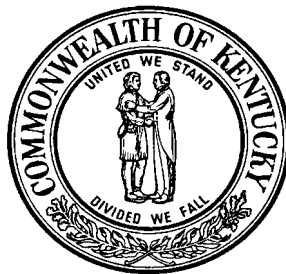


**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



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

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Cale Turner, Owsley County Judge/Executive

Members of the Owsley County Fiscal Court

The enclosed report prepared by Teddy Michael Prater, CPA, PLLC, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owsley County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

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

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWSLEY COUNTY FISCAL COURT

June 30, 2009

Teddy Michael Prater CPA, PLLC has completed the audit of the Owsley County Fiscal Court for fiscal year ended June 30, 2009. We have issued an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$3,532,855 as of June 30, 2009. The fiscal court had unrestricted net assets of \$304,900 in its governmental activities as of June 30, 2009. The fiscal court had total debt principal as of June 30, 2009 of \$241,983 with \$42,054 due within the next year.

Report Comments:

- 2009-1 The County Did Not Prepare A Federal Monies Worksheet
- 2009-2 The County Should Include All Accounts In Their Financial Statements
- 2009-3 The Fiscal Court Should Approve A Salary Schedule

Deposits:

As of June 30, 2009, the County's deposits were covered by FDIC insurance or a properly executed collateral security agreement. However as of August 25, 2008, \$504,313 of the County's deposits were unsecured and uncollateralized.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owsley County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Owsley County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Owsley County, Kentucky, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court
(Continued)

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

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2009, on our consideration of Owsley County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

- 2009-1 The County Did Not Prepare A Federal Monies Worksheet
- 2009-2 The County Should Include All Accounts In Their Financial Statements
- 2009-3 The Fiscal Court Should Approve A Salary Schedule

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

October 30, 2009

OWSLEY COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

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

Other Elected Officials:

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

Appointed Personnel:

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

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

June 30, 2009

OWSLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 304,900
Total Current Assets	304,900
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	103,402
Construction In Progress	132,026
Buildings	1,053,499
Vehicles and Equipment	1,092,551
Infrastructure	1,088,460
Total Noncurrent Assets	3,469,938
Total Assets	3,774,838
LIABILITIES	
Current Liabilities:	
Financing Obligations	42,054
Total Current Liabilities	42,054
Noncurrent Liabilities:	
Financing Obligations	199,929
Total Noncurrent Liabilities	199,929
Total Liabilities	241,983
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,227,955
Unrestricted	304,900
Total Net Assets	\$ 3,532,855

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

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

For The Year Ended June 30, 2009

OWSLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Functions/Programs Reporting Entity	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Asset
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Governmental Activities:					
General Government	\$ 1,138,310	\$	\$ 444,002	\$	\$ (694,308)
Protection to Persons and Property	287,676	2,866	122,474	10,169	(152,167)
General Health and Sanitation	711,222	42,502		641,068	(27,652)
Social Services	82,335			48,040	(34,295)
Recreation and Culture	32,443			31,505	(938)
Roads	862,480		1,060,263		197,783
Debt Service	11,091				(11,091)
Capital Projects	18,229				(18,229)
Total Governmental Activities	\$ 3,143,786	\$ 45,368	\$ 1,626,739	\$ 730,782	(740,897)

General Revenues:

Taxes:

Real Property Taxes	123,729
Motor Vehicle Taxes	26,691
Insurance License Tax	196,293
Other Taxes	48,980
In Lieu Tax Payments	102,744
Miscellaneous Revenues	325,023
Interest Received	2,259

Total General Revenues	825,719
Change in Net Assets	84,822
Net Assets - Beginning (Restated)	3,448,033
Net Assets - Ending	<u>\$ 3,532,855</u>

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

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OWSLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

OWSLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	<u>General Fund</u>	<u>Road Fund</u>	<u>Local Government Economic Assistance Fund</u>	<u>Solid Waste Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 115,336	\$ 16,976	\$ 49,272	\$ 52,041
Total Assets	<u>\$ 115,336</u>	<u>\$ 16,976</u>	<u>\$ 49,272</u>	<u>\$ 52,041</u>
FUND BALANCES				
Unreserved:				
General Fund	\$ 115,336	\$	\$	\$
Special Revenue Funds	<u></u>	<u>16,976</u>	<u>49,272</u>	<u>52,041</u>
Total Fund Balances	<u>\$ 115,336</u>	<u>\$ 16,976</u>	<u>\$ 49,272</u>	<u>\$ 52,041</u>

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

OWSLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

<u>Parks and Recreation Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$ 56,598	\$ 14,677	\$ 304,900
<u>\$ 56,598</u>	<u>\$ 14,677</u>	<u>\$ 304,900</u>
<u>\$ 56,598</u>	<u>\$ 14,677</u>	<u>\$ 115,336</u>
<u>\$ 56,598</u>	<u>\$ 14,677</u>	<u>\$ 189,564</u>
<u>\$ 56,598</u>	<u>\$ 14,677</u>	<u>\$ 304,900</u>

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

Total Fund Balances	\$ 304,900
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources And, Therefore, Are Not Reported In The Funds.	5,077,550
Accumulated Depreciation	(1,607,612)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	<u>(241,983)</u>
Net Assets Of Governmental Activities	<u>\$ 3,532,855</u>

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

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

For The Year Ended June 30, 2009

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

For The Year Ended June 30, 2009

	<u>General Fund</u>	<u>Road Fund</u>	<u>Local Government Economic Assistance Fund</u>
REVENUES			
Taxes	\$ 395,693	\$	\$
In Lieu Tax Payments	32,597	70,147	
Intergovernmental	836,453	877,802	182,461
Charges for Services	41,230		
Miscellaneous	156,806	159,492	8,625
Interest	733	841	261
Total Revenues	<u>1,463,512</u>	<u>1,108,282</u>	<u>191,347</u>
EXPENDITURES			
General Government	493,912	10,800	7,200
Protection to Persons and Property	64,276		43,040
General Health and Sanitation	656,078		6,973
Social Services	58,070		8,934
Recreation and Culture	1,309		
Roads		743,882	
Debt Service	126,227	149,004	
Capital Projects			
Administration	222,474	179,113	7,211
Total Expenditures	<u>1,622,346</u>	<u>1,082,799</u>	<u>73,358</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	<u>(158,834)</u>	<u>25,483</u>	<u>117,989</u>
OTHER FINANCING SOURCES (USES)			
Borrowed Money	125,000	100,000	
Financing Obligation Proceeds	33,625		
Transfers From Other Funds	295,157	150,500	
Transfers To Other Funds	(195,000)	(275,157)	(80,500)
Total Other Financing Sources (Uses)	<u>258,782</u>	<u>(24,657)</u>	<u>(80,500)</u>
Net Change in Fund Balances	99,948	826	37,489
Fund Balances - Beginning (Restated)	15,388	16,150	11,783
Fund Balances - Ending	<u>\$ 115,336</u>	<u>\$ 16,976</u>	<u>\$ 49,272</u>

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

OWSLEY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
For The Year Ended June 30, 2009

<u>Solid Waste Fund</u>	<u>Parks and Recreation Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$	\$	\$	\$ 395,693
			102,744
90,000		370,805	2,357,521
1,272		2,866	45,368
		100	325,023
	326	98	2,259
<u>91,272</u>	<u>326</u>	<u>373,869</u>	<u>3,228,608</u>
		200,000	711,912
		224,512	331,828
126,754			789,805
		10,000	77,004
		12,122	13,431
			743,882
477	1,936		277,644
	1,792	16,437	18,229
		6,281	415,079
<u>127,231</u>	<u>3,728</u>	<u>469,352</u>	<u>3,378,814</u>
<u>(35,959)</u>	<u>(3,402)</u>	<u>(95,483)</u>	<u>(150,206)</u>
			225,000
88,000	60,000		181,625
		105,000	550,657
<u>88,000</u>	<u>60,000</u>	<u>105,000</u>	<u>(550,657)</u>
<u>88,000</u>	<u>60,000</u>	<u>105,000</u>	<u>406,625</u>
52,041	56,598	9,517	256,419
		5,160	48,481
<u>\$ 52,041</u>	<u>\$ 56,598</u>	<u>\$ 14,677</u>	<u>\$ 304,900</u>

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

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**OWSLEY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES –
MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

**OWSLEY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES –
MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$	256,419
<p>Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p>		
Capital Outlay		241,410
Depreciation Expense		(257,308)
Disposal of Assets (Net)		(15,627)
<p>The Issuance of Debt Provides Current Financial Resources to Governmental Funds While Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions, However, Have no Effect on Net Assets.</p>		
Financing Obligation Proceeds		(181,625)
Financing Obligations Payments		41,553
		84,822
Change in Net Assets of Governmental Activities	\$	84,822

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

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OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements

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

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

B. Reporting Entity

The financial statements of Owsley County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14 and GASB 39, there are no component units which merit consideration as part of the reporting entity.

C. Owsley County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Owsley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Owsley County, Kentucky.

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

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

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

Governmental Funds

The primary government reports the following major governmental funds:

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

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services industrial and economic development, workforce training and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

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

Parks and Recreation Fund - The purpose of this fund is to account for receipts and expenditures relating to the county parks and recreation system. This fund was not opened until May 2009.

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

Special Revenue Funds:

The Road Fund, Local Government Economic Assistance Fund, Solid Waste Fund, Parks and Recreation Fund, Jail Fund, and Local Government Economic Development Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

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

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

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

G. Long-term Obligations

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

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, Three Forks Regional Jail is considered a joint venture of the Owsley County Fiscal Court.

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

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

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Venture (Continued)

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

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

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

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

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

The Three Forks Regional Jail Authority and the Three Fork's Public Properties Corporation are comprised of an eight (8) member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee County jailer is a required member of the board.

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

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institutions failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 25, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the government's deposits in accordance with the security agreement. The bank balances of \$1,062,979 were exposed to custodial risk as follows:

- \$504,313 unsecured and uncollateralized as of August 25, 2008.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 103,402	\$	\$	\$ 103,402
Construction In Progress	531,877		(399,851)	132,026
Total Capital Assets Not Being Depreciated	635,279		(399,851)	235,428
Capital Assets, Being Depreciated:				
Buildings	1,082,303	399,851		1,482,154
Vehicles and Equipment	1,534,936	241,410	(38,000)	1,738,346
Infrastructure	1,621,622			1,621,622
Total Capital Assets Being Depreciated	4,238,861	641,261	(38,000)	4,842,122
Less Accumulated Depreciation For:				
Buildings	(405,678)	(22,977)		(428,655)
Vehicles and Equipment	(577,908)	(90,260)	22,373	(645,795)
Infrastructure	(389,091)	(144,071)		(533,162)
Total Accumulated Depreciation	(1,372,677)	(257,308)	22,373	(1,607,612)
Total Capital Assets, Being Depreciated, Net	2,866,184	383,953	(15,627)	3,234,510
Government Activities Capital Assets, Net	\$ 3,501,463	\$ 383,953	\$ (415,478)	\$ 3,469,938

Beginning accumulated depreciation balance for Vehicles and Equipment was restated by \$3,200 from \$574,708 to \$577,908.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets (Continued)

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

Governmental Activities:

General Government	\$ 16,319
Protection to Persons and Property	38,648
General Health and Sanitation	5,027
Social Services	5,331
Recreation and Culture	19,012
Roads, Including Depreciation of General Infrastructure Assets	<u>172,971</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 257,308</u></u>

Note 4. Short-term Debt

A. On July 8, 2008, the Fiscal Court executed a note with Farmers State Bank for operating expenses. The principal amount of the note was \$125,000 with an interest rate of 6.750%. The maturity date of the note was October 6, 2008. The note was paid in full as of June 30, 2009.

B. On June 11, 2009, the Fiscal Court executed a note with Farmers State Bank for disaster clean-up expenses. The principal amount of the note was \$100,000 with an interest rate of 6.250%. The maturity date of the note was June 30, 2009. As of June 30, 2009, the note was paid in full.

C. Changes in Short-term Debt

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Borrowed Money	<u>\$</u>	<u>\$ 225,000</u>	<u>\$ 225,000</u>	<u>\$</u>	<u>\$</u>

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt

A. Drill

On January 8, 2007, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a drill for the road department. The principal amount of the lease was \$58,000. The agreement requires monthly interest payments and annual principal payments in July to be paid in full July 2011, with an interest rate of 5.305%. The principal amount of \$38,000 was outstanding as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2010	\$ 10,000	\$ 1,525
2011	15,000	755
2012	13,000	58
Totals	<u>\$ 38,000</u>	<u>\$ 2,338</u>

B. Ramming Hammer

On June 12, 2007, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a ramming hammer for the road department. The principal amount of the lease was \$35,500. The agreement requires monthly interest and principal payments to be paid in full June 2012, with an interest rate of 4.25% plus fees. The principal amount of \$22,338 was outstanding as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2010	\$ 7,054	\$ 1,166
2011	7,447	809
2012	7,857	424
Totals	<u>\$ 22,358</u>	<u>\$ 2,399</u>

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

C. Abe Lincoln Property Improvements

On August 11, 2008, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for renovating existing buildings and constructing additional structures on property owned by Owsley County referred to as the Able Lincoln property. The principal amount of the lease was \$60,000. The agreement requires annual principal payments and monthly interest payments to be paid in full August 20, 2018, with an interest rate of 4.242%. The principal amount of \$60,000 was outstanding as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 5,000	\$ 2,132
2011	5,000	2,147
2012	5,000	1,961
2013	6,000	1,737
2014	6,000	1,510
2015-2019	33,000	3,755
	<u>\$ 60,000</u>	<u>\$ 13,242</u>

D. Ambulance

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

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 10,000	\$ 1,431
2011	10,000	1,076
2012	13,625	577
Totals	<u>\$ 33,625</u>	<u>\$ 3,084</u>

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

E. Dump Truck/Dumpsters

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

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 10,000	\$ 4,671
2011	12,000	4,065
2012	13,000	3,430
2013	16,000	2,648
2014	17,000	1,796
2015	20,000	785
Totals	<u>\$ 88,000</u>	<u>\$ 17,395</u>

F. Changes In Long-term Debt

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 101,911</u>	<u>\$ 181,625</u>	<u>\$ 41,553</u>	<u>\$ 241,983</u>	<u>\$ 42,054</u>

The beginning balance of outstanding long-term debt has been restated by \$20, from \$101,891 to \$101,911.

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

Debt Service on the Statement of Activities includes \$11,091 interest on financing obligations.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent. The county's contributions for years ended June 30, 2007, 2008, and 2009 were \$86,049, \$114,557 and \$94,042 respectively, and were equal to the required contributions each year.

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

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

Note 8. Insurance

For the fiscal year ended June 30, 2009, Owsley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The prior year net assets beginning balance was adjusted by a net total of \$3,195 due to prior year voided checks, depreciation expense adjustments and an understatement of long-term debt.

Restatement

Beginning Net Assets	\$ 3,451,228
Depreciation Expense Adjustment	(3,200)
Prior Year Voided checks	25
Understatement of Long-term Debt	(20)
	<u>\$ 3,448,033</u>

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

For The Year Ended June 30, 2009

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

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 366,350	\$ 366,350	\$ 395,693	\$ 29,343
In Lieu Tax Payments	21,400	21,400	32,597	11,197
Intergovernmental Revenue	1,539,000	1,593,640	836,453	(757,187)
Charges for Services	15,000	15,000	41,230	26,230
Miscellaneous	187,748	187,748	156,806	(30,942)
Interest	400	400	733	333
Total Revenues	<u>2,129,898</u>	<u>2,184,538</u>	<u>1,463,512</u>	<u>(721,026)</u>
EXPENDITURES				
General Government	555,012	555,012	493,912	61,100
Protection to Persons and Property	49,000	77,318	64,276	13,042
General Health and Sanitation	739,400	849,602	656,078	193,524
Social Services	13,500	13,238	58,070	(44,832)
Recreation and Culture	62,000	62,000	1,309	60,691
Debt Service	100	126,327	126,227	100
Capital Projects	600,000	586,297		586,297
Administration	225,262	230,455	222,474	7,981
Total Expenditures	<u>2,244,274</u>	<u>2,500,249</u>	<u>1,622,346</u>	<u>877,903</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	<u>(114,376)</u>	<u>(315,711)</u>	<u>(158,834)</u>	<u>156,877</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money		125,000	125,000	
Financing Obligation Proceeds		33,625	33,625	
Transfers from Other Funds	232,000	232,000	295,157	63,157
Transfers to Other Funds	(132,624)	(132,624)	(195,000)	(62,376)
Total Other Financing Sources (Uses)	<u>99,376</u>	<u>258,001</u>	<u>258,782</u>	<u>781</u>
Net Changes in Fund Balance	(15,000)	(57,710)	99,948	157,658
Fund Balance - Beginning	<u>15,000</u>	<u>15,000</u>	<u>15,388</u>	<u>388</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ (42,710)</u>	<u>\$ 115,336</u>	<u>\$ 158,046</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 25,600	\$ 44,007	\$ 70,147	\$ 26,140
Intergovernmental Revenue	1,374,500	1,899,500	877,802	(1,021,698)
Miscellaneous	60,500	60,500	159,492	98,992
Interest	400	400	841	441
Total Revenues	<u>1,461,000</u>	<u>2,004,407</u>	<u>1,108,282</u>	<u>(896,125)</u>
EXPENDITURES				
General Government	10,800	10,800	10,800	
Roads	1,045,146	1,601,246	743,882	857,364
Debt Service		100,600	149,004	(48,404)
Administration	221,554	208,261	179,113	29,148
Total Expenditures	<u>1,277,500</u>	<u>1,920,907</u>	<u>1,082,799</u>	<u>838,108</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	<u>183,500</u>	<u>83,500</u>	<u>25,483</u>	<u>(58,017)</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money		100,000	100,000	
Transfers from Other Funds	40,500	40,500	150,500	110,000
Transfers to Other Funds	(232,000)	(232,000)	(275,157)	(43,157)
Total Other Financing Sources (Uses)	<u>(191,500)</u>	<u>(91,500)</u>	<u>(24,657)</u>	<u>66,843</u>
Net Changes in Fund Balance	(8,000)	(8,000)	826	8,826
Fund Balance - Beginning	<u>8,000</u>	<u>8,000</u>	<u>16,150</u>	<u>8,150</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 16,976</u>	<u>\$ 16,976</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 127,800	\$ 127,800	\$ 182,461	\$ 54,661
Miscellaneous	500	20,500	8,625	(11,875)
Interest	200	200	261	61
Total Revenues	<u>128,500</u>	<u>148,500</u>	<u>191,347</u>	<u>42,847</u>
EXPENDITURES				
General Government	7,200	7,200	7,200	
Protection to Persons and Property	37,644	45,370	43,040	2,330
General Health and Sanitation	6,000	7,350	6,973	377
Social Services	4,800	9,300	8,934	366
Administration	9,828	16,252	7,211	9,041
Total Expenditures	<u>65,472</u>	<u>85,472</u>	<u>73,358</u>	<u>12,114</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	<u>63,028</u>	<u>63,028</u>	<u>117,989</u>	<u>54,961</u>
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	<u>(65,028)</u>	<u>(65,028)</u>	<u>(80,500)</u>	<u>(15,472)</u>
Total Other Financing Sources (Uses)	<u>(65,028)</u>	<u>(65,028)</u>	<u>(80,500)</u>	<u>(15,472)</u>
Net Changes in Fund Balance	(2,000)	(2,000)	37,489	39,489
Fund Balance - Beginning	<u>2,000</u>	<u>2,000</u>	<u>11,783</u>	<u>9,783</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 49,272</u>	<u>\$ 49,272</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$		\$ 90,000	\$
Charges for Services		276	1,272	996
Total Revenues		<u>90,276</u>	<u>91,272</u>	<u>996</u>
EXPENDITURES				
General Health and Sanitation		140,000	126,754	13,246
Debt Service		477	477	
Administration		37,799		37,799
Total Expenditures		<u>178,276</u>	<u>127,231</u>	<u>51,045</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)		<u>(88,000)</u>	<u>(35,959)</u>	<u>52,041</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		88,000	88,000	
Total Other Financing Sources (Uses)		<u>88,000</u>	<u>88,000</u>	
Net Changes in Fund Balance			52,041	52,041
Fund Balance - Beginning				
Fund Balance - Ending	\$	\$	\$ 52,041	\$ 52,041

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	Parks and Recreation Fund			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$	\$ 50,000	\$	\$ (50,000)
Interest			326	326
Total Revenues		50,000	326	(49,674)
EXPENDITURES				
Debt Service		10,500	1,936	8,564
Capital Projects		77,500	1,792	75,708
Administration		22,000		22,000
Total Expenditures		110,000	3,728	106,272
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)		(60,000)	(3,402)	56,598
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		60,000	60,000	
Total Other Financing Sources (Uses)		60,000	60,000	
Net Changes in Fund Balances			56,598	56,598
Fund Balances - Beginning				
Fund Balances - Ending	\$	\$	\$ 56,598	\$ 56,598

OWSLEY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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

June 30, 2009

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

June 30, 2009

	Jail Fund	Local Government Economic Development Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 4,958	\$ 9,719	\$ 14,677
Total Assets	<u>\$ 4,958</u>	<u>\$ 9,719</u>	<u>\$ 14,677</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	\$ 4,958	\$ 9,719	\$ 14,677
Total Fund Balances	<u>\$ 4,958</u>	<u>\$ 9,719</u>	<u>\$ 14,677</u>

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

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OWSLEY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

OWSLEY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Jail Fund	Local Government Economic Development Fund	Total Non-Major Governmental Funds
REVENUES			
Taxes	\$	\$	\$
Intergovernmental	122,474	248,331	370,805
Charges for Services	2,866		2,866
Miscellaneous	100		100
Interest	98		98
Total Revenues	<u>125,538</u>	<u>248,331</u>	<u>373,869</u>
EXPENDITURES			
General Government		200,000	200,000
Protection to Persons and Property	224,512		224,512
Social Services		10,000	10,000
Recreation and Culture		12,122	12,122
Roads			
Capital Projects		16,437	16,437
Administration	6,228	53	6,281
Total Expenditures	<u>230,740</u>	<u>238,612</u>	<u>469,352</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(105,202)</u>	<u>9,719</u>	<u>(95,483)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	105,000		105,000
Total Other Financing Sources (Uses)	<u>105,000</u>		<u>105,000</u>
Net Change in Fund Balances	(202)	9,719	9,517
Fund Balances - Beginning	5,160		5,160
Fund Balances - Ending	<u>\$ 4,958</u>	<u>\$ 9,719</u>	<u>\$ 14,677</u>

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

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OWSLEY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2009

OWSLEY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2009

<u>Program Title</u>	<u>Pass-through Entity ID Number</u>	<u>Federal CFDA No.</u>	<u>Disbursements</u>
U.S. Department of Interior, Office of Surface Mining <i>Passed Through KY Environmental and Public Protection Cabinet</i> Abandoned Mine Land Reclamation (AMLR) Program: Owsley County Water Supply Design and Construction Project	595-070004760		15.252 \$ 562,945 *
U.S. Department of Agriculture- Natural Resources Conservation Service Emergency Watershed Protection Program Grant		10.923	518,400 *
Rural Development Community Facilities Grant		10.766	38,040 *
U.S. Department of Homeland Security <i>Passed Through KY Office of Homeland Security</i> Public Assistance Grants: Disaster Grant-Flood	FEMA-1841-DR-KY	97.036	58,723
Disaster Grant-Ice Storm	FEMA-1818-DR-KY	97.036	8,623 *
Emergency Management Performance Grant	Not Available	97.042	<u>8,625</u>
Total U.S. Department of Homeland Security			<u>75,971</u>
U.S. Department of Commerce Pride Cleanup		11.469	<u>10,578</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,205,934</u>

*Tested as Major Program **

OWSLEY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2009

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

Note B - The Owsley County Fiscal Court provided Federal Awards to subrecipients as follows:

City of Booneville

	<u>CFDA No.</u>	<u>Amount</u>
Abandoned Mine Land Reclamation Program	15.252	\$562,945

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

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

The Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owsley County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents, and have issued our report thereon dated October 30, 2009. Owsley County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owsley County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Owsley County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Owsley County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 2009-1 and 2009-2.

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

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider these significant deficiencies, described above, to be material weaknesses: 2009-1 and 2009-2.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Owsley County's financial statements, as of and for the year ended June 30, 2009, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs: 2009-3.

Management's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the responses and, accordingly, we express no opinion on them.

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

Respectfully submitted,

Handwritten signature of Teddy Michael Prater CPA in black ink.

Teddy Michael Prater CPA, PLLC

October 30, 2009

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

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

The Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court

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

Compliance

We have audited the compliance of Owsley County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Owsley County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Owsley County's management. Our responsibility is to express an opinion on Owsley County's compliance based on our audit.

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

In our opinion, Owsley County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Owsley County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Owsley County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Owsley County's internal control over compliance.

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

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Respectfully submitted,

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

Teddy Michael Prater CPA, PLLC

October 30, 2009

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

For The Year Ended June 30, 2009

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Owsley County, Kentucky.
2. Two significant deficiencies, which are also considered to be material weaknesses, relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Owsley County was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Owsley County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Owsley County reported in Part C of this schedule.
7. The programs tested as major programs were: Abandoned Mine Land Reclamation Program (CFDA 15.252), Emergency Watershed Protection Program (CFDA 10.923), Community Facilities Grant (CFDA 10.766), and Public Assistance Grant (CFDA 97.036).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Owsley County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

2009-1 The County Did Not Prepare A Federal Monies Worksheet

The County did not prepare the Schedule of Expenditures of Federal Awards for fiscal year ended June 30, 2009 in accordance with OMB Circular A-133. During fiscal year ended June 30, 2009, a single audit was required if federal expenditures equaled or exceeded \$500,000. OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, Section 310(B) requires the auditee to prepare a schedule of expenditures of federal awards covered by the auditee's financial statements. At a minimum, the schedule should include the following, if applicable:

- A listing of individual Federal programs by Federal agency.
- For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- Provide total Federal awards expended for each individual Federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.
- Include notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year-end. While not required, it is preferable to present this information in the schedule.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2009
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES
(Continued)

2009-1 The County Did Not Prepare A Federal Monies Worksheet (Continued)

In the future, we recommend the County properly prepare the Schedule of Expenditures of Federal Awards and provide supporting documentation for amounts reported.

County Judge/Executive's Response: Will be better prepared next time. Did not have records from previous treasurer.

2009-2 The County Should Include All Accounts In Their Financial Statements

The county maintained a bank account for Local Government Economic Development Funds. These funds were in an account maintained by Farmers Bank and were not included on the County's quarterly reports. Since this account was in the County's name it should have been budgeted and the revenues and expenditures included on the Treasurer's financial statements.

We recommend all accounts belonging to the Owsley County Fiscal Court be budgeted and included on the financial statements in the future.

County Judge/Executive's Response: Corrected – now included.

NONCOMPLIANCE

2009-3 The Fiscal Court Should Approve A Salary Schedule

A salary schedule for all county employees was not presented to the Fiscal Court for approval. KRS 64.530 states "The fiscal court of each county shall fix the compensation of every county officer and employee." We recommend the Fiscal Court approve a salary schedule.

County Judge/Executive's Response: Will correct next fiscal court meeting.

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

None.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2009
(Continued)

D. PRIOR YEAR FINDINGS

The prior year audit report included the following findings:

2008-1 The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government (DLG)

2008-2 The County Should Correct State And Federal Withholding Errors

These findings have been corrected and are not repeated in the current year audit report.

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

**For The Fiscal Year Ended
June 30, 2009**

Appendix A

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

OWSLEY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2009

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



County Judge Executive



County Treasurer

