

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

**For The Year Ended  
June 30, 2019**

**TEDDY MICHAEL PRATER CPA, PLLC  
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To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Cale Turner, Owsley County Judge/Executive  
Members of the Owsley County Fiscal Court

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, 2019, 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, 2019, 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, 2019, 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.

### **Emphasis of Matter**

#### *Deficit Fund Balances*

As discussed in Note 11 to the financial statement, Owsley County Fiscal Court had actual deficit fund balances in its jail and LGEA funds of \$25,645 and \$15,680, respectively at June 30, 2019. The fund deficits were due to transfers of restricted funds that have not been repaid. The financial statement does not include any adjustment for a fiscal year-end deficit. This matter does not affect our opinion on the financial statements.

### **Other Matters**

#### *Supplementary and Other 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 (supplementary information) and Schedule of Capital Assets (other information) 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.

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## **Other Matters (Continued)**

### *Supplementary and Other Information (Continued)*

The accompanying Budgetary Comparison Schedules 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 are fairly stated in all material respects in relation to the financial statement as a whole.

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

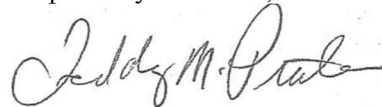
## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2020, 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:

- 2019-001 The Fiscal Court Overspent The General, Road, And LGEA Fund Budgets
- 2019-002 The Jail Fund And LGEA Fund Owe The Road Fund A Total of \$53,000
- 2019-003 The Fiscal Court Did Not Properly Approve Cash Transfers And Intra-fund Budget Transfers
- 2019-004 The Fiscal Court Did Not Have Controls Over Disbursements
- 2019-005 The Fiscal Court Failed To Establish Internal Controls Over Payroll
- 2019-006 The Fiscal Court Did Not Pay Withholdings Timely
- 2019-007 The Fiscal Court Did Not Have Adequate Controls Over Receipts
- 2019-008 The Fourth Quarter Financial Report Was Not Accurate

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

January 21, 2020

**OWSLEY COUNTY OFFICIALS****For The Year Ended June 30, 2019****Fiscal Court Members:**

Cale Turner	County Judge/Executive
Zeke Little, Jr.	Magistrate
Jerry McIntosh	Magistrate
Tim Bishop	Magistrate

**Other Elected Officials:**

Henley McIntosh	County Attorney
Robert Cope	Jailer
Shanna Oliver	County Clerk
Mike Mays	Circuit Court Clerk
Brent Lynch	Sheriff
Sandy Callahan Moore	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, 2019**

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

**For The Year Ended June 30, 2019**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 529,303	\$	\$
In Lieu Tax Payments		31,558	
Excess Fees	34,193		
Intergovernmental	147,140	992,196	67,195
Charges for Services			
Miscellaneous	361,661	110,382	105
Interest	73	55	5
Total Receipts	<u>1,072,370</u>	<u>1,134,191</u>	<u>67,305</u>
<b>DISBURSEMENTS</b>			
General Government	621,169	8,013	
Protection to Persons and Property	6,248		182,706
General Health and Sanitation	8,230		
Social Services			
Roads		821,519	
Debt Service			
Administration	347,695	161,015	6,840
Total Disbursements	<u>983,342</u>	<u>990,547</u>	<u>189,546</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>89,028</u>	<u>143,644</u>	<u>(122,241)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds	297,241	250,996	123,500
Transfers To Other Funds	(339,496)	(375,241)	
Total Other Adjustments to Cash (Uses)	<u>(42,255)</u>	<u>(124,245)</u>	<u>123,500</u>
Net Change in Fund Balance	46,773	19,399	1,259
Fund Balance - Beginning	27,195	1,991	96
Fund Balance - Ending	<u>\$ 73,968</u>	<u>\$ 21,390</u>	<u>\$ 1,355</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 77,429	\$ 22,842	\$ 3,390
Less: Outstanding Checks	(3,461)	(1,452)	(2,035)
Fund Balance - Ending	<u>\$ 73,968</u>	<u>\$ 21,390</u>	<u>\$ 1,355</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, 2019**  
**(Continued)**

<b>Budgeted Funds</b>				
<b>Local Government Economic Assistance Fund</b>	<b>Solid Waste Fund</b>	<b>Parks and Recreation Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Total Funds</b>
\$	\$	\$	\$	\$
				529,303
				31,558
				34,193
89,703				1,296,234
	240,243	12,759		253,002
1,996		11,962		486,106
9	12	2		156
91,708	240,255	24,723		2,630,552
7,680				636,862
64,133				253,087
11,647	154,082	89,186		263,145
6,300				6,300
	13,313			834,832
	11,775			11,775
22,710	28,722	1,409		568,391
112,470	207,892	90,595		2,574,392
(20,762)	32,363	(65,872)		56,160
26,000	25,000	66,500		789,237
(5,000)	(69,500)			(789,237)
21,000	(44,500)	66,500		
238	(12,137)	628		56,160
10,082	38,493	1,068	897	79,822
\$ 10,320	\$ 26,356	\$ 1,696	\$ 897	\$ 135,982
\$ 15,389	\$ 26,808	\$ 1,787	\$ 897	\$ 148,542
(5,069)	(452)	(91)		(12,560)
\$ 10,320	\$ 26,356	\$ 1,696	\$ 897	\$ 135,982

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, 2019**

**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, 2019**  
**(Continued)**

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

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

**Budgeted Funds (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 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 source of receipts for this fund is 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.

**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, 2019**  
**(Continued)**

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

**E. Owsley County Elected Officials**

Kentucky law provides for election of the officials listed 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.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

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

**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 on this 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 with \$5,570,000 Kentucky Bond Corporation Financing Program Revenue Bonds, Series 2012D that are scheduled to mature on February 1, 2032.

The only source of funds expected to meet the debt service requirements of the bonds are the rental payments from the participating counties. Pursuant to a 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.

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 cannot 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 is 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.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**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.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2019, 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 2019.

	General Fund	Road Fund	LGEA Fund	Solid Waste Fund	Total Transfers In
General Fund	\$	\$ 297,241	\$	\$	\$ 297,241
Road Fund	212,996			38,000	250,996
Jail Fund	94,000	27,000	2,500		123,500
LGEA Fund		26,000			26,000
Solid Waste Fund		25,000			25,000
Parks and Recreation Fund	32,500		2,500	31,500	66,500
Total Transfers Out	<u>\$ 339,496</u>	<u>\$ 375,241</u>	<u>\$ 5,000</u>	<u>\$ 69,500</u>	<u>\$ 789,237</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, 2019, the Owsley County Fiscal Court had receivables in the amount of \$128,130, due from residential customers for garbage collection services.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 5. Long-term Debt**

**A. Garbage Truck**

On December 20, 2017, the fiscal court entered into a \$25,000 lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a garbage truck for the solid waste department. The agreement requires monthly payments of \$736, ending December 2020. As of June 30, 2019, the principal balance outstanding was \$10,746. Payments for the remaining years are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2020	\$ 6,401	\$ 223
2021	4,345	47
Totals	<u>\$ 10,746</u>	<u>\$ 270</u>

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

Long-term Debt activity for the year ended June 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Financing Obligations	\$ 21,688	\$	\$ 10,942	\$ 10,746	\$ 6,401
Total Long-term Debt	<u>\$ 21,688</u>	<u>\$ 0</u>	<u>\$ 10,942</u>	<u>\$ 10,746</u>	<u>\$ 6,401</u>

**Note 6. Commitments and Contingencies**

The county is involved in a lawsuit that arose from the normal course of doing business. While it may not be significant, it could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

**Note 7. 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 2017 was \$196,186, FY 2018 was \$189,452 and FY 2019 was \$179,725.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 7. Employee Retirement System (Continued)**

Nonhazardous

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 be allocated as follows: 5 percent will go to the member's account and 1 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 own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 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 4 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 21.48 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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%

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 7. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

**B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous**

Once members reach a minimum vesting period of 15 years, they 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

**C. Cost of Living Adjustments - Tier 1**

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

**D. Cost of Living Adjustments - Tier 2 and Tier 3**

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

**E. Death Benefit**

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.



**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 7. Employee Retirement System (Continued)**

KRS Annual Financial Report and Proportionate Share Audit Report

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 proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. 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.

**Note 8. Deferred Compensation**

The Owsley County Fiscal Court allows 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 501 High Street, 2<sup>nd</sup> Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

**Note 9. Insurance**

For the fiscal year ended June 30, 2019, 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.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2019**  
**(Continued)**

**Note 10. Subsequent Event**

On September 13, 2019, the fiscal court entered into a \$120,000 lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a drill for the road department. The agreement requires monthly payments of \$3,561, ending October 2022.

**Note 11. Deficit Fund Balances**

As of June 30, 2019, the jail fund and the LGEA fund had deficit balances of \$25,645 and \$15,680, respectively. The deficits were due to transfers of restricted road funds that were not repaid. The financial statement does not include any adjustment for a fiscal year-end deficit.

	Jail Fund	LGEA Fund
Cash Balance	\$ 1,355	\$ 10,320
Interfund Payables	<u>(27,000)</u>	<u>(26,000)</u>
Fund Balance	<u>\$ (25,645)</u>	<u>\$ (15,680)</u>

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

**For The Year Ended June 30, 2019**

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

**For The Year Ended June 30, 2019**

	<b>GENERAL 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>				
Taxes	\$ 428,369	\$ 428,369	\$ 529,303	\$ 100,934
In Lieu Tax Payments	21,000	21,000		(21,000)
Excess Fees	35,311	35,311	34,193	(1,118)
Intergovernmental	238,519	238,519	147,140	(91,379)
Miscellaneous	172,040	172,040	361,661	189,621
Interest	10	10	73	63
Total Receipts	<u>895,249</u>	<u>895,249</u>	<u>1,072,370</u>	<u>177,121</u>
<b>DISBURSEMENTS</b>				
General Government	508,742	566,972	621,169	(54,197)
Protection to Persons and Property	18,300	18,300	6,248	12,052
General Health and Sanitation	36,000	36,000	8,230	27,770
Recreation and Culture	50,000			
Administration	376,108	367,878	347,695	20,183
Total Disbursements	<u>989,150</u>	<u>989,150</u>	<u>983,342</u>	<u>5,808</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(93,901)</u>	<u>(93,901)</u>	<u>89,028</u>	<u>182,929</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	223,032	223,032	297,241	74,209
Transfers To Other Funds	<u>(179,131)</u>	<u>(179,131)</u>	<u>(339,496)</u>	<u>(160,365)</u>
Total Other Adjustments to Cash (Uses)	<u>43,901</u>	<u>43,901</u>	<u>(42,255)</u>	<u>(86,156)</u>
Net Change in Fund Balance	(50,000)	(50,000)	46,773	96,773
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>27,195</u>	<u>(22,805)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 73,968</u>	<u>\$ 73,968</u>

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
In Lieu Tax Payments	\$ 6,900	\$ 6,900	\$ 31,558	\$ 24,658
Intergovernmental	1,172,464	1,172,464	992,196	(180,268)
Miscellaneous	48,000	48,000	110,382	62,382
Interest	14	14	55	41
Total Receipts	<u>1,227,378</u>	<u>1,227,378</u>	<u>1,134,191</u>	<u>(93,187)</u>
<b>DISBURSEMENTS</b>				
General Government	8,400	8,013	8,013	
Roads	632,100	842,369	821,519	20,850
Bridges	50,000	2,621		2,621
Administration	318,846	156,343	161,015	(4,672)
Total Disbursements	<u>1,009,346</u>	<u>1,009,346</u>	<u>990,547</u>	<u>18,799</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>218,032</u>	<u>218,032</u>	<u>143,644</u>	<u>(74,388)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			250,996	250,996
Transfers To Other Funds	<u>(223,032)</u>	<u>(223,032)</u>	<u>(375,241)</u>	<u>(152,209)</u>
Total Other Adjustments to Cash (Uses)	<u>(223,032)</u>	<u>(223,032)</u>	<u>(124,245)</u>	<u>98,787</u>
Net Change in Fund Balance	(5,000)	(5,000)	19,399	24,399
Fund Balance - Beginning	<u>5,000</u>	<u>5,000</u>	<u>1,991</u>	<u>(3,009)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21,390</u>	<u>\$ 21,390</u>

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 51,000	\$ 51,000	\$ 67,195	\$ 16,195
Charges for Services	200	200		(200)
Miscellaneous			105	105
Interest	8	8	5	(3)
Total Receipts	<u>51,208</u>	<u>51,208</u>	<u>67,305</u>	<u>16,097</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	210,450	210,450	182,706	27,744
Administration	22,889	22,889	6,840	16,049
Total Disbursements	<u>233,339</u>	<u>233,339</u>	<u>189,546</u>	<u>43,793</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(182,131)</u>	<u>(182,131)</u>	<u>(122,241)</u>	<u>59,890</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>179,131</u>	<u>179,131</u>	<u>123,500</u>	<u>(55,631)</u>
Total Other Adjustments to Cash (Uses)	<u>179,131</u>	<u>179,131</u>	<u>123,500</u>	<u>(55,631)</u>
Net Change in Fund Balance	(3,000)	(3,000)	1,259	4,259
Fund Balance - Beginning	<u>3,000</u>	<u>3,000</u>	<u>96</u>	<u>(2,904)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,355</u>	<u>\$ 1,355</u>

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 102,700	\$ 102,700	\$ 89,703	\$ (12,997)
Miscellaneous			1,996	1,996
Interest	6	6	9	3
Total Receipts	102,706	102,706	91,708	(10,998)
<b>DISBURSEMENTS</b>				
General Government	8,680	8,680	7,680	1,000
Protection to Persons and Property	54,300	68,900	64,133	4,767
General Health and Sanitation	2,100	2,100	11,647	(9,547)
Social Services	5,400	6,300	6,300	
Administration	27,226	11,726	22,710	(10,984)
Total Disbursements	97,706	97,706	112,470	(14,764)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	5,000	5,000	(20,762)	(25,762)
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			26,000	26,000
Transfers To Other Funds	(30,000)	(30,000)	(5,000)	25,000
Total Other Adjustments to Cash (Uses)	(30,000)	(30,000)	21,000	51,000
Net Change in Fund Balance	(25,000)	(25,000)	238	25,238
Fund Balance - Beginning	25,000	25,000	10,082	(14,918)
Fund Balance - Ending	\$ 0	\$ 0	\$ 10,320	\$ 10,320



**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

<b>SOLID WASTE FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Charges for Services	\$ 280,000	\$ 280,000	\$ 240,243	\$ (39,757)
Miscellaneous	2,400	2,400		(2,400)
Interest	106	106	12	(94)
Total Receipts	282,506	282,506	240,255	(42,251)
<b>DISBURSEMENTS</b>				
General Health and Sanitation	171,000	177,595	154,082	23,513
Roads	8,000	13,313	13,313	
Debt Service	8,856	11,775	11,775	
Administration	107,663	92,836	28,722	64,114
Total Disbursements	295,519	295,519	207,892	87,627
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(13,013)	(13,013)	32,363	45,376
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			25,000	25,000
Transfers To Other Funds	(26,987)	(26,987)	(69,500)	(42,513)
Total Other Adjustments to Cash (Uses)	(26,987)	(26,987)	(44,500)	(17,513)
Net Change in Fund Balance	(40,000)	(40,000)	(12,137)	27,863
Fund Balance - Beginning	40,000	40,000	38,493	(1,507)
Fund Balance - Ending	\$ 0	\$ 0	\$ 26,356	\$ 26,356

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

<b>PARKS AND RECREATION FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 135,000	\$ 135,000	\$	\$ (135,000)
Charges for Services	10,200	10,200	12,759	2,559
Miscellaneous	12,120	12,120	11,962	(158)
Interest	4	4	2	(2)
Total Receipts	157,324	157,324	24,723	(132,601)
<b>DISBURSEMENTS</b>				
General Health and Sanitation	118,138	142,265	89,186	53,079
Administration	97,373	73,246	1,409	71,837
Total Disbursements	215,511	215,511	90,595	124,916
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(58,187)	(58,187)	(65,872)	(7,685)
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	56,987	56,987	66,500	9,513
Total Other Adjustments to Cash (Uses)	56,987	56,987	66,500	9,513
Net Change in Fund Balance	(1,200)	(1,200)	628	1,828
Fund Balance - Beginning	1,200	1,200	1,068	(132)
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,696	\$ 1,696

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2019**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 195,000	\$ 195,000	\$	\$ (195,000)
Total Receipts	195,000	195,000		(195,000)
<b>DISBURSEMENTS</b>				
Administration	195,000	195,000		195,000
Total Disbursements	195,000	195,000		195,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance - Beginning			897	897
Fund Balance - Ending	\$ 0	\$ 0	\$ 897	\$ 897

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

**June 30, 2019**

**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**

The following line items exceeded budgeted appropriations:

fund	line item overspent	amount
general	general government	\$ 54,197
road	administration	\$ 4,672
LGEA	general health and sanitation	\$ 9,547
LGEA	administration	\$ 10,984

Total disbursements in the LGEA fund exceeded budgeted appropriations by \$14,764.

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

**For The Year Ended June 30, 2019**

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

**For The Year Ended June 30, 2019**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 291,228	\$ 28,179	\$	\$ 319,407
Buildings	2,969,904			2,969,904
Vehicles and Equipment	2,614,260		8,650	2,605,610
Infrastructure	3,855,941			3,855,941
 Total Capital Assets	 <u>\$ 9,731,333</u>	 <u>\$ 28,179</u>	 <u>\$ 8,650</u>	 <u>\$ 9,750,862</u>

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

**June 30, 2019**

**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, 2019, 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 January 21, 2020.

**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 certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-005, 2019-006, and 2019-007 to be material weaknesses.

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)

**Internal Control Over Financial Reporting (Continued)**

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 2019-008 to be a significant deficiency.

**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 2019-001, 2019-002, 2019-003, and 2019-004.

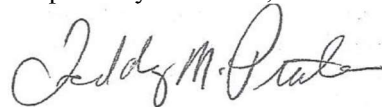
**Views of Responsible Official and Planned Corrective Action**

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

January 21, 2020

**OWSLEY COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2019**

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**OWSLEY COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2019**

STATE LAWS AND REGULATIONS:

2019-001    The Fiscal Court Overspent The General, Road, And LGEA Fund Budgets

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The fiscal court overspent line items in the general fund, road fund, and LGEA fund during the fiscal year 2019.

- general fund general government disbursements exceeded budgeted appropriations by \$54,197
- road fund administration disbursements exceeded budgeted appropriations by \$4,672
- LGEA fund general health and sanitation disbursements exceeded budgeted appropriations by \$9,547
- LGEA fund administration disbursements exceeded budgeted appropriations by \$10,984

The fiscal court failed to properly monitor disbursements from budgeted operating funds.

Line items, in the three budgeted funds above, were overspent. And the LGEA fund budget was overspent in total by \$14,764.

KRS 68.300 states “any appropriation made or claim allowed by the fiscal court in excess of any budget fund, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim.

We recommend the fiscal court properly monitor operating funds to ensure actual disbursements do not exceed budgeted appropriations.

Views of Responsible Official and Planned Corrective Action:

*All monies will be more closely monitored to ensure no fund is overspent. All accounts will be reconciled in a timely manner.*

**OWSLEY COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2019**  
**(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2019-002    The Jail Fund And LGEA Fund Owe The Road Fund A Total of \$53,000

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During the fiscal year, the fiscal court transferred restricted road funds to the jail fund and to the LGEA fund, creating a receivable and payable between funds.

Transfers were made to the jail fund and the LGEA fund which are not an allowable use of restricted road funds.

The jail fund and LGEA fund owe the road fund, \$27,000 and \$26,000 respectively.

The road fund is restricted by KRS 177.320 for transportation, with the exception of the amount calculated on the road fund cost allocation worksheet.

Under the regulatory basis of accounting, fund balances are not adjusted on the financial statement for the unpaid liability; however, the liability is still owed.

We recommend that the fund liabilities be repaid as money becomes available.

Views of Responsible Official and Planned Corrective Action:

*Money will be repaid when funds are able.*



**OWSLEY COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2019  
(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2019-003 The Fiscal Court Did Not Properly Approve Cash Transfers And Intra-fund Budget Transfers

---

**This is a repeat finding and was included in the prior year report as finding 2018-003.**

The fiscal court did not properly approve cash transfers between funds. And did not approve intra-fund budget transfers of appropriations from one line item to another in the same fund.

The fiscal court did approve transfers on a monthly basis, however, the transfers were not detailed as to funds and amount.

Not providing the details of transfers keeps the fiscal court from making fully informed decisions on budgetary matters.

The fiscal court did not ensure compliance with the County Budget Preparation and State Local Finance Officer Policy Manual which states that "All transfers require a court order".

We recommend that the details of all cash transfers and intra-fund budget transfers be clearly documented in the fiscal court minutes to ensure that they are properly authorized and approved by the fiscal court.

Views of Responsible Official and Planned Corrective Action:

*The Fiscal Court will approve all transfers before being made.*

**OWSLEY COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2019**  
**(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2019-004 The Fiscal Court Did Not Have Controls Over Disbursements

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**This is a repeat finding and was included in the prior year report as findings 2018-005, 006 and 011.**

The fiscal court did not have sufficient controls over disbursements as required by the Department for Local Government. During disbursement testing, the following was noted:

- Eleven invoices, totaling \$277,726, were not paid within thirty days
- Late payments incurred finance charges
- Purchase orders were issued but did not include an amount
- Encumbrances were not reported for committed funds
- Check numbers were not sequential
- Checks were held for long periods
- Checks were back dated
- Stale dated checks were not voided

The fiscal court did not ensure that procedures were in place to properly issue checks and monitor disbursements. Without tracking the amount of purchase orders, encumbrances could not be reported on quarterly reports.

By not having good controls in place over the disbursement of checks, errors were allowed to occur and were not detected. Purchases could be made that exceed available cash or the line item budget. Weak controls also increase the risk of misappropriation of county funds. These conditions also lead to noncompliance with the regulation noted below.

KRS 65.140 (2) states “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice . . .”.

The County Budget Preparation and State Local Finance Officer Policy Manual requires a purchase order system as a management tool and so that encumbrances can be presented on quarterly financial reports.

We recommend the fiscal court improve controls over the monitoring, recording and reporting of disbursements.

Views of Responsible Official and Planned Corrective Action:

*Invoices are paid when money is available. All invoices will be paid in a timely manner, providing funds are available.*

**OWSLEY COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2019  
(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2019-005    The Fiscal Court Failed To Establish Internal Controls Over Payroll

---

**This is a repeat finding and was included in the prior year report as finding 2018-009.**

The lack of internal controls over payroll resulted in the following issues:

- Employees tested that had withholdings treated as pre-tax deductions that should have been after-tax deductions resulted in underreported W-2 wages.
- Most of the timesheets tested were not reviewed or signed by supervisors of departments.
- Employees with two different job titles were accruing double leave time.

Weak internal controls and a lack of oversight of the payroll process have allowed issues with the payroll process to go unnoticed. Miscalculations caused payroll items to be over (under) stated.

Controls over payroll are vital in ensuring the payroll amounts are calculated and accounted for properly. Further, internal control procedures that are properly designed and implemented allow employees to detect misstatements in a timely manner.

Good internal controls dictate that timesheets be reviewed and kept for payroll verification and as a record of leave time used and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

We recommend the fiscal court strengthen its internal control system over payroll. Timesheets should be signed by the employees and then reviewed and signed by the employees' immediate supervisors. We also recommend implementing compensating controls over payroll processing such as management oversight or independent reviews over payroll processing.

Views of Responsible Official and Planned Corrective Action:

*All findings have been corrected. Timesheets are being signed by supervisors.*

**OWSLEY COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2019**  
**(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2019-006 The Fiscal Court Did Not Pay Withholdings Timely

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The fiscal court is withholding federal, state, Medicare, and retirement from employees' paychecks; however, they are not paying the withholdings to the proper agencies in a timely manner and have accrued penalties for late payments.

Weak internal controls and a lack of oversight of the payroll process have caused the late payment of county employees' withholdings to the proper agencies.

The fiscal court's failure to establish effective internal controls over the payment of payroll withholdings to the proper agencies resulted in payments being paid late.

Strong internal controls are vital in ensuring payroll is properly accounted for.

Internal Revenue Service and Kentucky Department of Revenue publications provide guidance for payroll withholdings' filing requirements, deposit deadlines, and penalty accruals.

We recommend the fiscal court implement strong internal controls to ensure all withholdings are paid to the proper agency in a timely manner in order to avoid unnecessary penalties and interest.

Views of Responsible Official and Planned Corrective Action:

*All withholdings are up to date. Withholdings will be paid in a timely manner.*

**OWSLEY COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2019**  
**(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2019-007 The Fiscal Court Did Not Have Adequate Controls Over Receipts

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**This is a repeat finding and was included in the prior year report as findings 2018-007 and 008.**

The fiscal court receives payments, including cash, at the county judge/executive's office for gravel sales and garbage collection. And cash receipts are collected at the recreation center for events, room rentals and concessions but only turned over to the fiscal court once a week.

Also, the fiscal court did not charge or pay sales tax on gravel sales which totaled \$85,903 in fiscal year 2019.

The fiscal court did not have controls in place to ensure that all receipts collected from gravel sales, garbage collection and the recreation center were properly accounted for, recorded and deposited timely.

Good internal controls dictate that adequate controls exist over receipts to ensure that all collections are properly recorded and deposited daily.

KRS 139.540 requires that sales taxes are due and payable to the Kentucky Department of Revenue "monthly and shall be remitted on or before the twentieth (20th) day of the next succeeding month."

We recommend the fiscal court implement adequate controls over receipts to ensure they are collected, recorded and deposited timely. Also, we recommend the fiscal court comply with Kentucky law by accounting for sales tax on gravel sales and paying it timely.

Views of Responsible Official and Planned Corrective Action:

*All receipts are issued when money is received. Money is deposited in a timely manner. Deposits are reviewed by finance officer and treasurer.*

**OWSLEY COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2019**  
**(Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2019-008    The Fourth Quarter Financial Report Was Not Accurate

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**This is a repeat finding and was included in the prior year report as finding 2018-013.**

The fiscal court's fourth quarter financial report did not accurately reflect the approved budget. Amounts for the general fund, road fund and lged fund that were included in the report's original budget column did not agree to the approved budget. The summary total of receipts and claims was accurate.

The fourth quarter report was not thoroughly reviewed before being submitted to the Department for Local Government. The original budget amounts for some line items reported on the quarterly financial report did not agree with the actual budgeted amounts.

The County Budget Preparation and State Local Finance Officer Policy Manual requires the county treasurer to prepare a quarterly financial statement. The fiscal court needs accurate financial information to oversee the financial condition of the government as well as to prepare future budgets.

We recommend the county treasurer prepare and the finance officer thoroughly review the quarterly financial reports to ensure accurate financial reporting.

Views of Responsible Official and Planned Corrective Action:

*All receipts and expenditures will be monitored to ensure accuracy.*

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

**OWSLEY COUNTY FISCAL COURT**

**For The Year Ended June 30, 2019**

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CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
OWSLEY COUNTY FISCAL COURT

For The Year Ended June 30, 2019

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

A handwritten signature in blue ink, appearing to read "Cody Lewis", written over a horizontal line.

County Judge/Executive

A handwritten signature in blue ink, appearing to read "Cody Lewis", written over a horizontal line.

County Treasurer