

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

**For The Year Ended  
June 30, 2017**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS**  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The 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 statement of Owsley County, Kentucky, for the year ended June 30, 2017.

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

Respectfully submitted,

Mike Harmon  
Auditor of Public Accounts

Enclosure



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To the People of Kentucky  
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Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Owsley County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Owsley County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the Owsley County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Owsley County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Owsley County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Owsley County Fiscal Court. The Budgetary Comparison Schedules and the Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and the Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and the Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.



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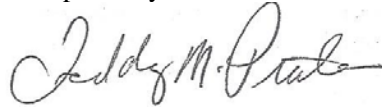
**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2018, on our consideration of the Owsley County Fiscal Court'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* in considering the Owsley County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2017-001 The Fiscal Court Did Not Follow LGEA Coal Producing Funds Disbursement Requirements
- 2017-002 The Fiscal Court Did Not Budget, Record, Or Report Funds
- 2017-003 The Fiscal Court Lacked Adequate Segregation Of Duties For Two Months Of The Fiscal Year

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

February 16, 2018

OWSLEY COUNTY OFFICIALS

For The Year Ended June 30, 2017

**Fiscal Court Members:**

Cale Turner	County Judge/Executive
Zeke Little, Jr.	Magistrate
Mike Thomas	Magistrate
Tim Bishop	Magistrate

**Other Elected Officials:**

Henley McIntosh	County Attorney
Robert Cope	Jailer
Shanna Oliver	County Clerk
Mike Mayes	Circuit Court Clerk
Kelly Shouse	Sheriff
Sandra King	Property Valuation Administrator
Donald Morgan	Coroner

**Appointed Personnel:**

Cody Lewis	County Treasurer
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**OWSLEY COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2017**

**OWSLEY COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2017**

	<b>Budgeted Funds</b>			
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>RECEIPTS</b>				
Taxes	\$ 502,312	\$	\$	\$
Excess Fees	7,608			
Licenses and Permits	1,000			
Intergovernmental	105,318	1,326,476	75,091	141,852
Charges for Services			3,762	
Miscellaneous	173,605	78,777	2,506	1,100
Interest	152	76	6	175
Total Receipts	<u>789,995</u>	<u>1,405,329</u>	<u>81,365</u>	<u>143,127</u>
<b>DISBURSEMENTS</b>				
General Government	625,055	3,882		8,180
Protection to Persons and Property	6,095		280,981	65,405
General Health and Sanitation	51,191			2,900
Social Services				6,998
Recreation and Culture				
Roads		931,469		
Debt Service	9,838			
Capital Projects		3,600		
Administration	285,151	203,806	12,435	18,021
Total Disbursements	<u>977,330</u>	<u>1,142,757</u>	<u>293,416</u>	<u>101,504</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(187,335)</u>	<u>262,572</u>	<u>(212,051)</u>	<u>41,623</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	385,616	128,000	208,000	16,000
Transfers To Other Funds	(254,000)	(380,116)		(69,000)
Total Other Adjustments to Cash (Uses)	<u>131,616</u>	<u>(252,116)</u>	<u>208,000</u>	<u>(53,000)</u>
Net Change in Fund Balance	(55,719)	10,456	(4,051)	(11,377)
Fund Balance - Beginning (Restated)	<u>66,278</u>	<u>15,377</u>	<u>5,097</u>	<u>53,808</u>
Fund Balance - Ending	<u>\$ 10,559</u>	<u>\$ 25,833</u>	<u>\$ 1,046</u>	<u>\$ 42,431</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 15,703	\$ 54,524	\$ 19,950	\$ 18,699
Less: Outstanding Checks	(5,144)	(28,691)	(18,904)	(2,761)
Certificates of Deposit				26,493
Fund Balance - Ending	<u>\$ 10,559</u>	<u>\$ 25,833</u>	<u>\$ 1,046</u>	<u>\$ 42,431</u>

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

**OWSLEY COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2017**  
**(Continued)**

<b>Budgeted Funds</b>			
<b>Solid Waste Fund</b>	<b>Parks and Recreation Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Capital Improvements Fund</b>
\$	\$	\$	\$
			100,000
240,747			
24,766	8,060		
127	5		
<u>265,640</u>	<u>8,065</u>		<u>100,000</u>
172,377			
	23,912		
		165,786	100,000
<u>37,262</u>	<u>4,707</u>		
<u>209,639</u>	<u>28,619</u>	<u>165,786</u>	<u>100,000</u>
<u>56,001</u>	<u>(20,554)</u>	<u>(165,786)</u>	
13,000	13,000		
<u>(60,500)</u>			
<u>(47,500)</u>	<u>13,000</u>		
8,501	(7,554)	(165,786)	
28,672	15,203	174,947	
<u>\$ 37,173</u>	<u>\$ 7,649</u>	<u>\$ 9,161</u>	<u>\$ 0</u>
\$ 21,635	\$ 7,711	\$ 9,161	\$
(9,883)	(62)		
<u>25,421</u>			
<u>\$ 37,173</u>	<u>\$ 7,649</u>	<u>\$ 9,161</u>	<u>\$ 0</u>

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

**OWSLEY COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<u>Unbudgeted Funds</u>		
	<u>USDA Teleworks Grant Fund</u>	<u>ARC Wolf Creek Metal Equipment Fund</u>	<u>Total Funds</u>
<b>RECEIPTS</b>			
Taxes	\$	\$	\$ 502,312
Excess Fees			7,608
Licenses and Permits			1,000
Intergovernmental	22,986	221,974	1,993,697
Charges for Services			244,509
Miscellaneous			288,814
Interest			541
Total Receipts	<u>22,986</u>	<u>221,974</u>	<u>3,038,481</u>
<b>DISBURSEMENTS</b>			
General Government		221,967	859,084
Protection to Persons and Property			352,481
General Health and Sanitation			226,468
Social Services	22,986		29,984
Recreation and Culture			23,912
Roads			931,469
Debt Service			9,838
Capital Projects			269,386
Administration			561,382
Total Disbursements	<u>22,986</u>	<u>221,967</u>	<u>3,264,004</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>7</u>	<u>(225,523)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds			763,616
Transfers To Other Funds			<u>(763,616)</u>
Total Other Adjustments to Cash (Uses)			
Net Change in Fund Balance		7	(225,523)
Fund Balance - Beginning (Restated)			<u>359,382</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 7</u>	<u>\$ 133,859</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 15,486	\$ 7	\$ 162,876
Less: Outstanding Checks	(15,486)		(80,931)
Certificates of Deposit			<u>51,914</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 7</u>	<u>\$ 133,859</u>

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

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TO THE FINANCIAL STATEMENT**

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**OWSLEY COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2017**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of Owsley County includes all budgeted and unbudgeted funds under the control of the Owsley County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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

**Road Fund** - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are 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 disbursements separately from the general fund.



**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Local Government Economic Assistance (LGEA) Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Solid Waste Fund - The primary purpose of this fund is to account for disbursements related to solid waste material, trucks, and personnel. The primary source of receipts for this fund is solid waste pickup service fees.

Parks and Recreation Fund - The primary purpose of this fund is to account for disbursements for the county park and recreation area. The primary sources of receipts for this fund are transfers from other funds.

Local Government Economic Development Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are state and federal grants.

Capital Improvements Fund - The primary purpose of this fund is to account for monies received and expended for building construction.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

USDA Teleworks Grant Fund - The primary purpose of this fund is to account for a federal grant and related disbursements.

ARC Wolf Creek Metal Equipment Fund - The primary purpose of this fund is to account for a federal grant and related disbursements.

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board 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 disbursements 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. Disbursements may not exceed budgeted appropriations at the activity level.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. 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 statement of the Owsley County Fiscal Court.

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

**F. Deposits and Investments**

The government's fund balance is 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. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in 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).

**G. Long-term Obligations**

The fund financial statement recognizes 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 disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**H. Joint Venture**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the 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 First Mortgage Revenue Bonds, Series 2000. In 2012, the bonds were refunded

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Joint Venture (Continued)**

with \$5,570,000 Financing Program Revenue Bonds, Series 2012D that are scheduled to mature on February 1, 2032. The refunding resulted in a present value savings of \$1,432,999 and a cumulative savings of \$1,610,721 for the Authority.

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 on the bonds as follows (the "proportionate share" or "use allowance"): 40 percent for Lee County, 22 percent for Owsley County, and 38 percent for Wolfe County.

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 on the bonds and no one county is liable for another county's debt. Payment of the annual debt service on 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 can not pay its indebtedness, an Ad Valorem Tax will be levied in that county for the amount sufficient to provide full payment of the county's rentals due for that year.

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

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

A copy of the Three Forks Regional Jail Authority's most recent audit report may be obtained at Three Forks Regional Jail, 2475 Center Street, Beattyville, Kentucky 41311.

**Note 2. Deposits**

The fiscal court 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, 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 fiscal court 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 STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 2. Deposits (Continued)**

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	Road Fund	LGEA Fund	Solid Waste Fund	Total Transfers In
General Fund	\$	\$355,116	\$14,000	\$16,500	\$ 385,616
Road Fund	116,000		12,000		128,000
Jail Fund	129,000		40,000	39,000	208,000
LGEA Fund	4,000	12,000			16,000
Solid Waste Fund		13,000			13,000
Parks and Recreation Fund	5,000		3,000	5,000	13,000
Total Transfers Out	<u>\$254,000</u>	<u>\$380,116</u>	<u>\$69,000</u>	<u>\$60,500</u>	<u>\$ 763,616</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Accounts Receivable**

At June 30, 2017, the Owsley County Fiscal Court had receivables in the amount of \$140,670, due from residential customers for garbage collection services.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 5. Long-term Debt**

**A. Sheriff's Vehicles**

On August 5, 2015, the Owsley County Fiscal Court entered into a \$19,000 lease agreement with the Kentucky Association of Counties Leasing Trust (along with other funding) for the purchase of two vehicles for the sheriff's department. The agreement requires monthly payments of \$820, beginning September 20, 2015, and ending August 20, 2017. As of June 30, 2017, the principal balance outstanding was \$1,633. Payments for the remaining year are as follows:

Fiscal Year Ended June 30	Principal	Interest
2018	\$ 1,633	\$ 7
Totals	\$ 1,633	\$ 7

**B. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 11,248	\$	\$ 9,615	\$ 1,633	\$ 1,633
Total Long-term Debt	\$ 11,248	\$ 0	\$ 9,615	\$ 1,633	\$ 1,633

**Note 6. Employee Retirement System**

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). 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.

The county's contribution for FY 2015 was \$171,337, FY 2016 was \$176,311, and FY 2017 was \$196,186.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Nonhazardous (Continued)

own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 18.68 percent.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, nonhazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 7. Deferred Compensation**

The Owsley 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 at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 8. Insurance**

For the fiscal year ended June 30, 2017, the Owsley County Fiscal Court 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 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 9. Prior Period Adjustments**

The beginning balances of the general fund and road fund were increased by \$161 and \$290, respectively, to account for prior year voided checks. The beginning balance for the LGEA fund was reduced by \$2 for an interest adjustment.

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**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2017**

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**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2017**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 352,300	\$ 352,300	\$ 502,312	\$ 150,012
In Lieu Tax Payments	21,000	21,000		(21,000)
Excess Fees	30,000	30,000	7,608	(22,392)
Licenses and Permits			1,000	1,000
Intergovernmental	119,100	119,100	105,318	(13,782)
Charges for Services	1,000	1,000		(1,000)
Miscellaneous	116,442	116,442	173,605	57,163
Interest	270	270	152	(118)
Total Receipts	<u>640,112</u>	<u>640,112</u>	<u>789,995</u>	<u>149,883</u>
<b>DISBURSEMENTS</b>				
General Government	504,407	642,777	625,055	17,722
Protection to Persons and Property	18,100	18,139	6,095	12,044
General Health and Sanitation	41,800	51,191	51,191	
Debt Service	5,020	14,758	9,838	4,920
Administration	201,785	272,562	285,151	(12,589)
Total Disbursements	<u>771,112</u>	<u>999,427</u>	<u>977,330</u>	<u>22,097</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(131,000)</u>	<u>(359,315)</u>	<u>(187,335)</u>	<u>171,980</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	201,000	201,000	385,616	184,616
Transfers To Other Funds	(110,000)	(110,000)	(254,000)	(144,000)
Total Other Adjustments to Cash (Uses)	<u>91,000</u>	<u>91,000</u>	<u>131,616</u>	<u>40,616</u>
Net Change in Fund Balance	(40,000)	(268,315)	(55,719)	212,596
Fund Balance - Beginning (Restated)	<u>40,000</u>	<u>40,000</u>	<u>66,278</u>	<u>26,278</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (228,315)</u>	<u>\$ 10,559</u>	<u>\$ 238,874</u>

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>RECEIPTS</b>				
In Lieu Tax Payments	\$ 34,231	\$ 34,231	\$	\$ (34,231)
Intergovernmental	1,619,105	1,619,105	1,326,476	(292,629)
Miscellaneous	85,000	85,000	78,777	(6,223)
Interest	275	275	76	(199)
Total Receipts	<u>1,738,611</u>	<u>1,738,611</u>	<u>1,405,329</u>	<u>(333,282)</u>
<b>DISBURSEMENTS</b>				
General Government	5,400	6,032	3,882	2,150
Roads	911,324	998,216	931,469	66,747
Capital Projects	231,000	3,600	3,600	
Administration	455,387	260,596	203,806	56,790
Total Disbursements	<u>1,603,111</u>	<u>1,268,444</u>	<u>1,142,757</u>	<u>125,687</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>135,500</u>	<u>470,167</u>	<u>262,572</u>	<u>(207,595)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	40,500	40,500	128,000	87,500
Transfers To Other Funds	(201,000)	(201,000)	(380,116)	(179,116)
Total Other Adjustments to Cash (Uses)	<u>(160,500)</u>	<u>(160,500)</u>	<u>(252,116)</u>	<u>(91,616)</u>
Net Change in Fund Balance	(25,000)	309,667	10,456	(299,211)
Fund Balance - Beginning (Restated)	<u>25,000</u>	<u>25,000</u>	<u>15,377</u>	<u>(9,623)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 334,667</u>	<u>\$ 25,833</u>	<u>\$ (308,834)</u>

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>JAIL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>RECEIPTS</b>				
Intergovernmental	\$ 50,750	\$ 50,750	\$ 75,091	\$ 24,341
Charges for Services	200	200	3,762	3,562
Miscellaneous			2,506	2,506
Interest	10	10	6	(4)
Total Receipts	<u>50,960</u>	<u>50,960</u>	<u>81,365</u>	<u>30,405</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	187,050	292,051	280,981	11,070
Administration	28,910	30,261	12,435	17,826
Total Disbursements	<u>215,960</u>	<u>322,312</u>	<u>293,416</u>	<u>28,896</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(165,000)</u>	<u>(271,352)</u>	<u>(212,051)</u>	<u>59,301</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>160,000</u>	<u>160,000</u>	<u>208,000</u>	<u>48,000</u>
Total Other Adjustments to Cash (Uses)	<u>160,000</u>	<u>160,000</u>	<u>208,000</u>	<u>48,000</u>
Net Change in Fund Balance	(5,000)	(111,352)	(4,051)	107,301
Fund Balance - Beginning	<u>5,000</u>	<u>5,000</u>	<u>5,097</u>	<u>97</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (106,352)</u>	<u>\$ 1,046</u>	<u>\$ 107,398</u>

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 3,500	\$ 3,500	\$	\$ (3,500)
Intergovernmental	143,700	143,700	141,852	(1,848)
Miscellaneous			1,100	1,100
Interest	110	110	175	65
Total Receipts	<u>147,310</u>	<u>147,310</u>	<u>143,127</u>	<u>(4,183)</u>
<b>DISBURSEMENTS</b>				
General Government	8,680	8,680	8,180	500
Protection to Persons and Property	64,020	77,556	65,405	12,151
General Health and Sanitation	2,100	2,900	2,900	
Social Services	5,400	6,998	6,998	
Administration	36,610	20,676	18,021	2,655
Total Disbursements	<u>116,810</u>	<u>116,810</u>	<u>101,504</u>	<u>15,306</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>30,500</u>	<u>30,500</u>	<u>41,623</u>	<u>11,123</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			16,000	16,000
Transfers To Other Funds	(70,500)	(70,500)	(69,000)	1,500
Total Other Adjustments to Cash (Uses)	<u>(70,500)</u>	<u>(70,500)</u>	<u>(53,000)</u>	<u>17,500</u>
Net Change in Fund Balance	(40,000)	(40,000)	(11,377)	28,623
Fund Balance - Beginning (Restated)	<u>40,000</u>	<u>40,000</u>	<u>53,808</u>	<u>13,808</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 42,431</u>	<u>\$ 42,431</u>

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

<b>SOLID WASTE FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>RECEIPTS</b>				
Charges for Services	\$ 280,000	\$ 280,000	\$ 240,747	\$ (39,253)
Miscellaneous	2,500	2,500	24,766	22,266
Interest	110	110	127	17
Total Receipts	<u>282,610</u>	<u>282,610</u>	<u>265,640</u>	<u>(16,970)</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	167,500	193,500	172,377	21,123
Roads	16,000	16,000		16,000
Debt Service	200	200		200
Administration	83,910	57,910	37,262	20,648
Total Disbursements	<u>267,610</u>	<u>267,610</u>	<u>209,639</u>	<u>57,971</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>15,000</u>	<u>15,000</u>	<u>56,001</u>	<u>41,001</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			13,000	13,000
Transfers To Other Funds	(40,000)	(40,000)	(60,500)	(20,500)
Total Other Adjustments to Cash (Uses)	<u>(40,000)</u>	<u>(40,000)</u>	<u>(47,500)</u>	<u>(7,500)</u>
Net Change in Fund Balance	(25,000)	(25,000)	8,501	33,501
Fund Balance - Beginning	<u>25,000</u>	<u>25,000</u>	<u>28,672</u>	<u>3,672</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 37,173</u>	<u>\$ 37,173</u>

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

**PARKS AND RECREATION FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 50,000	\$ 50,000	\$	\$ (50,000)
Miscellaneous	54,000	54,000	8,060	(45,940)
Interest	5	5	5	
Total Receipts	<u>104,005</u>	<u>104,005</u>	<u>8,065</u>	<u>(95,940)</u>
<b>DISBURSEMENTS</b>				
Recreation and Culture	122,530	122,530	23,912	98,618
Administration	11,475	11,475	4,707	6,768
Total Disbursements	<u>134,005</u>	<u>134,005</u>	<u>28,619</u>	<u>105,386</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>(20,554)</u>	<u>9,446</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>20,000</u>	<u>20,000</u>	<u>13,000</u>	<u>(7,000)</u>
Total Other Adjustments to Cash (Uses)	<u>20,000</u>	<u>20,000</u>	<u>13,000</u>	<u>(7,000)</u>
Net Change in Fund Balance	(10,000)	(10,000)	(7,554)	2,446
Fund Balance - Beginning	<u>10,000</u>	<u>10,000</u>	<u>15,203</u>	<u>5,203</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,649</u>	<u>\$ 7,649</u>



**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Total Receipts	\$	\$	\$	\$
<b>DISBURSEMENTS</b>				
General Government		500		500
Protection to Persons and Property	10,000	10,000		10,000
Capital Projects	200,000	199,500	165,786	33,714
Total Disbursements	210,000	210,000	165,786	44,214
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(210,000)	(210,000)	(165,786)	44,214
Net Change in Fund Balance	(210,000)	(210,000)	(165,786)	44,214
Fund Balance - Beginning	210,000	210,000	174,947	(35,053)
Fund Balance - Ending	\$ 0	\$ 0	\$ 9,161	\$ 9,161

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

**CAPITAL IMPROVEMENTS FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$	\$ 100,000	\$ 100,000	\$
Total Receipts		100,000	100,000	
<b>DISBURSEMENTS</b>				
Capital Projects		100,000	100,000	
Total Disbursements		100,000	100,000	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$	0
		\$	0	\$
		0	0	0
		0	0	0

**OWSLEY COUNTY  
NOTES TO REGULATORY SUPPLEMENTARY  
INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2017**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board 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 disbursements 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. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Excess of Disbursements Over Appropriations**

General fund administration exceeded budgeted appropriations by \$12,589.

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**OWSLEY COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**

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**OWSLEY COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2017**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
Land	\$ 291,228	\$	\$	\$	\$ 291,228
Construction In Progress	982,369	265,786	(1,248,155)		
Buildings	1,721,749		1,248,155		2,969,904
Vehicles and Equipment	2,543,145	9,000		8,800	2,543,345
Infrastructure	3,482,296	126,276			3,608,572
<b>Total Capital Assets</b>	<b>\$ 9,020,787</b>	<b>\$ 401,062</b>	<b>\$ 0</b>	<b>\$ 8,800</b>	<b>\$ 9,413,049</b>

**OWSLEY COUNTY  
NOTES TO REGULATORY SUPPLEMENTARY  
INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2017**

**Note 1. 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 as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

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



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

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**TEDDY MICHAEL PRATER CPA, PLLC**  
**724 Gifford Road**  
**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 The Financial  
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, 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, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Owsley County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Owsley County Fiscal Court's financial statement and have issued our report thereon dated February 16, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Owsley County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Owsley County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Owsley County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-003 to be a material weakness.

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

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Owsley County Fiscal Court's financial statement is 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002.

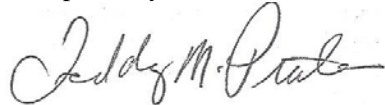
**Views of Responsible Official and Planned Corrective Action**

Owsley County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

February 16, 2018

**OWSLEY COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2017**

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**OWSLEY COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2017**

STATE LAWS AND REGULATIONS:

2017-001 The Fiscal Court Did Not Follow LGEA Coal Producing Funds Disbursement Requirements

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This is a repeat finding and was included in the prior year audit report as finding 2016-002. The fiscal court did not follow disbursement requirements for coal producing funds received through the Local Government Economic Assistance (LGEA) program. The fiscal court did not spend the required amount of coal producing funds on the coal haul road system. The county received \$131,742 in coal producing funds, of which, \$39,523 was required to be spent on the coal haul road system. No LGEA coal producing funds were spent on road repairs/maintenance.

Not spending the LGEA coal producing funds as required, means that adequate infrastructure may not be available for the coal industry. LGEA coal producing funds play a fundamental part in maintaining roads that are used for the transportation of coal. This money is set aside by statute to ensure certain roads are in good condition to provide an efficient mode of transportation for the coal industry.

KRS 42.455(2) states that 30 percent of all coal producing funds received must be spent on the county coal haul road system.

KRS 42.460 requires a certification that LGEA funds were expended for the purpose intended. The certification, included as Appendix A, is not entirely accurate. The LGEA funds were spent entirely on priority items, but none were spent on roads.

We recommend the fiscal court monitor the LGEA coal producing funds received and expended to ensure compliance with statute.

Views of Responsible Official and Planned Corrective Action:

*We will correct deficiency. Next audit will not occur.*

2017-002 The Fiscal Court Did Not Budget, Record, Or Report Funds

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The fiscal court did not budget, record, or report two new federal grant funds. The fiscal court maintained separate bank accounts for these funds, but did not include them in the original budget, or any amendment to the budget. In addition, the receipts and disbursements of the funds were not recorded on the ledgers or reported on the fourth quarter financial statement.

The U.S. Department of Agriculture Teleworks Grant Fund and the Appalachian Regional Commission Wolf Creek Metal Equipment Fund were first received and disbursed during fiscal year 2017. The funds were added to the audited financial statement to comply with the regulatory basis of accounting.

The Uniform System of Accounts requires counties to submit quarterly reports to their regulatory agency, the Department for Local Government (DLG). These reports should include all funds of the county, should include all activity within the funds, and should agree to the county's reconciled cash balances. The DLG *County Budget Preparation and State Local Finance Officer Policy Manual* states "[i]t is necessary to amend the budget to reflect the receipt and expenditure of funds received through a state or federal grant if that grant was not part of the original budget document."

We recommend that grant funds be included in future budgets and on fourth quarter reports.

**OWSLEY COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2017-002 The Fiscal Court Did Not Budget, Record, Or Report Funds (Continued)

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Views of Responsible Official and Planned Corrective Action:

*The grant funds should have been included in the fourth quarter financial report.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-003 The Fiscal Court Lacked Adequate Segregation Of Duties For Two Months Of The Fiscal Year

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The fiscal court lacked adequate segregation of duties over receipts and disbursements during the months of May and June 2017. The former county treasurer resigned in early May 2017. The finance officer was sworn in as county treasurer on May 5, 2017. During May and June 2017, the new county treasurer performed duties of both finance officer and treasurer.

During this time, the new treasurer handled all accounting functions. For receipts, the treasurer received all monies, prepared and delivered deposit tickets to the bank, posted receipts to ledgers, and prepared bank reconciliations. For disbursements, the treasurer issued purchase orders, posted disbursements to ledgers, prepared claims lists for fiscal court approval, and prepared and signed checks. The treasurer also prepared the fourth quarter financial report. As a compensating control, the county judge/executive provided reviews of bank reconciliations and payroll.

Proper internal controls dictate that duties of handling, posting, reconciling, and reporting should be delegated to separate individuals when possible. Adequate segregation of duties increases the ability of the fiscal court to prevent, detect, and correct errors in a timely manner and decreases the risk of misappropriation of assets and inaccurate financial reporting. When one person is in charge of all functions, then strong compensating controls are needed.

We recognize that, due to budget constraints, the fiscal court has limited options for establishing adequate segregation of duties. Therefore, we recommend, at a minimum, that a separate individual review, initial and date the ledgers, reconciliations, and reports reviewed.

Views of Responsible Official and Planned Corrective Action:

*We have now hired a finance officer.*



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

**OWSLEY COUNTY FISCAL COURT**

**For The Year Ended  
June 30, 2017**

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CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

OWSLEY COUNTY FISCAL COURT

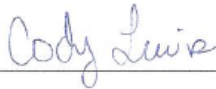
For The Fiscal Year Ended June 30, 2017

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



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County Judge/Executive



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County Treasurer