	<u>91,340</u>	<u>67,774</u>
Net Changes in Fund Balance	(10,000)	(70,000)	53,731	123,731
Fund Balance - Beginning	10,000	95,000	115,336	20,336
Fund Balance - Ending	<u>\$</u>	<u>\$ 25,000</u>	<u>\$ 169,067</u>	<u>\$ 144,067</u>

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

Reconciliation Between Budgetary Basis and Modified Cash Basis

	General Fund
Revenues Per Budgetary Comparison Schedule	\$ 653,044
Add: Principal on debt service paid by Owsley County Ambulance Service	<u>10,000</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis	<u>\$ 663,044</u>
Expenditures Per Budgetary Comparison Schedule	\$ 690,653
Add: Principal on debt service paid by Owsley County Ambulance Service	<u>10,000</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis	<u>\$ 700,653</u>

OWSLEY 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	\$ 58,361	\$ 58,361	\$ 61,957	\$ 3,596
Intergovernmental Revenue	1,957,842	2,981,842	2,568,336	(413,506)
Miscellaneous	80,000	80,000	149,592	69,592
Interest	1,200	1,200	1,940	740
Total Revenues	<u>2,097,403</u>	<u>3,121,403</u>	<u>2,781,825</u>	<u>(339,578)</u>
EXPENDITURES				
General Government	32,400	32,400	32,400	
Roads	1,359,658	2,402,126	2,096,954	305,172
Debt Service:				
Principal		500,000	553,964	(53,964)
Interest		30,657	7,150	23,507
Capital Projects	400,000	246,875	108,492	138,383
Administration	215,679	184,679	175,451	9,228
Total Expenditures	<u>2,007,737</u>	<u>3,396,737</u>	<u>2,974,411</u>	<u>422,326</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	<u>89,666</u>	<u>(275,334)</u>	<u>(192,586)</u>	<u>82,748</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money		365,000	500,000	135,000
Financing Obligation Proceeds		115,000	115,000	
Transfers from Other Funds	37,500	37,500	110,000	72,500
Transfers to Other Funds	(152,166)	(152,166)	(301,000)	(148,834)
Total Other Financing Sources (Uses)	<u>(114,666)</u>	<u>365,334</u>	<u>424,000</u>	<u>58,666</u>
Net Changes in Fund Balance	(25,000)	90,000	231,414	141,414
Fund Balance - Beginning	<u>25,000</u>	<u>25,000</u>	<u>16,976</u>	<u>(8,024)</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ 115,000</u>	<u>\$ 248,390</u>	<u>\$ 133,390</u>

OWSLEY 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				
Taxes	\$ 2,800	\$ 2,800	\$ 670	\$ (2,130)
Intergovernmental Revenue	148,180	183,436	200,794	17,358
Miscellaneous			72	72
Interest	200	200	524	324
Total Revenues	<u>151,180</u>	<u>186,436</u>	<u>202,060</u>	<u>15,624</u>
EXPENDITURES				
General Government	7,200	7,200	7,200	
Protection to Persons and Property	61,004	83,054	64,324	18,730
General Health and Sanitation	6,000	8,000	7,935	65
Social Services	4,800	8,550	8,523	27
Administration	7,254	14,710	12,663	2,047
Total Expenditures	<u>86,258</u>	<u>121,514</u>	<u>100,645</u>	<u>20,869</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	<u>64,922</u>	<u>64,922</u>	<u>101,415</u>	<u>36,493</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds			50,000	50,000
Transfers to Other Funds	(82,500)	(107,500)	(95,000)	12,500
Total Other Financing Sources (Uses)	<u>(82,500)</u>	<u>(107,500)</u>	<u>(45,000)</u>	<u>62,500</u>
Net Changes in Fund Balance	(17,578)	(42,578)	56,415	98,993
Fund Balance - Beginning	17,578	17,578	49,272	31,694
Fund Balance - Ending	<u>\$</u>	<u>\$ (25,000)</u>	<u>\$ 105,687</u>	<u>\$ 130,687</u>

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

	SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
Intergovernmental Revenue	\$		\$ 48,000	\$ 61,014	\$ 13,014
Charges for Services		214,943	214,943	265,937	50,994
Miscellaneous				9,254	9,254
Interest		100	100	343	243
Total Revenues		<u>215,043</u>	<u>263,043</u>	<u>336,548</u>	<u>73,505</u>
EXPENDITURES					
General Health and Sanitation		131,160	312,901	303,187	9,714
Roads		17,500	3,600	3,547	53
Debt Service:					
Principal		25,000	5,000	10,000	(5,000)
Interest			17,400	4,460	12,940
Administration		26,383	21,183	19,188	1,995
Total Expenditures		<u>200,043</u>	<u>360,084</u>	<u>340,382</u>	<u>19,702</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)		<u>15,000</u>	<u>(97,041)</u>	<u>(3,834)</u>	<u>93,207</u>
OTHER FINANCING SOURCES (USES)					
Financing Obligations Proceeds			35,000	35,000	
Transfers From Other Funds				29,660	29,660
Transfers to Other Funds		(15,000)	(15,000)	(40,000)	(25,000)
Total Other Financing Sources (Uses)		<u>(15,000)</u>	<u>20,000</u>	<u>24,660</u>	<u>4,660</u>
Net Changes in Fund Balance			(77,041)	20,826	97,867
Fund Balance - Beginning			<u>52,041</u>	<u>52,041</u>	
Fund Balance - Ending	\$		<u>\$ (25,000)</u>	<u>\$ 72,867</u>	<u>\$ 97,867</u>

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

PARKS AND RECREATION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 800,000	\$ 800,000	\$ 44,471	\$ (755,529)
Miscellaneous	100,000	100,000		(100,000)
Interest	100	100	309	209
Total Revenues	<u>900,100</u>	<u>900,100</u>	<u>44,780</u>	<u>(855,320)</u>
EXPENDITURES				
General Government	16,664	16,664		16,664
Recreation and Culture	70,000	70,000	11,598	58,402
Debt Service:				
Principal	14,549	14,549	5,000	9,549
Interest	500	4,500	2,206	2,294
Capital Projects	833,800	829,800	46,821	782,979
Administration	9,987	9,987		9,987
Total Expenditures	<u>945,500</u>	<u>945,500</u>	<u>65,625</u>	<u>879,875</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	<u>(45,400)</u>	<u>(45,400)</u>	<u>(20,845)</u>	<u>24,555</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	
Total Other Financing Sources (Uses)	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	
Net Changes in Fund Balance	(5,400)	(5,400)	19,155	24,555
Fund Balance - Beginning	<u>5,400</u>	<u>5,400</u>	<u>56,598</u>	<u>51,198</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 75,753</u>	<u>\$ 75,753</u>

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

June 30, 2010

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

June 30, 2010

	<u>Jail Fund</u>	<u>Local Government Economic Development Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 6,269	\$ 5,000	\$ 11,269
Total Assets	<u>\$ 6,269</u>	<u>\$ 5,000</u>	<u>\$ 11,269</u>
FUND BALANCES			
Unreserved: Special Revenue Funds	\$ 6,269	\$ 5,000	\$ 11,269
Total Fund Balances	<u>\$ 6,269</u>	<u>\$ 5,000</u>	<u>\$ 11,269</u>

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

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OWSLEY 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

OWSLEY 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

	<u>Jail Fund</u>	<u>Local Government Economic Development Fund</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES			
Intergovernmental	\$ 51,819	\$ 149,360	\$ 201,179
Charges for Services	256		256
Miscellaneous	73		73
Interest	92		92
Total Revenues	<u>52,240</u>	<u>149,360</u>	<u>201,600</u>
EXPENDITURES			
General Government		48,910	48,910
Protection to Persons and Property	158,376	26,615	184,991
Social Services		4,938	4,938
Recreation and Culture		73,616	73,616
Administration	7,553		7,553
Total Expenditures	<u>165,929</u>	<u>154,079</u>	<u>320,008</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(113,689)</u>	<u>(4,719)</u>	<u>(118,408)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	<u>115,000</u>		<u>115,000</u>
Total Other Financing Sources (Uses)	<u>115,000</u>		<u>115,000</u>
Net Changes in Fund Balances	1,311	(4,719)	(3,408)
Fund Balances - Beginning	<u>4,958</u>	<u>9,719</u>	<u>14,677</u>
Fund Balances - Ending	<u>\$ 6,269</u>	<u>\$ 5,000</u>	<u>\$ 11,269</u>

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

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OWSLEY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2010

OWSLEY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2010

<u>Program Title</u>	<u>Pass-through Entity ID Number</u>	<u>Federal CFDA No.</u>	<u>Disbursements</u>
U.S. Department of Interior, Office of Surface Mining <i>Passed Through KY Energy and Environmental Cabinet</i> Abandoned Mine Land Reclamation (AMLR) Program: Owsley County Water Supply Design and Construction Project	595-070004760	15.252	\$ 15,727
U.S. Department of Agriculture- Natural Resources Conservation Service Emergency Watershed Protection Program Grant	Not Applicable	10.923	508,120 *
Rural Development Community Facilities Grant		10.780	<u>48,000</u>
Total U.S. Department of Agriculture	Not Applicable		556,120
U.S. Department of Homeland Security <i>Passed Through KY Office of Homeland Security</i> Public Assistance Grants:			
Disaster Grant-Flood	FEMA-1841-DR-KY	97.036	591,386
Disaster Grant-Ice Storm	FEMA-1818-DR-KY	97.036	<u>42,574</u>
Total CFDA No.			633,960 *
Emergency Management Performance Grant	PON2 1000000487 2	97.042	<u>6,477</u>
Total U.S. Department of Homeland Security			640,437
U.S. Department of Commerce Pride Cleanup	Not Applicable	11.469	17,358
U.S. Department of Justice <i>Passed Through KY Justice and Public Safety Cabinet</i> Justice Assistance Grant Program	2009-JAG ARRA-Owsley Co-00417	16.803	<u>23,496</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,253,138</u>

*Tested as Major Program **

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

OWSLEY COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2010

Note A - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Owsley County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**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**

TEDDY MICHAEL PRATER CPA, PLLC
HC 62 Box 291
Salyersville, KY 41465
Telephone (606) 349-8042

The Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley 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 Owsley 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 December 22, 2010. Owsley 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 Owsley 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 Owsley County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Owsley County Fiscal Court's internal control over financial reporting.

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 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.

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

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Owsley 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.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Teddy Michael Prater CPA". The signature is written in a cursive, flowing style.

Teddy Michael Prater CPA, PLLC

December 22, 2010

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

TEDDY MICHAEL PRATER CPA, PLLC
HC 62 Box 291
Salyersville, KY 41465
Telephone (606) 349-8042

The Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley 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 Owsley 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, 2010. Owsley 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 Owsley County's management. Our responsibility is to express an opinion on Owsley 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 Owsley 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 Owsley County's compliance with those requirements.

In our opinion, Owsley 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, 2010.

Internal Control Over Compliance

The management of Owsley County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Owsley County's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Owsley County's internal control over compliance.

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

Internal Control Over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Respectfully submitted,

A handwritten signature in black ink that reads "Teddy Michael Prater CPA". The signature is written in a cursive, flowing style.

Teddy Michael Prater CPA, PLLC

December 22, 2010

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

For The Year Ended June 30, 2010

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Owsley County, Kentucky.
2. No significant deficiencies relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Owsley County are disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Owsley County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Owsley County reported in Part C of this schedule.
7. The programs tested as major programs were: Emergency Watershed Protection Program Grant (CFDA 10.923), and Public Assistance Grant (CFDA 97.036).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Owsley County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

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

None.

D. PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

None.

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**OWSLEY COUNTY FISCAL COURT
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC
ASSISTANCE AND DEVELOPMENT PROGRAMS**

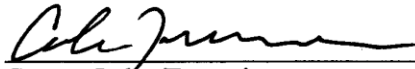
**For The Fiscal Year Ended
June 30, 2010**

Appendix A


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
OWSLEY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2010

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



County Judge/Executive



County Treasurer

